

Extraordinary Board of Management

Agenda

Meeting reference: Board 2024-25/EM01
Date: Tuesday 04 February 2025 at 5.00pm
Location: Brahan Boardroom (Room 019)
Purpose: Extraordinary meeting

* Denotes items for discussion/approval.
 Members should contact the Secretary in advance of the meeting if they wish to request an item be starred.

	Agenda Items	Author	Led by	Paper
1	Welcome and Apologies		Chair	
2	Additions to the Agenda		Chair	
3	Declaration of a Conflict of Interest in any Agenda Item		Chair	
4	Items for Approval/Endorsement			
*4.1	UHI Outline Business Case	UHI	Chair	Paper 1a Paper 1b Paper 1c Paper 1d
5	Date & Time of Next Meeting <ul style="list-style-type: none"> Wednesday 02 April 2025, 5:00pm Board Members are asked to note that an Extraordinary Meeting will be required to formally approve the UHI Perth Financial Statements and External Audit Report for 2023-24 (date tbc)	Clerk		
*6	Review of meeting (Committee to check against the Terms of Reference to ensure all competent business has been covered)		Chair	Paper 2

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Paper No. 1

Name of Committee	Extraordinary Board of Management
Subject	UHI Outline Business Case
Date of Committee meeting	04/02/2024
Author	UHI
Date paper prepared	29/01/2025
Executive Summary Please provide a concise summary of the Paper outlining the purpose, impact and recommended future actions if approved	<p>Paper is formed of the following documents:</p> <ul style="list-style-type: none">• Latest version of the UHI Outline Business Case• Supporting letter from Vicki Nairn, Principal & Vice Chancellor UHI• Supporting letter from Scottish Funding Council• Presentation notes provided to UHI Perth Board, 28/01/2025 <p>Board Members are asked to consider the Outline Business Case (OBC) and supporting documentation and, subject to receipt of adequate assurances from UHI of equivalent support from all other Academic Partners, agree to support UHI and participate fully in moving forward with the preparation of a Full Business Case as outlined in the OBC.</p> <p>The Board of UHI Perth will be required to approve the Full Business Case at a future stage.</p>
Committee Consultation Please note which Committees this paper has previously been tabled at, and a brief summary of the outcomes/actions arising from this.	<p>The Outline Business Case has been discussed previously on numerous occasions at Board and Committee levels.</p> <p>The latest version of the Outline Business Case was presented to Board Members on 28/01/2025.</p>
Action requested	<p><input type="checkbox"/> For information</p> <p><input checked="" type="checkbox"/> For discussion</p> <p><input type="checkbox"/> For endorsement</p> <p><input checked="" type="checkbox"/> For approval</p>

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	<input type="checkbox"/> Recommended with guidance (please provide further information, below)
Strategic Impact Please highlight how the paper links to the Strategic Objectives of UHI Perth or the UHI Partnership: Strategic-Plan-2022-27.pdf If there is no direct link to Strategic Objectives, please provide a justification for inclusion of this paper to the nominated Committee.	Full Business Case likely to have significant impact on UHI Perth strategy
Resource implications Does this activity/proposal require the use of College resources to implement? If yes, please provide details.	Yes. Full Business Case likely to have significant impact on UHI Perth resources allocation
Risk implications Does this activity/proposal come with any associated risk to UHI Perth, or mitigate against existing risk? If yes, please provide details.	Yes Full Business Case likely to have significant impact on UHI Perth risk profile
Equality & Diversity Does this activity/proposal require an Equality Impact Assessment? If yes, please provide details.	No
Data Protection Does this activity/proposal require a Data Protection Impact Assessment? If yes, please provide details.	No Click or tap here to enter text.
Island communities Does this activity/proposal have an effect on an island community which is significantly different from its effect on other communities (including other island communities)?	No If yes, please give details: Click or tap here to enter text.

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Status (ie confidential or non-confidential)	Confidential If a paper needs to remain confidential for a prescribed period of time before being made 'open', please advise how long must the paper be withheld: Papers are regarded as Confidential until the FBC has been approved by Scottish Ministers
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Freedom of Information

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Its disclosure would substantially prejudice a programme of research	<input type="checkbox"/>	Its disclosure would substantially prejudice the effective conduct of public affairs	<input type="checkbox"/>
Its disclosure would substantially prejudice the commercial interests of any person or organisation	<input checked="" type="checkbox"/>	Its disclosure would constitute a breach of confidence actionable in court	<input type="checkbox"/>
Its disclosure would constitute a breach of the Data Protection Act	<input type="checkbox"/>	Other [please give further details] Click or tap here to enter text.	<input type="checkbox"/>

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and

http://www.itspublicknowledge.info/web/FILES/Public_Interest_Test.pdf

UHI Operating Model: Outline Business Case

Confidentiality and Freedom of Information

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UHI Transformation: a case for change

UHI was founded in 2011 to provide a regional University which would deliver high-quality education tailored to the unique needs and characteristics of the Highlands and Islands, Moray and Perthshire, fostering economic, cultural, and social development. The achievements to date have been significant, however UHI must now drive urgent change to continue its evolution as Scotland's tertiary University.

Our UHI Strategic Plan 2030 now commits us to **thinking, planning and acting as one institution** in delivering on our mission and vision, and the purpose of this Outline Business Case (OBC) is to make the case for change for the whole of the UHI Partnership, to highlight the current challenges, and opportunities, and be clear that 'status quo' is not an option. Whilst UHI has achieved huge success and many notable achievements, the legacy founding mechanisms are now a barrier for UHI in a very challenging education sector, where student numbers and funding are reducing, and costs are increasing.

UHI is a highly valued institution, covering approximately two thirds of the landmass of Scotland. To be very clear, there is no intention to 'break up' UHI, but to drive a change process which will deliver significant and increased integration and benefit for UHI's students, staff, communities and economies, together with ensuring financial sustainability and a platform for growth and investment. The change comes in two main forms: A move towards a more integrated institution as per our 2030 strategy together with a fast-tracked approach to making UHI more effective and efficient by reviewing current provision, structures, systems, governance and processes in order to drive an enhanced student experience together with a financially sustainable, growth focused institution.

The UHI regions (Highlands and Islands, Moray and Perthshire) have a hugely varied geography, from rural and island locations to urban cities, serving diverse communities. There is 'no one size fits all' in UHI, and flexibility, local delivery and innovation must remain at the heart of what the University was founded to provide. UHI as a tertiary university partnership serves its communities proudly, but we must do more; more resources devoted to our students; more embedded in our communities; more economic development as an anchor institution, and most importantly, continue to be true to our founding mission "to have a transformational impact on the people, communities and economies of our region". UHI provides a critical future for our young people who otherwise would have to leave the region to pursue their education, and as such plays a vital role in addressing depopulation through successful, sustainable communities.

The UHI Partnership has made strong progress to date, but in order to drive the radical and integrated change which is required, we need the support of our stakeholders, including dedicated funding support from the Scottish Government/Scottish Funding Council. Our change is focused on seven enabling key principles, linked to our 2030 Strategic Plan, which have been agreed by the Partnership and which will preserve the integrity of the current UHI Partnership, but also allow it to evolve to deliver its potential:

- + Enhance our ability to deliver learning, teaching and research.
- + Increase the proportion of the resources that are spent on our students to enhance their experience of studying with UHI, at whatever level, and the equity across that provision.

- + Remain geographically dispersed, delivering the educational needs of our communities and enhance local economic growth and development.
- + Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions.
- + Provide for greater opportunities for our staff and their career development across corporate and tertiary academic provision.
- + Enhance our decision making through single point accountability.
- + Become fully tertiary and use this to lead the post-16 education agenda in Scotland.

UHI Today

UHI is a globally recognised tertiary institution, delivering high quality further education, higher education and world class research to over 34,000 students per year, across 70 teaching and learning centres, many in island and rural areas. The UHI family include the University, seven assigned colleges and three specialist partners with internationally recognised research institutions. Each institution is an autonomous body, has its own characteristics and contributes to the distinctive organisation that is UHI.

In its recent UHI Strategic Plan 2030, a commitment was made by the UHI partnership to **think, plan and act as one in delivering on our mission and vision.**

UHI is committed to become:

- + A destination of choice for learners responding to the regional needs of our communities, business and industry and developing our national and global positioning in curriculum and research areas of strength.
- + A partner of choice for regional employers and stakeholders and more widely through expanding relevant national and global collaborations.
- + An employer of choice where people are valued, supported and celebrated as one of its greatest assets.

UHI's Strategic Plan 2030 sets out five priority areas:

Table 1: UHI Strategic Plan 2030

Priority	Detail
Teaching, learning and student support	To deliver a high-quality connected curriculum built on personalising the learner journey, giving more choices and opportunities to more people. Increasing our reputation and reach through our distinctive curriculum, partnerships with business and industry, innovative delivery and student experience and success.
Research and innovation impact	To enhance our research impact, ensuring it is internationally ranked, industry linked and world leading. Increasing our national and international reputation through research and innovation excellence and broadening our fields of research in emerging areas of strength which are regionally focused with global reach.
Enterprise and Growth	To embrace an entrepreneurial spirit based on strong economic growth for our institution and our communities, growing and diversifying our student

Priority	Detail
	<p>population, delivering innovation, employability and enterprise skills, and supporting innovation.</p> <p>Increasing recognition of our position as an anchor institution supporting our communities, developing skills and knowledge-led solutions, and influencing regional and national policy.</p>
Environmental Sustainability	<p>To be a sustainable and socially responsible institution, contributing to the sustainability of our communities, our economy, and our planet.</p> <p>Increasing awareness of our central and transformational role in decarbonising the economy and progressing the United Nations (UN) Sustainable Development Goals in our communities and beyond.</p>
Operational Excellence	<p>To be a fully integrated, sustainable, and people-oriented organisation.</p> <p>Increasing recognition of UHI as a financially sustainable, well managed organisation by funders and stakeholders.</p>

Source 1 [UHI Strategic Plan 2030](#)

UHI is much more than a traditional university and, as a partnership, we place our students at the heart of everything we do. We pride ourselves on being a dynamic institution, focused on change, ambition and growth, committing to delivering on our Mission and values of Respect, Openness, Collaboration and Excellence. Our UHI Strategic Plan 2030 has provided the platform to deliver our appetite for success, thinking globally and acting locally to deliver world class education, research and innovation and our university partnership outcomes to date are impressive.

Our students have voted UHI number one in Scotland for post graduate student satisfaction, sixth in Scotland for undergraduate satisfaction and 72% of our research is classed as world leading or internationally excellent.

We care passionately about our regions, our culture and our heritage, and especially our commitment to promoting and developing the Gaelic language. We actively demonstrate our commitment through offering flexible and supported learning from access level to PhD, including delivering direct skills and apprenticeship programmes linked to workforce demand. In addition to our significant further and higher education presence, UHI hosts several world leading specialised research centres focused on key areas such as environmental and marine science, renewable energy, history, place-based archaeology, life sciences, and rural health to name a few. These research centres contribute to cutting-edge place-based research and innovation, addressing regional issues and global challenges, supported by our innovative STEM partnerships with business and industry.

The UHI regions are one of the fastest growing areas of Scotland. Over the next 10 years initiatives like the Inverness & Cromarty Green Freeport will create around 10,000 new jobs in our regions, and an estimated £3 billion of fresh investment, positioning UHI to maximise opportunities in the largest European hub for the development of the offshore wind industry and associated renewable energy technologies. Our university partnership is strongly focused on supporting the economy as part of the National Strategy for Economic Transformation which commits Scotland to “focus our activity on the transition to net zero, the digital revolution, and

lifelong training making sure employers have the supply of skills they need”. UHI is at the forefront of developing a skilled population which will drive economic prosperity.

UHI – our future

UHI has a critical place in the regions it serves, and the reasons why UHI was founded are as relevant today as they were at UHI’s inception, as the University faces unparalleled economic challenges and growth opportunities, combined with the need to link education, business, industry and innovation initiatives to deliver on Scotland’s growth ambitions. The latest census figures once again underline the decline in the working age population in many parts of the UHI regions. It is critical that UHI remains part of the solution, creating jobs and sustainable futures by being a community-based world leading tertiary university that will benefit the UHI regions for many years to come.

As part of our evolution, the UHI partnership has agreed it will drive change to become a more integrated and financially sustainable institution, both in its current construct and also as we move further towards becoming a fully integrated institution, ensuring that UHI is here for generations to come, providing our students with the best possible experience. We want to ensure that UHI is at the heart of our regions, recognised for its academic excellence, delivered in local community-based campuses, which have state of the art facilities, and which make UHI an institution of first choice for learners within our region, but also acts as an international attractor for students, business and industry globally. As part of this vision, we have to ensure that resources are optimised across the partnership and that we drive efficiency and growth so that we create platforms for investment in modern infrastructure and world class facilities.

UHI is a complex and expensive organisation, spread across a large rural and island geography, which means that the provision of both further and higher education is logistically complex and carries a much higher cost of delivery than in urban areas. Academic Partners all have their own administration, operations and governance, creating duplication and cost, and over time the University’s central administrative function has also grown in a way which is not sustainable. These factors, combined with an exceptionally challenging funding climate, mean that UHI must fast track transformation and reduce duplication by integrated its operating and governance arrangements.

The proactive actions being taken by the UHI partnership are projected to reduce the underlying annual deficit from £9.6m in year 1 (2024-25) to £5m by year 4 (2028-29). At that point some £18.5m of loans are projected to be outstanding to the SFC. To reduce the underlying deficit and address the loan position significant change to how we operate will be required to generate further efficiencies and deliver on income and growth opportunities in years 1 to 4. Fundamental to this financial recovery is growing our HE provision back to the SFC target.

To address financial sustainability, the financial objectives for the operating model as it is developed will be:

- Address the underlying deficit and the need for ongoing SFC financial support;
- Generate sufficient operating surpluses to support growth and investment;
- Generate sufficient operating surpluses to enable repayment of existing debt;
- Diversify our income;
- Build financial resilience through growth in reserves; and

- Enable leverage of external finance.

A range of key performance indicators will be used to test the financial effectiveness and sustainability of the new operating model once the costing of the preferred option is undertaken within the full business case. Preliminary measures proposed to underpin this approach (with exemplars based on current turnover) are:

- Surplus as a % of total income – target 3% -10% (£4.8m-16m annually based on turnover of £160m)
- Staff costs as a % of total income – benchmarked annually against peers
- Unrestricted Reserves as a % of total income – minimum of 10% (£16m based on turnover of £160m to be built over first few years)
- External borrowing as a % of total income - benchmarked annually against peers
- Days liquidity – minimum of 60 days liquidity
- Debt Service Ratio – to be developed following analysis of asset base and debt leverage options

Without major and fundamental change UHI's deficit position will continue to increase whilst the organisation shrinks. As such, it is imperative that transformation happens as a matter of urgency, as without transformation funding and a different operating model, UHI will not be able to maintain its position as an exceptional and unique tertiary education institution or deliver education and research within its communities.

An integrated institution

UHI's vision is to deliver world-class learning, skills, research and innovation which equips students for a sustainable future in a changing world. UHI needs to be the best it can be to support its' communities to be strong and resilient, thrive and prosper. We now have a once in a lifetime opportunity to further integrate our university and drive success for both our institution and the regions we serve. Through this change process we will realise the following benefits with further detail in section 2.2.1:

- + **Becoming a financially sustainable tertiary education institution**
- + **Access to a stronger, sustainable, and enhanced Learning, Teaching & Research offer**
- + **Providing an enhanced 'one UHI' Student Experience across all locations and online: with equity in provision, opportunity, policy, and support for students**
- + **Providing better opportunities for staff including progression and career development**
- + **Enhanced capacity for community, engagement and partnerships**
- + **Streamlined governance and the move to a single leadership and governance structure**
- + **Enhanced growth in regionally significant and emerging sectors, driving economic development and strengthening contributions to the local economy.**

All the work that has been undertaken over the last couple of years, evidenced by the consultancy reports, the SFC and Audit Scotland opinion in line with the 2030 strategy, is that the UHI partnership must become more integrated to flourish. In doing so, it is imperative that the new operating model retains local decision-making, accountability and employment to

ensure that UHI remains an integral and integrated part of the diverse communities that it serves.

Early work was undertaken with Principals to envisage how a single institution would operate has helped to shape this early picture. Whilst considerable work requires to be undertaken through the FBC process, the outline of it is set out here.

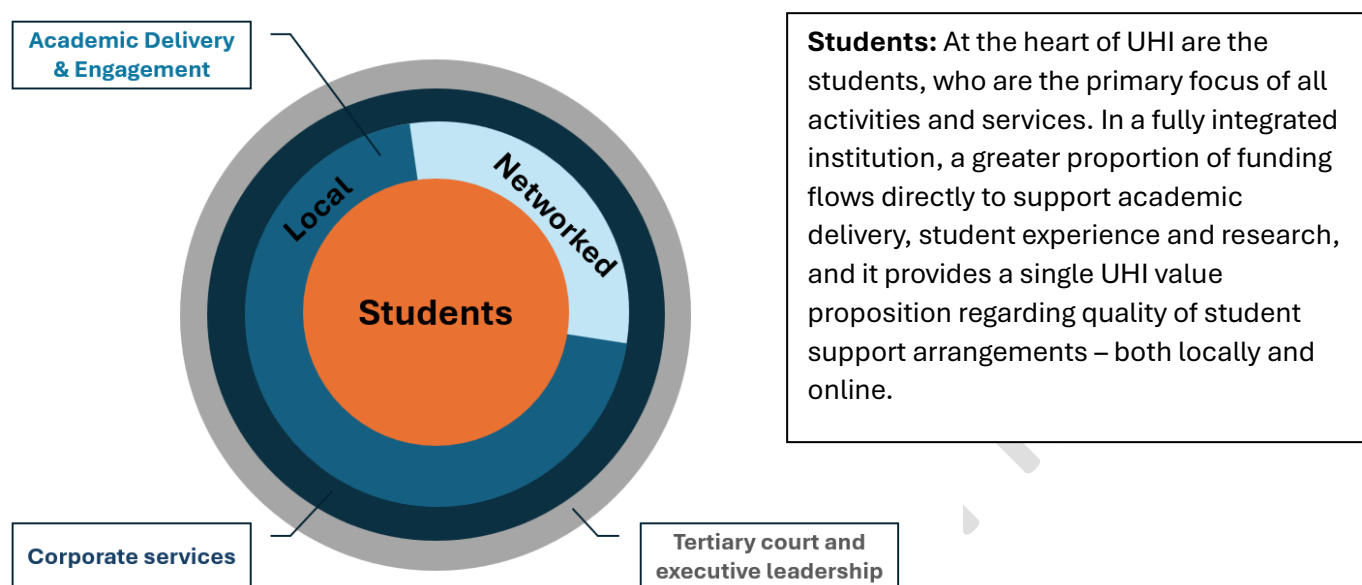


Figure 1: An integrated institution

Academic Delivery, Services & Community Engagement: The integrated institution shall continue to deliver the majority of academic and enterprise activities and services locally, plus the continued networked delivery of specific curriculum to maximise accessibility:

- + Local delivery will ensure the provision of up-to-date and responsive Tertiary curriculum across FE, HE and post-graduate, and via relevant delivery models, including work-based learning.
- + This will be delivered by high functioning academic communities with motivated staff who know both their professional and academic domains, trends and markets, along with knowledge of specific local needs and opportunities.
- + Students will be enabled by Student Support services with local, relevant capabilities and augmented by the strength and depth of organisation-wide experts.
- + Engagement with the local community through a formally constituted group of key stakeholders will ensure that tertiary education provision is accessible and relevant to the needs of the surrounding area.
- + The single institution would have greater agility and collaboration in curriculum and research planning, but with locally based and informed decision making, enhancing community impact.
- + It would also have greater ability to expand in regionally and strategically important research.

Corporate Services: This layer would encompass the administrative and operational functions that enable the integrated institution's day-to-day activities.

- + The exact scope will be defined during FBC development, but would probably include Finance, HR, IT and certain other essential services, eg Student Records/Registry, that ensure the smooth running of the institutions and enable them to deliver high-quality tertiary education.
- + These services would be delivered by department staff dispersed across the region and operating on a single organisation basis using single systems, policies and processes.
- + Work undertaken during FBC development will evaluate and define corporate services and the required balance of local and global delivery across each within the integrated institution.

Tertiary Court Governance & Executive Leadership: The outermost ring signifies the strategic oversight and leadership provided by the executive team and the tertiary Court - the integrated institution's board of governors.

- + Together these will set the overall strategic direction and leadership for UHI as an integrated institution, ensuring accountability, and making high-level decisions that guide it to deliver its mission and vision.
- + UHI Court of the integrated institution would collaborate closely with the local advisory arrangements established across the region to ensure the effective dialogue between the institution, its campuses and learning centres - with local communities, employers and stakeholders.
- + Executive leadership would be responsible and accountable for operational delivery and performance of the integrated institution and would be suitably constituted to ensure appropriate coverage of functions, staff, students, budget, risk and geography. In all cases operational decision-making shall be delegated as close to delivery organisationally and geographically as possible.

Early work was undertaken with principals to provide for an overall organisational structure and is presented here for completeness, accepting that further work needs to be undertaken as we collectively define the future operating model of UHI;

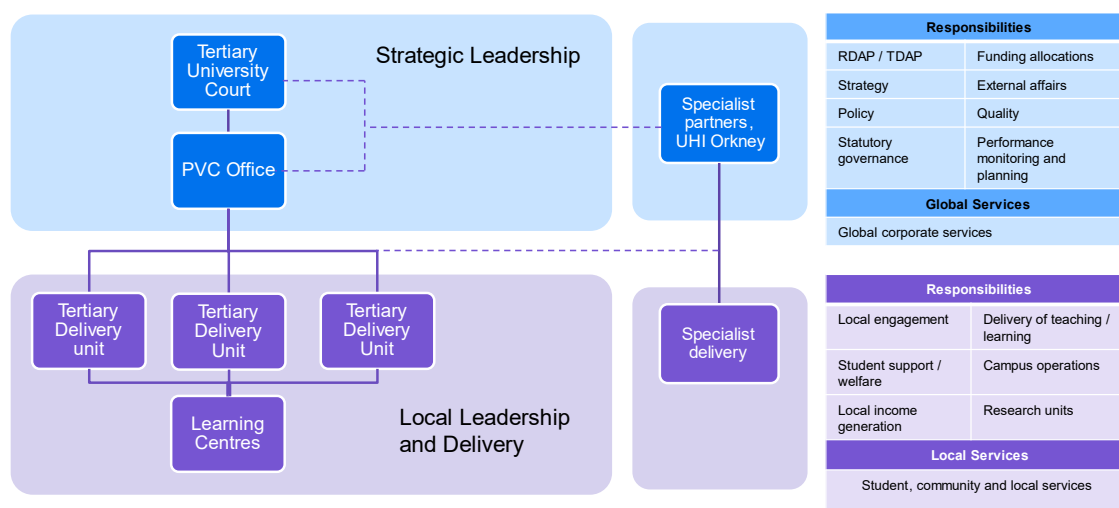


Figure 2: Overall organisational structure

Economic Development and Growth Opportunities

Opportunities which build on UHI's institutional success to date and support delivery of its 2030 strategic objectives are presented by various regional developments. Inverness & Cromarty Firth Green Freeport, ScotWind, hydrogen, pumped hydro, ports and harbours, energy transmission, space ports and wider construction developments are of regional and national significance and will generate significant demand for education, training, research, and innovation within the regions that UHI serves.

The Economic Impact Assessment conducted for the Green Freeport alone outlines the creation of around 10,000 new jobs in the renewable energy, technical and supply chain and construction sectors, important to the entirety of UHI's regions, and the addition of over £6 billion to the regions' economy.

UHI as a key partner has publicly stated its intention to directly support the Green Freeport by helping to train and educate the future workforce, by driving research and innovation in the renewable energy and life sciences sectors, and by working with public and private partners to ensure the Green Freeport has a transformational impact. There is an expectation and requirement for UHI to deliver against this as an anchor institution for a region that is now described as home to the green industrial revolution.

Additional to this, with growth in regionally important and established wider sectors such as space, aquaculture, the 'blue economy' generally, tourism, the creative economy, and life sciences, it is clear that an increase in the population of the regions will be essential. The scale of the skilled workforce required by industry will drive an in-regions demand for FE and apprenticeships, as well as undergraduate and Master's level qualifications.

To ensure that these significant employment opportunities are open to people within the regions, and to turn student demand into applications to UHI, requires appropriate apprenticeships, FE, HE and re-skilling opportunities to be available through UHI in local communities, to young people as they leave school, to those looking to re-train for new opportunities, and to others that can be attracted to the regions.

The role of the UHI in supporting the development of a skilled workforce in the key sectors as exemplified above is critically important, but UHI has an equally significant public responsibility to reflect the cultures, heritage, dialects, landscapes and seascapes in its core academic offering. In part UHI's academic offer in this respect relates to the provision of a skilled workforce, for example in support of tourism and in terms of the commitment to strengthening the use and visibility of Gaelic in the workforce across the UHI regions.

At the current time, UHI already has significant academic provision in both teaching and research in a diverse range of arts, humanities and science subject disciplines which reflect the rich cultural and historical context of the Highlands and Islands and beyond, but there is considerable potential for further growth and development.

A major gap at the current time is the demand in excess of supply for FE provision. Currently reduced FE funding from the SFC has resulted in real-term cuts, and although the region underperforms from an HE perspective, the demand for FE outstrips credit supply.

Next steps

The draft OBC will be shared with all academic partner governing bodies and the SFC by the end of 2024, for substantive discussion, feedback and endorsement in January 2025, as outlined in timescales Figure 3 below.

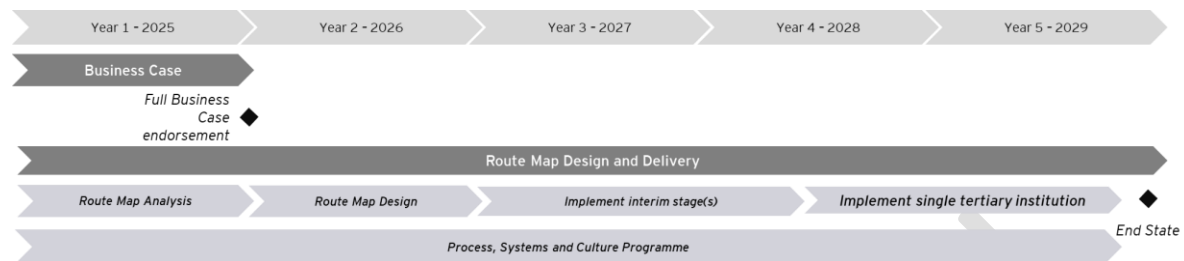


Figure 3. Route Map Development & Implementation stages

Endorsement will primarily drive two things;

Firstly, the development of a full business case, through an inclusive and collaborative process, that will provide the detailed evidence base for the changes that UHI is required to make to ensure that it can prosper. This will be presented to all UHI governing bodies in June 2025 for approval and onwards to a full public consultation.

Secondly, the development and implementation of the significant changes that can be made within UHI's current configuration, the things that UHI must fix regardless of wider integration considerations, the "no regrets" pieces of work that will support a more effective partnership now, reducing cost and duplication and enhancing growth opportunities.

All of this work will be progressed through an inclusive and collaborative process with input from all partners, and all our stakeholders, in particular, students, staff and trade unions. In this way, the initiatives that we design and implement now, and the creation of a full business case that articulates what UHI should and can be to deliver most effectively is developed by those who understand UHI best.

1.1 Structure of the Outline Business Case document

This OBC follows the HM Treasury 'green book' 5 case format to set out the partnership's shared vision and strategic commitment to – *and need for* - a transformative new operating model, based on progressing towards a single tertiary institution. These five cases (listed below) together provide a comprehensive framework for decision-makers to assess the feasibility, value, and deliverability of a project.

- + **Strategic Case:** This case establishes the rationale for change to the UHI Partnership operating model, and how that vision is complementary to the partnership's agreed founding principles, strategic objectives and reform principles.
- + **Economic Case:** The economic case reviews the long list of options that are being considered to implement a new proposed operating model, the need for which is identified in the Strategic Case, as the basis upon which the options have been evaluated and the short list of options that will be considered throughout the rest of the OBC.
- + **Commercial Case:** There are a number of commercial considerations that will need to be taken account of when implementing a new operating model for UHI. The major areas are noted within the Commercial Case and will require to be assessed more fully at Full Business Case stage.
- + **Financial Case:** This case evaluates the UHI partnership's financial baseline and projected four-year income and expenditure position. Further detailed analysis is required to ensure that there are up-to-date and accurate financial projections as part of the development of a Full Business Case which will support the implementation of the preferred option and route map approach outlined within this OBC.
- + **Management Case:** The Management Case sets out how the proposed programme of change could be delivered and the corresponding governance required. It explains how the Route Map to a single tertiary institution will be developed and implemented, and the programme plans and project management approaches to be used for Risk Management, Quality Assurance, Benefits Realisation and Communications.

Note: Abbreviations and definitions used throughout the OBC are listed in Appendix 7.1.

2 Strategic Case

2.1 A Shared Vision for the Future

Since its inception in the early 1990s, the UHI partnership has been dedicated to providing educational opportunities for all within the region, and deeply rooted in its communities. Underpinning this was the ambition to: offer curriculum and research linked to the region's unique landscape, heritage, and culture; increase economic growth and act as a catalyst for economic development; and deliver social change to build better futures for the region.

Those ambitions remain. However, over time, the wider prospects and barriers to success have inevitably evolved: opportunities have increased but so have the challenges the partnership faces. Recognising this, the UHI partnership is looking towards the future, which is why all partners unanimously committed to the UHI 2030 Strategic Plan¹ and its bold vision:

“We will attract, nurture and retain talent in our communities, supporting innovation and social and economic prosperity. We will do this through the innovative delivery of flexible lifelong learning focused on employability and skills and impactful research.”

This vision is backed up by a commitment for the UHI partnership **to think, plan and act as one** in delivering on its mission and vision. Transformational change will be vital to make this a reality. Therefore, the partnership agreed the following seven reform principles, which the transformation programme of change must deliver on:

- + Enhance our ability to deliver learning, teaching, and research.
- + Increase the proportion of resources spent on our students to enhance their experience and ensure equity across all levels of provision.
- + Remain geographically dispersed to meet the educational needs of our communities while enhancing local economic growth and development.
- + Ensure local accountability and empowerment through place-based approaches that provide coherence and responsiveness across our regions.
- + Offer greater opportunities for our staff and their career development across both corporate and tertiary academic provision.
- + Enhance our decision-making processes through single point accountability.
- + Become fully tertiary to lead the national over-16s education agenda.

The collective agreement of the UHI 2030 Strategic Plan and the transformational reform principles by the leadership of all UHI partners is a testament to their unified commitment and shared resolve. This strong alignment bodes well for the success of the programme, because it will ensure cohesive and coordinated efforts across all levels of the partnership in designing and implementing essential, bold changes to create a new Operating Model.

The resulting transformation programme will deliver a step change in the effectiveness, efficiency, sustainability and impact of the UHI partnership. By building on UHI's founding principles and adhering to the agreed reform principles, the partnership will create a dynamic and responsive tertiary institution that not only meets the needs of its communities but also sets a benchmark for excellence in tertiary education and research.

¹ The UHI 2030 Strategic Plan is expanded on later in the Strategic Case (section "UHI Transformation: a case for change").

2.2 Delivering a new UHI Partnership Operating Model

The collective leadership of UHI has been meeting over the last year to support the development of this OBC and to inform the choices UHI has. Despite the past history of attempted change and the challenges in the tertiary sector, the plans described in this OBC represent the furthest the UHI partnership has ever travelled towards the extensive constitutional and operational change needed to secure its viability and effectiveness to assure the future of its students and communities. Given the collective agreement already reached on UHI 2030 and subsequently the transformation principles required, the partnership has committed to delivering the necessary change.

To frame the changes, the UHI leadership has agreed that there should be no change to UHI's overall mission - **To have a transformational impact on people, communities and economy of our region** - and the principles that UHI was founded upon². These remain as relevant today as they did when they were developed in partnership with the communities UHI serves.

UHI's collective academic vision is to be the destination of choice for learners responding to the regional needs of its communities, business and industry and developing its national and global positioning in curriculum and research areas of strength. The UHI partnership seeks to use its unique tertiary position to attract, nurture and retain talent in its communities, supporting innovation and social and economic prosperity. The partnership will do this through the innovative delivery of flexible lifelong learning and research focused on employability and skills and impactful research. It is vital that this academic vision is enabled by and integral to the new operating model.

2.2.1 Benefits the Transformation must deliver

Simply put, the main intended benefits of the new operating model are to enhance and maximise education, teaching and research; and to achieve better value for money and create a model that optimises resources to our students; is economical, efficient, and effective in its use of public funding and allows UHI to deliver its potential as an anchor institution for the region.

The approach to Benefits Management is described in the Management Case and detailed fully in the Benefits Realisation Plan (Appendix 7.3) which lists the benefits, the beneficiary/beneficiaries of each benefit, and the enabling features that the operating model must achieve to assure achievement of the benefits.

The top-level benefits that the new operating model must deliver are summarised as follows:

- + **Becoming a financially sustainable tertiary education institution -**
- + **Access to a stronger, sustainable, and enhanced Learning, Teaching & Research offer**
- + **Providing an enhanced 'one UHI' Student Experience across all locations and online: with equity in provision, opportunity, policy, and support for students**
- + **Providing better opportunities for staff including progression and career development**
- + **Enhanced capacity for community, engagement and partnerships**

² The founding principles are explained in section 2.2.2 and are also included in Appendix 7.2, which provides the background and history of the UHI partnership.

- + **Streamlined governance and the move to a single leadership and governance structure**

Therefore, the requisite types of changes that need considered in the development of a new operating model would be to the constitutional structure of UHI, the coordination and cohesion of its management and back-office functions. Moreover, the operating model would aim to direct a greater proportion of the funding and income received into academic delivery, increase the time UHI has to fully engage with its communities and local and regional stakeholders, turn the focus from internal debate and considerations to the external environment and the opportunities that it presents.

Simply changing the structure of UHI will not automatically result in these benefits. It is necessary but not sufficient in isolation. This will depend on the option agreed and the subsequent decisions on the structures and processes UHI puts in place to deliver. However, it will significantly enhance the likelihood of securing these changes and make them easier to achieve.

2.2.1.1 Benefits for Students, Staff and Communities

The new operating model will be shaped to deliver the 5 categories of benefit described previously. What would this look like and feel like? The outcomes of those benefits and how they would be experienced by Students, Staff and Communities are described below.

2.2.1.1.1 Students

- + **More consistent and sustainable curriculum:** A unified curriculum offer with distinct and clear progression routes for students.
- + **Higher investment in core academic delivery:** A larger share of funding will directly enhance academic delivery, student experience, and research excellence.
- + **Improved systems and services:** Establishing seamless, cohesive and high-quality student support services for both in person and online learning, underpinned by single policies and systems to ensure enhanced student experience.
- + **Increased student support:** Greater capacity and resources allocated to student support services, infrastructure development, Highlands and Islands Student Association (HISA) engagement, and improved opportunities for student involvement in sports, clubs, and societies.
- + **Streamlined student journey:** Efficient and consistent processes guiding students smoothly from inquiry to application to graduation.
- + **Enriched social dimension:** Enrich the social dimension of college and university life, whether this be through face-to-face or online delivery.
- + **Expanded access to learning:** Higher investment in academic delivery increases the access to learning at different locations, including in-person and online.
- + **Improved support for Gaelic:** Increased ability to integrate Gaelic and the Gaelic language plan across all regions.

2.2.1.1.2 Staff

- + **Improved equity:** Ensure equitable policies, opportunities, terms, conditions, and organisational structures to support all staff fairly.

- + **Enhanced job security and growth:** Form larger, geographically dispersed teams, offering improved job security, career progression, professional development, and specialised roles across our corporate functions.
- + **Boosting efficiency and resilience:** Consolidate resources to increase operational efficiency, reducing reliance on stretched, duplicated teams to enhance resilience.
- + **Cultivating a positive culture:** Minimise internal competition within UHI, fostering a collaborative and supportive environment that promotes a positive organisational culture.
- + **Improved job satisfaction & recognition:** Enhance job satisfaction by providing greater recognition, reward, and overall fulfilment in the workplace.

2.2.1.1.3 Communities

- + **Enhanced employability skills:** Offer enhanced employability skills, ensuring access to a local workforce and skills pipeline matching local demand and need.
- + **Reinvest in local opportunities:** Create capacity to reinvest in growth opportunities across learning and teaching, skills development, knowledge exchange and commercial activities.
- + **Relevant curriculum for the regions:** Develop a dynamic, responsive curriculum tailored to the evolving needs of regional communities and key stakeholders.
- + **Improved visibility of local priorities:** Enhance visibility of local, cultural and linguistic identity in the Highlands and Islands, Moray and Perthshire regions through UHI's raised profile, including the Gaelic Language Plan.
- + **Measure UHI's economic impact on communities:** Measure and promote the tangible impact that UHI has on economic development across the regions.
- + **Responsive to local needs:** Locally responsive and knowledgeable staff providing a local presence across the regions, with specific processes for community engagement.

2.2.1.2 Learning, Teaching & Research in the new operating model

In order to support the delivery of the programme's benefits realisation by transforming Learning, Teaching & Research delivery, the new operating model must fully embody the following features:

- + Maintaining or enhancing assessment of local and regional needs, community engagement and associated decision making
- + A more integrated and strategic tertiary approach that seeks to ensure the innovative delivery of FE, HE, Research and Knowledge Exchange in a co-ordinated and mutually supportive manner to achieve outcomes
- + High functioning academic communities with motivated staff who know both their professional and academic domains, trends and markets, along with knowledge of specific local needs and opportunities
- + A simpler and more transparent funding model within UHI
- + Enhancing collective horizon scanning and business approach to new student markets and areas of growth and economic need, using a data led approach
- + More data informed and streamlined academic decision making enabling UHI to be more agile and ensure robust decisions underpinned by reliable business cases
- + Innovative programme design. An increasingly collaborative and non-competitive approach across academic programmes, sharing modules, exploiting digital

technologies and thus reducing the cost of delivery/freeing up resource for investment in new areas

- + Enhanced ability to support marketing and student recruitment
- + Enhanced student support to increase retention and maintain and improve student experience
- + A research and innovation community underpinned by a sustainable business model, and activities delivering outcomes of value to the wider UHI mission

2.2.2 Principles of Transformation

The UHI partnership principals have agreed a set of seven enabling principles that the transformational programme of change to deliver a new operating model must adhere to, in order to retain the ability of UHI to deliver its mission and founding principles:

- + Enhance our ability to deliver learning, teaching and research.
- + Increase the proportion of the resources that are spent on our students to enhance their experience of studying with UHI, at whatever level, and the equity across that provision.
- + Remain geographically dispersed, delivering the educational needs of our communities and enhance local economic growth and development.
- + Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions.
- + Provide for greater opportunities for our staff and their career development across corporate and tertiary academic provision.
- + Enhance our decision making through single point accountability.
- + Become fully tertiary and use this to lead the post-16 education agenda in Scotland

2.2.3 Vision for the required Transformation

The partnership's agreed vision in the UHI 2030 Strategic Plan is backed up by a commitment for the UHI partnership **to think, plan and act as one** in delivering on the partnership's mission and the 2030 vision. Transformational change will be vital to make this a reality. The resulting transformation programme will deliver a step change in the effectiveness, efficiency, sustainability and impact of the UHI partnership.

By building on UHI's founding principles and adhering to the agreed reform principles above, the partnership will create a dynamic and responsive tertiary institution that not only meets the needs of its communities but also sets a benchmark for excellence in tertiary education and research. UHI's collective academic vision is to be the destination of choice for learners responding to the regional needs of its communities, business and industry and developing its national and global positioning in curriculum and research areas of strength. The UHI partnership seeks to use its unique tertiary position to attract, nurture and retain talent in its communities, supporting innovation and social and economic prosperity. UHI will do this through the innovative delivery of flexible lifelong learning and research focused on employability and skills and impactful research.

The key goal of the changes UHI is seeking to make is to enhance how it operates so that it is more effective and efficient in the delivery of learning, teaching, research and knowledge exchange whilst remaining rooted in, and a fundamental part of, all its communities across the regions.

The Management Case section of this OBC explains the transformation programme's intended governance, planning and delivery approaches needed to create a new operating model based on the option that is ultimately selected.

2.3 UHI Current Position

2.3.1 Background

Building on its founding principles from the early 1990s, UHI is a partnership of colleges, internationally recognised research institutions and specialist teaching centres³. A modern university, UHI delivers further education, higher education, apprenticeships, short courses, knowledge exchange and research to over 34,000 students per year across a campus of 70 teaching and learning centres in the Highlands and Islands, Moray and Perthshire.

Collectively, the UHI partnership covers two thirds of Scotland's land mass and all of Scotland's inhabited coastal islands except for Great Cumbrae. The area extends over 400 miles north to south and over 200 miles east to west, with most partners more than 100 miles distant from each other. Some of the partners are based in the urban centres of Perth, Inverness and Elgin whereas other institutions cover wider rural geographical and island areas through a network of learning centres. Figure 4 provides a visual representation of the various institutions and locations.

The UHI partnership currently operates as a collegiate model made up of 11 diverse institutions; the University, seven assigned colleges and three specialist partners all of which are registered charities. Each institution is an autonomous body, has its own characteristics and contributes to the distinctive organisation that is UHI. Appendix 7.4 sets out details on the legal structure of UHI and its subsidiaries.

The UHI partnership consists of:

- + Highland Theological College (HTC)
- + Sabhal Mòr Ostaig (SMO)
- + Scottish Association for Marine Science (SAMS)
- + University of the Highland and Islands (UHI Ltd)
- + UHI Argyll
- + UHI Inverness
- + UHI Moray
- + UHI North, West and Hebrides
- + UHI Orkney
- + UHI Perth
- + UHI Shetland

³ The founding principles are explained in section 2.2.2 and are also included in Appendix 7.2, which provides the background and history of the UHI partnership.

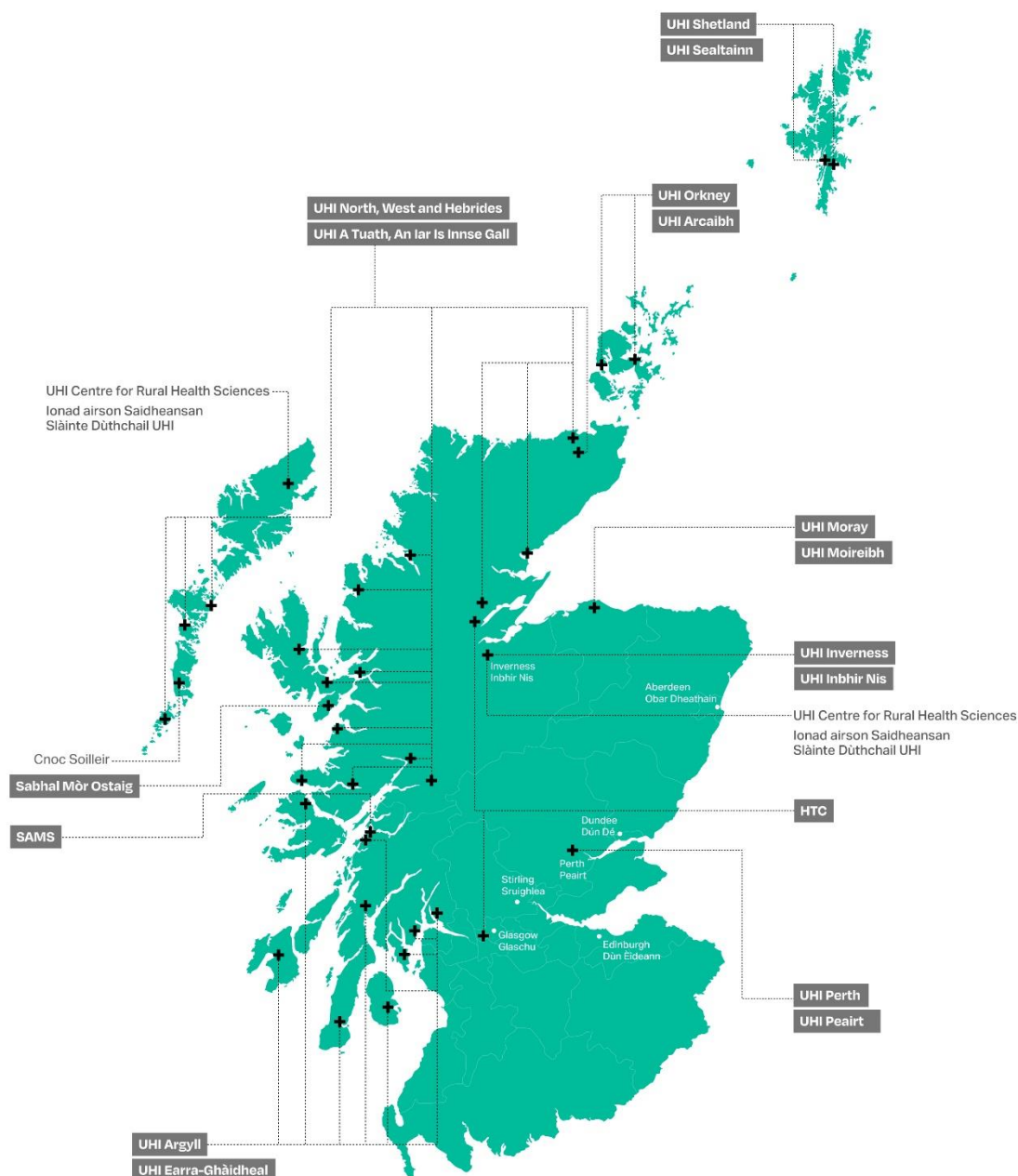


Figure 4: UHI Partnership Illustrative Map

UHI Ltd holds university title, research and taught degree awarding powers and acts as the Regional Strategic Body for the assigned colleges. It delivers higher education teaching and research. The seven colleges (UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Orkney, UHI Perth and UHI Shetland) have served their communities for many decades, providing vocational and skills training that have driven the local economies whilst supporting local and regional employers and industry.

The three specialist partners; (The Scottish Association for Marine Science (SAMS), Sabhal Mòr Ostaig (SMO) and Highland Theological College (HTC)) focus on particular areas of academic

teaching and research and are world leading in their fields. The Scottish Association for Marine Science, based in Oban, has been delivering independent marine science since 1884 working for healthy and sustainably managed seas and oceans through world-class marine research, education and engagement with society. Sabhal Mòr Ostaig is the National Centre for Gaelic Language and Culture founded in 1973, promoting the revitalisation of Gaelic language and culture through world-class education, research, training and economic opportunities and is the biggest employer of Scottish Gaelic speakers in the world. Finally, the Highland Theological College (HTC) was founded in 1994 and provides opportunities to study the Christian faith from an evangelical and reformed perspective, in the context of a worshipping community. Based in Dingwall, the college opened additional premises in Paisley in 2019 to offer students in the central belt a campus environment.

2.3.2 Co-creating education and research

UHI's founding principles – “Educational opportunities for all within the regions, based in communities” and “Co-creating education and research: Curriculum and research linked to the regions’ unique landscape, heritage and culture” are realised through UHI’s collective academic provision. This includes teaching, at both further and higher education levels, apprenticeships and short courses, research and knowledge exchange. It is organised within the world renowned and well-established academic centres, such as the Institute of Archaeology in Orkney, the Institute of Northern Studies, in Orkney, Shetland and Perth, the Centre for History in Dornoch, the Centre for Mountain Studies in Perth, the Centre for Islands Creativity and Centre for Sustainable Seafood in Shetland, and the Centre for Recreation and Tourism Management in Fort William. Sabhal Mòr Ostaig, in Skye. This provision is constantly evolving and developing, and online programmes especially attract students from across the world.

Collectively, UHI had 34,775 enrolments across its tertiary provision in 2023-24, The majority of students come from the UHI regions, both part-time and full-time, across all age ranges. UHI has a 70% market share of all students domiciled within its regions with a 16% market share of full time, first year degree students. Since the pandemic, there has been a strong recovery in FE demand that continues to grow and although the HE position has only recently stabilised it is also predicted to continue to grow to a return of the funded targets for HE students by AY 27/28. Appendix 7.5 details demographics and enrolments in more detail.

2.3.2.1 Success to date

Since being awarded university title in 2011, the UHI partnership has enjoyed numerous successes. It continues to provide high quality teaching provision, student support, research and knowledge exchange impacts whilst the breadth of UHI’s academic portfolio is impressive and the quality of support and provision excellent.

Key indicators of this and achievements to date are:

- + In the National Student Satisfaction Survey (NSS)2024, UHI achieved an overall student satisfaction rate of 81.2% (+0.36%), which is above the benchmark of 80.7% in 2023 and this year’s Scottish sector average of 78.1%. This again places us 6th in the ranking for overall satisfaction in Scotland and still well above UHI’s historic ranking.
- + In the national 2024 Postgraduate Taught Experience Survey (PTES), UHI achieved the highest overall satisfaction rate of any Scottish institution and was ranked 15th in the UK.
- + Nearly three quarters of UHI research submitted for review to the 2021 Research Excellence Framework achieved the top two grades (4* or 3*) as world leading or

internationally excellent. A full breakdown is available on our website:

<https://www.uhi.ac.uk/en/research-enterprise/ref/2021/2022>

- + The ability to provide FE and HE programmes to all areas through local campuses, learning centres and provision that is networked across partners.
- + The provision of unique learner journeys from FE right through to PhD in a wide range of subject areas
- + Substantive provision of Modern Apprenticeships and rapid trajectory of growth in Graduate Apprenticeships
- + Commendations for student support in the 2024 Quality Assurance Agency Quality Enhancement and Standards Review
- + In 2022 UHI is recognised for its 'Outstanding Contribution to The Regional Economy' by the Scottish Council for Development and Industry Business Excellence Awards.
- + UHI's largest corporate giving deal signed between UHI and ScotWind developers took place in 2023, securing £1.2m for a UHI STEM outreach programme and STEM scholarships.
- + in 2023 UHI opened the £9m flagship Life Sciences Innovation Centre on Inverness Campus, a partnership project between UHI and Highlands and Islands Enterprise (HIE).

2.3.3 Driving economic growth

Driving economic growth: creating an anchor institution and catalyst of economic development is UHI's second founding principle and evidence that this has been collectively delivered to date is demonstrated in a UHI commissioned study by BiGGAR Economics in 2020 to assess the economic activity supported by the partnership. The report identified that for every £1 invested in UHI, UHI invested £4 back into the economies of the communities it serves.⁴

BiGGAR Economics concluded that, in 2019, UHI generated £560m gross value added (GVA) and supported 6,200 jobs throughout the economy in the Highlands and Islands, Moray and Perthshire, with an additional £93m GVA and 1,000 jobs across the rest of Scotland.

As a large and dispersed yet collective organisation, UHI was recognised as having a significant economic footprint in its regions, generating that impact through the lifetime earnings premium of its students, research and knowledge exchange activity, and its physical presence in its regions.

BiGGAR noted:

"The benefits of the university [UHI] extend beyond the significant gross value added and jobs measures. It supports sustainable and inclusive economic wellbeing and social development in the broadest sense, for people, communities and employers across the region. It supports heritage and culture, the economy, the environment, the regional health sector and it offers pathways through tertiary education that give routes to personal and collective growth and development... Through the university, the region has greater control of its own economic and social future which will be especially important in helping its recovery from the COVID-19 pandemic."

In response to the BiGGAR Economics report, the Scottish Council for Development and Industry Business Excellence Awards recognised UHI in November 2022 for its 'Outstanding Contribution to The Regional Economy'. To date, UHI's notable successes are evidence of how

⁴ <https://biggareconomics.co.uk/economic-impact-of-uhi>

the partnership is working together towards achieving UHI's mission to have a 'transformational impact on the people, communities and economy of our regions'.

2.3.4 External Strategic Framework

The current *external* drivers, such as national strategies and priorities, national sectoral legislation and memoranda and other regional requirements that are major influences on the UHI partnership's delivery strategy, both locally and regionally are set out in Appendix 7.6.

2.4 Why business as usual is not sustainable

2.4.1 The Challenges

The environment in which UHI operates has changed and that now threatens its ability to deliver on the 2030 strategy, mission and founding principles. The key challenges are:

- + **Deficit management:** the current challenging financial circumstances are impacting all institutions within UHI. This has led to a number of redundancy schemes within partners, reducing staff complement across UHI or incurring the use of reserves to unsustainably fund operational delivery. Whilst savings require to be made, a coordinated approach to making savings would lessen the impact on staff and students and help to provide the platform for future growth.
- + **Competition:** as is standard in both the FE and HE sectors, funding is linked to student activity. All partners are therefore in competition with each other, both in respect of direct student recruitment and working with and capitalising on relationships with schools, businesses, industry and other public sector partners. It creates perverse incentives within UHI and creates unnecessary duplication.
- + **Senior management costs:** each institution requires senior management across the range of responsibilities they hold. This multiplies the number of senior officers required to manage UHI. Benchmarking suggests that senior management costs are twice that of comparable FE / HE institutions⁵
- + **Corporate costs:** the current model requires the corporate costs of all institutions to be taken from the same pot of funding. The university takes a top slice, primarily from the HE teaching grant, to provide for the cost of HE provision it delivers and for the financial resource required to deliver university and RSB functions and provide for some partnership-wide services, such as IT. The partners then also take a proportion of their income to pay for local corporate costs, both staffing and non-pay items. The current arrangement is recognised as being suboptimal and the level of duplication between different services is poorly understood and best value is difficult to ascertain.
- + **Duplicated professional services:** Each partner has the same professional service departments but are organised through different staff structures with different systems, policies and procedures. The extent of collaboration between partners for each function varies significantly, despite enormous potential for standardisation and corresponding

⁵ UHI currently spends 2.7% of its total income on senior management. Benchmarked FE and HE institutions spend between 1% to 1.8% of total income on senior management. Tribal benchmarking exercise commissioned by the RSB, March 2024.

efficiency improvements in areas including estates, IT, finance, human resource management, marketing, communications, admissions and registry.

- + **Staff Contracts:** UHI operates as a tertiary institution but the majority of partners' lecturing staff are on contracts aligned to college sector National Bargaining, and these contracts are not a direct fit for the tertiary sector, which includes the delivery of HE and/or research.
- + **Partnership Model:** It is recognised there is inherent inefficiency in the current UHI partnership model, generated by the large number of independent organisations with their own management and governance structures. This requires duplicate statutory processes, internal and external audits, management reporting and external assessments.
- + **Decision making:** The multiplicity and duplication of decision-making bodies and committees largely negates the ability to take a coordinated approach or make quick decisions. It creates an inequitable policy environment for staff and students, unnecessary differences in process, systems and practice that adds cost and complexity across operation, reducing the ability of the partnership to fully utilise the capacity and expertise that exists.
- + **Academic planning and provision:** a notable success of UHI is the way the academic staff work across organisational boundaries to deliver shared and networked provision. This is particularly true in research. However, the planning mechanisms, particularly for the HE curriculum, are sub-optimal where local or individual partner plans do not align with regional or other partner plans, or the use of common costing and planning tools to aid comparative analysis and decision making. This can lead to uncoordinated decisions on curriculum, additional management costs, and slow decision making.
- + **Growth opportunities:** UHI currently struggles to coordinate to take advantage of the economic and income growth opportunities that present within the regions. The coordination to do so requires significant management time and partners have competing priorities. It is also confusing for major stakeholders to understand how and who to engage with within UHI as there is not a "single door approach" for multi-partner or partnership wide opportunities.
- + **Digital & Infrastructure:** Following wider use of hybrid working post the COVID-19 pandemic, there is varying practice in how best to manage and exploit its potential. Coupled with digital developments leading to changes in how Learning, Teaching & Research are delivered, these two factors have major implications for what infrastructure is needed. With no UHI-wide approach to estates, for example, it is not known if the partnership is making the most efficient use of it nor how capital and maintenance funding is best applied.

Other external factors which influence UHI's ability to maintain its performance and reputation:

- + **Brexit and COVID-19:** Both have profoundly influenced the education sector. The effects of the pandemic will have a lasting impact which will shape how future students choose to work and the types of education they will pursue. The pandemic also changed the way employees work, with a move towards remote and home working. UHI is uniquely placed to understand this change in attitude, due to a long history and deep knowledge of remote and distance learning. However, now that other UK educational institutions have pivoted to this delivery model this could impact UHI's expertise in this area.

- + **Changes in demand:** For student places across Scottish Credit and Qualifications Framework (SCQF) levels 4 to 11; for apprenticeship places at foundation, modern and graduate levels; and for skills and commercial training for employers. This demand spans a wide demographic – from school senior phase and school leavers, to working students and adult returners – across a regional, national, and international geography. This student demand must also be considered in the context of delivering relevant and accessible curriculum, flexibly, and informed by close relationships with industry and local employers.
- + **Sector position:** Over the last several months, the challenging financial position for the Higher and Further Education sectors has become more explicit and more acute both in Scotland and the UK more broadly. This presents a further challenge for UHI as the Scottish educational marketplace becomes more competitive, and anecdotal evidence shows competitor institutions already reducing their entry requirements for students and some of the larger Universities taking a proportionally higher level of Scottish students to account for their losses of international students.

2.4.2 Previous UHI reform attempts

UHI has spent many years discussing its constitutional and operational model. From as early as 2009, through consultancy support⁶ and internal work, it has been clear that the *status quo* is financially and organisationally unsustainable. Statutory bodies have also made the same observations as those UHI has commissioned and developed internally.

In October 2020 the SFC published their review⁷ of Regional Strategic Bodies, recognising that UHI's governance was complex and that *"its decision-making processes can seem territorial and, at times, disconnected from a focus on optimal outcomes for students and the efficient use of public funds"*. The SFC recommended UHI considered consolidation and options to *"ensure it survives and thrives and gets closer to the original mission of a more fully integrated tertiary institution."*

In 2022 Audit Scotland advised that the pace of reform in multi-college regions needed to quicken⁸, and whilst noting that a merger between three colleges was being considered (resulting in the creation of UHI North, West and Hebrides in 2023) that *"wider-ranging changes to the regional college structure [within UHI] may be needed to address the financial risks facing the other incorporated colleges."*

Multiple attempts have been made to make whole systems change but they have largely failed, primarily because of the trust, behaviour and culture of the partnership has not been mature enough to support further integration. A full summary of previous UHI integration initiatives and programmes can be found in Appendix 7.7.

With the financial sustainability challenges correctly predicted coming to the fore, and the markedly increased sectorial and societal challenges that impact on the competition across the sector, the choices prospective students have and are making, the squeeze in public sector funding that has both a direct and indirect impact on UHI, it can no longer maintain the operational model that is in place.

⁶ UHI Tribal Report, 2009; UHI Capita Report, 2012; UHI Rockborn Report, 2021.

⁷ [SFC Review of Regional Strategic Bodies, overview report, 2020](#)

⁸ [Audit Scotland, Scotland's colleges 2022](#)

The financial projections for UHI, even after almost all partners have undertaken significant cost control programmes, with the loss of hundreds of staff, are still predicting compounding deficits over the coming years. UHI must change now otherwise its ability to deliver on its mission, to support students and communities across two thirds of Scotland, will be significantly, if not permanently eroded.

2.5 Next Steps

The Strategic Case will be further developed and refined for the Full Business Case as further detail develops.

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3 Economic Case

3.1 Introduction

The economic case reviews the long list of options that are being considered to implement a new proposed operating model, the need for which is identified in the Strategic Case, as the basis upon which the options have been evaluated and the short list of options that will be considered throughout the rest of the OBC.

Over the past decade UHI has commissioned a number of reports on its operating model and subsequent options for reform alongside considerable internal work and discussions, including the Tribal report (2009), the Capita report (2012), the Rockborn rural and island colleges options appraisal (2021) and the Rockborn One UHI discussion paper (2022). The overriding messages from this work consistently stated that the UHI partnership:

- + Is financially unsustainable in its current configuration and consolidation of its constitutional arrangements provides the pathway to addressing this instability.
- + Must deliver on a core set of principles that balance the requirement to be a regional university with an international presence, while being locally responsive, and a fundamental part of local communities in a geography that spans a large proportion of Scotland's landmass and island communities; and
- + Must gain the support and balance the views of a wide range of stakeholders, both internal and external, to successfully progress any substantive change to its operating model.

3.2 Participating Partners

All partners within UHI have been involved in the substantial discussions leading up to and during the development of this OBC. The options and assessments set out within the body of this document model greater integration between UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Perth, UHI Shetland and the University. The three specialist partners and UHI Orkney are not exploring constitutional change at this time. These partners remain an integral and valued part of UHI and are fully involved in the discussions about the changes that will be made and the linkages back to their own institutions. They will help to shape and agree how we will operate alongside the partners who will be directly impacted by a new operating model. Where there is an appetite, opportunities will be explored whether some shared systems or teams would be of benefit for these partners

Taking the three specialist partners and UHI Orkney together, the fact that their constitutional arrangements are distinct from other partners, should not be confused with the criticality of their teaching, and research provision and value to the wider partnership, which is often carried out in full collaboration with other partners..

3.3 Longlisted Options

In accordance with the HM Treasury Green Book the 'do nothing' status quo option is considered the benchmark against which all other options are assessed. Five additional options were developed by EY and the UHI Transformation Team in order to stimulate discussion during an options appraisal process. The options were derived from many years of partnership-wide

discussions about operating model options and intelligence from the aforementioned previous consultancy reports but were not intended to be definitive or overly specific.

The six options represent a continuum from complete dissolution of the UHI partnership to full integration, as set out in Figure 5 below.

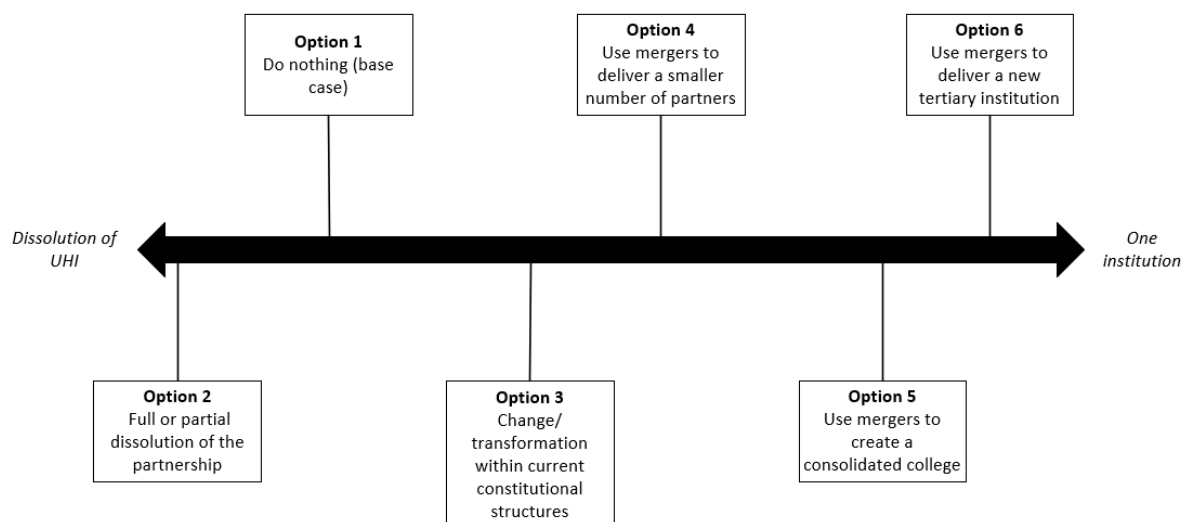


Figure 5: Options Spectrum

For example, the change/transformation that could be undertaken in Option 3 is not specifically defined, nor the structure of Option 6, bearing in mind that the incorporated colleges are considered part of the public sector, whereas the other institutions in the partnership are not part of the public sector.

All options are based on the assumption that the necessary legislative and regulatory changes to enable the models are agreeable to the SFC, Scottish Ministers and the Scottish Parliament; and that HTC, SAMS, Sabhal Mòr Ostaig and UHI Orkney will remain in their current respective structures.

Table 2: Longlisted Options

Option	Description
Option 1	Do nothing – the base case consisting of continuing with the status quo.
Option 2	Full or partial dissolution of UHI.
Option 3	Change/transformation within current constitutional structures.
Option 4	Use mergers to deliver a small number of partners.
Option 5	Use mergers to deliver a two-organisation solution.
Option 6	Use mergers to deliver a single merged institution.

Full details of the options are set out in Appendix 7.8.

3.4 Options Appraisal Process

The options appraisal process was undertaken between May – November 2024. Engagement with Partner Principals and Boards of Management was critical to the process, and as a result, the options analysis was conducted over three phases, as described below in Figure 6.

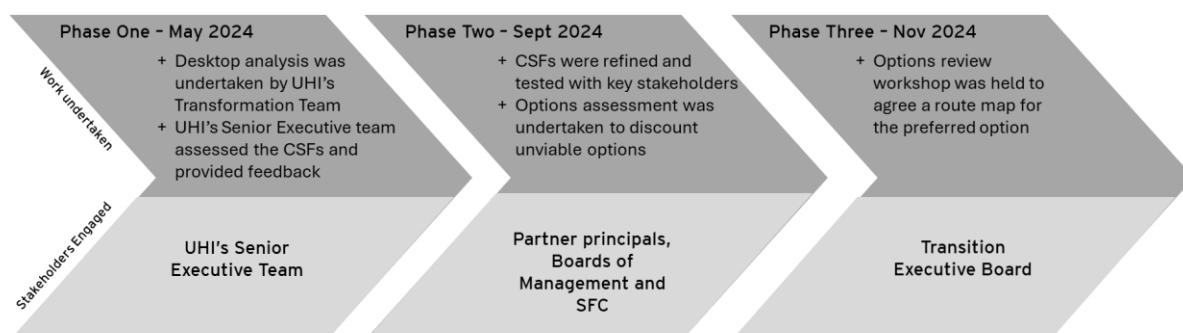


Figure 6: Options appraisal process

3.4.1 Phase One – May 2024

During the drafting of the OBC, a desktop analysis was carried out by UHI Transformation Team and EY on the six options. The purpose of this desktop analysis was to test the options appraisal process and understand if there was sufficient differentiation between options to be able to provide a direction of travel.

In order for an effective options appraisal to take place, Critical Success Factors were identified to ensure full and comprehensive consideration of all relevant aspects of the case.

The Critical Success Factors were drafted during the development of the OBC by the UHI Transformation team and EY. The draft Critical Success Factors were discussed with UHI Senior Executive Team and partner Principals on 8th May 2024, then updated in accordance with feedback as per below:

Table 3: Draft Critical Success Factors May 2024

Category	Description: the change/transformation option must:
Strategy	Align with legislative and regulatory framework, for academic and corporate purposes, to improve all aspects of the student experience
	Fulfil commitments of UHI Strategic Plan 2030 and address challenges of internal and external drivers
Financial	Be affordable and fundable
	Increase the proportion of the resources that are spent on our students to enhance their experience of studying with UHI
	Deliver value for money in context of our income and funding received
Function	Enhance our ability to deliver learning, teaching and research across our regions, including retaining and attracting staff talent.
	Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions.
Sustainability	Be financially sustainable
	Remain geographically dispersed, delivering the educational needs of our students in their communities and enhance local economic growth and development.
Deliverability	Be deliverable, financially, operationally and politically.

The outcome of the desktop analysis was that Options 1, 2 and 3 would be discounted and Options 4, 5 and 6 would be taken forward for further analysis. This information was included in an earlier draft of the OBC (v5.0) which was circulated for feedback in June 2024.

Table 4: Desktop Options Appraisal Results

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
Criteria						
1) Whether the proposed option represents a step change to our operating model that will deliver on 2030 strategy to create a fully integrated, financially sustainable and people orientated organisation.	R	R	R	A	G	G
2) Enhance our ability to deliver learning, teaching and research.	R	R	R	A	G	G
3) Increase the proportion of the resources that are spent on our students to enhance their experience of studying with UHI, at whatever level, and the equity across that provision.	R	R	A	A	G	G
4) Remain geographically dispersed, delivering the educational needs of our communities and enhance local economic growth and development.	A	A	A	A	A	A
5) Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions.	A	A	A	A	A	A
6) Provide for greater opportunities for our staff and their career development across corporate and tertiary academic provision.	R	R	A	G	G	G
7) Enhance our decision making through single point accountability.	R	G	A	A	A	G
8) Become fully tertiary in everything that we do and use this to lead the post-16 education agenda in Scotland.	R	R	R	A	A	G
9) Whether the proposed option has support from internal and external stakeholders, as far as that can be determined at this point in time.	R	R	R	A	A	A
Result	DISCOUNTED	DISCOUNTED	DISCOUNTED	CARRIED FORWARD	CARRIED FORWARD	CARRIED FORWARD

3.4.2 Phase Two – September 2024

Taking into account feedback received on OBC v5.0 from partner Principals, Boards of Management and SFC, the options appraisal process moved into a new phase. The UHI Transformation Team and EY refined the nine criteria set out in Table 3 into the finalised Critical Success Factor questions in Table 8 to be used for the phase two options appraisal.

Table 5: Finalised CSFs for the change/transformation options appraisal

Critical Success Factor Questions:
1. Does the option represent a required step change to UHI's operating model that will deliver on UHI's founding mission and 2030 strategy to enable us to think, plan and act as one?
2. Does the option have the potential to create a model that is financially resilient (e.g. generate a surplus, and increase UHI's ability to grow and diversify income streams) in the short to medium term (e.g. 3 – 5 years)?
3. Does the option increase the proportion of our resources that are spent on our students <u>and</u> enhance their experience of studying with UHI?
4. Does the option enhance our ability to deliver high quality learning, teaching and impactful research both within, across and beyond our regions?
5. Does the option provide for enhanced staff experience (e.g. wellbeing, motivation and career development opportunities)?
6. Does the option remain geographically dispersed, enable locally accountable decision making, and community-based outcomes?
7. Is the option deliverable, politically and legislatively?

Two workshops were held to take this work forward:

- + Workshop 1 was held via Teams on 26th September from 3-5pm. The aim of Workshop 1 was to recap the definition, scope the options, and define the methodology; recap the long list of options; and agree scoring criteria and weightings. These were agreed by the participants and the work progressed to workshop 2.
- + Workshop 2 was held on Teams on 30th September from 9:30am – 2.30pm. The aim of Workshop 2 was to undertake options scoring, to determine the short list of options, and agree next steps.
 - o The invited attendees at the meeting were based on the membership of Partnership Council and is set out in Appendix 7.9.

The workshops were facilitated by EY, and the methodology underpinning the options appraisal process was developed in line with HM Treasury's Green Book guidance on options appraisal and evaluation.

The Green Book guidance is considered best-practice in relation to proposals for the use of public resources. Whilst it is noted that UHI does not need to be compliant with the guidance, it is widely recognised as best-practice and provides a clear and robust framework.

The guidance specifies that, during the options appraisal process, workshops should bring together the results of research and the knowledge of stakeholders. Further, it outlines that Critical Success Factors can be used to assist with determining the preferred way forward. The Critical Success Factors are the attributes that any successful proposal must have if it is to achieve the successful delivery of its objectives. These criteria are then applied against the long

list of options. This initial assessment rejects options that are judged unacceptable due to their inability to meet the Critical Success Factors to a satisfactory degree.

3.4.3 Options Appraisal Outcome

Table 6 below shows the consensus scores that were reached in Workshop 2.

Annex 8.1 contains the slide deck that was prepared for the options appraisal workshop and the detailed report on the options appraisal.

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Table 6: Options Appraisal Consensus Scoring

Assessment criteria	Weight	Score (unweighted)						
		Option 1	Option 2a	Option 2b*	Option 3	Option 4	Option 5	Option 6
1. Does the option represent a required step change to UHI's operating model that will deliver on UHI's founding mission and 2030 strategy to enable us to think, plan and act as one?	20.00%	1	1		3	3	1	4
2. Does the option have the potential to create a model that is financially resilient (e.g. generate a surplus, and increase UHI's ability to grow and diversify income streams) in the short to medium term (e.g. 3 – 5 years)?	13.33%	1	2		2	2	2	3
3. Does the option increase the proportion of our resources that are spent on our students <u>and</u> enhance their experience of studying with UHI?	13.33%	1	1		2	2	2	4
4. Does the option enhance our ability to deliver high quality learning, teaching and impactful research both within, across and beyond our regions?	13.33%	1	1		2	2	1	4
5. Does the option provide for enhanced staff experience (e.g. wellbeing, motivation and career development opportunities)?	13.33%	2	1		2	3	1	4
6. Does the option remain geographically dispersed, enable locally accountable decision making, and community-based outcomes?	13.33%	4	3		3	3	1	2
7. Is the option deliverable, politically and legislatively?	13.33%	2	1		2	2	2	4
Total unweighted score (out of 35)		12	10		16	17	10	25
Total weighted score (out of 5)		1.67	1.40		2.33	2.47	1.40	3.60

*Option 2b was not scored on the day following agreement that it was not well enough defined to be scored accurately.

3.4.4 Phase 3 – November 2024

Following the two options appraisal workshops, the transition executive board held two discussions about how to take forward the three shortlisted options on Tuesday 8th October and Wednesday 13th November. At the second of those meetings, the majority of the transition executive board agreed a number of proposals:

1. The status quo is not an option and that the Principals are all committed to change.
2. The dissolution of UHI is not an option and will be set aside.
3. The desired outcome recommended by the Principals is a single institution. The route map towards reaching this final outcome will be collaboratively developed by the transition executive board.
4. The Principals are committed to ensuring optimal resources for students through the delivery of a new institutional UHI-wide operating model and will take forward;
 - a. The development and implementation of changes UHI can make with the current constitutional arrangements now and for inclusion within the FBC.
 - b. The development of modelling mergers for inclusion within the FBC that supports the pathway to an integrated institution in line with UHI's principles for sub-regional coherence.
5. Agreement and commitment, collectively and collaboratively, to explore the delivery models, timeframes and blueprints through the FBC, with appropriate resource for Executive Office (EO) and partners to release key staff capacity to support this process, through access to a transformation fund.

3.5 The route map and the preferred option

The proposals as set out above provide for a process by which UHI can take forward a programme of work to collaboratively develop, agree and then implement a new operating model. Furthermore, that there is a significant body of work that can be undertaken now, within UHI's current constitutional and approval regime as the detail of the route map and the preferred option are developed within the FBC. The detail of how this work is approached is set out in the Management Case.

Whilst Principals agreed that option 6, a fully integrated UHI, was the desired end point, it was noted that there is a significant amount of detail to be collaboratively developed to properly form this proposal within the FBC. It was also noted that there are significant political challenges to the creation of a single institution as it currently operates across both college and university sectors, that are legislatively and constitutionally different in their make-up. The creation of a full integrated UHI will therefore require significant discussion and consultation with Scottish Ministers, the SFC, Trade Unions and other key stakeholders, together with a clear and comprehensive 'route map' of how the change will be achieved and which 'gateways' will be followed on the journey towards full integration.

3.6 Economic Impact Assessment

As set out in the strategic case 2.3.3, UHI has a significant economic impact in its regions and beyond. As part of the future transformation and in acknowledgement of UHI's Strategic Plan 2030, the partnership's goal would be to at least maintain this impact and increase it in the long term.

UHI's Strategic Plan 2030 makes the commitment in the Enterprise and Growth section to 'transform its regions by widening access to education at all levels, supporting the skills needs of our regional employers, and inward talent attraction through developing our national and global positioning'.

Since the BiGGAR report was published in 2020 a number of significant economic opportunities for the regions have emerged or materialised, including ScotWind, Inverness and Cromarty Firth Green Freeport, and the city and regional growth deals.

A key assumption is that any new operating model would maintain or enhance UHI's economic impact due to efficiencies, strategic alignment and decreased competition between UHI partners. Due to the time that has elapsed since the BiGGAR report in 2020 and the significant financial events like Brexit, COVID-19 pandemic and September 2022 mini-budget, an economic impact assessment will be carried out as part of the Full Business Case.

3.7 Next Steps

The selection of Option 6 in the Options Appraisal provides a framework for the development of a Full Business Case analysing the impact of a much more detailed model. This work will be complemented by the analysis undertaken to design the Route Map of how options 3 and 4 will form the interim stages towards implementing option 6. The plans for this approach are outlined in the Management Case (section 6).

4 Commercial Case

4.1 Introduction

There are a number of commercial considerations that will need to be taken account of when implementing a new operating model for UHI. The major areas are noted within the section below but will require to be assessed more fully at Full Business Case stage.

4.2 Commercial Benefits

There are numerous potential commercial benefits that could be derived from the delivery of Option 6 as set out in Table 7 below.

Table 7: Commercial Benefits

Benefit Category	Description
Finance	Universities can borrow against their assets without the same constraints as colleges from government
	Universities can invest any excess cash assets to improve investment income and manage cashflow
	Universities can hold greater cash balances to help them manage their operational needs
	Reserves: Universities can hold these to help them manage future investments and change
Income	Opportunity to submit more, larger, better quality, inter-disciplinary grant applications and manage, resource, and co-ordinate applications more effectively and efficiently.
	Opportunity to leverage larger funding opportunities as funders often have funding pots based on size of application and different processes for larger grants that UHI is currently unable to access.
	Opportunity to implement a co-ordinated commercial income strategy that harnesses opportunities through economic development activity
	Greater opportunities from the potential for combined or collaborative higher value research applications.
Purchasing	A single streamlined procurement process.
	Able to leverage better rates with large suppliers (e.g., utilities and some services like comms) because the contract is bigger.
	Able to access certain types of contracts with certain suppliers who don't deal with smaller organisations.
	Universities have more autonomy to sign long-term leasing and servicing contracts than colleges.
	Use of non-framework purchasing.

4.3 Workforce Implications (including TUPE)

A high-level overview of the workforce implications of Option 6 have been detailed below. Further considerations and implications can be found in Appendix 7.10.

In bringing institutions together through an operating model change under United Kingdom employment law, the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) are applicable, holding significant implications for employees. TUPE ensures that when a business or undertaking transfers to a new employer, employees' rights are safeguarded.

In the context of merging institutions, TUPE dictates that employees of all institutions retain their existing terms and conditions of employment, including pay, holidays, and other benefits. This means that staff from merging entities are protected from dismissal solely due to the merger, and their employment transfers automatically to the new entity.

Additionally, TUPE mandates that all institutions must inform and consult with employee representatives regarding the transfer and any potential changes to their employment conditions. In a UHI context this will require consultation with multiple trade unions.

Moreover, the institutions must recognise any accrued rights, such as length of service, pension rights, and disciplinary records. Failure to adhere to TUPE regulations can result in legal consequences, including claims for unfair dismissal or breach of contract.

In summary, transferring undertakings and therefore employees under TUPE requires careful consideration of employees' rights and obligations to ensure a smooth transition while complying with legal requirements and the necessary consultation with staff and their representatives.

4.3.1 Pensions

Pension implications are analysed in section 5.3.1.

4.4 Procurement Strategy and Implementation Timescales

All partners who would be affected by the merger buy in procurement services from Advanced Procurement for Universities and Colleges Limited (APUC), the procurement centre of expertise for all of Scotland's universities and colleges. Some partners have staff who work alongside APUC colleagues to complement their services. The arrangement with APUC will continue at least up until the constitutional change of the change/transformation takes place, which is expected to take 2-5 years dependent on external factors.

Consideration will be given to a procurement strategy for delivering necessary system change to support a different operating model, and engagement will be sought with APUC to understand how they can best support the process.

4.5 Next steps

- + Develop and understand the commercial opportunities and considerations that pertain to the different shortlisted options for inclusion within the options appraisal noted in the economic case.
- + Take account of the TUPE implications, both legal and human, as part of the organisational change workstream.
- + Develop a procurement strategy for system change under the guidance of APUC.

5 Financial Case

5.1 Introduction

The financial case presents:

- + The establishment of a financial baseline for the UHI partnership (“Financial Baseline”)
- + An assessment of UHI partners current balance sheet position updated for June 24
- + A summary of the projected four-year income and expenditure position of the Financial Baseline
- + A summary of next steps

The financial case analyses the current financial position of the UHI partnership and projects the results of a “do nothing” scenario over a four-year period. The four-year period is the limit of accurate data available from the Financial Forecast Returns (FFR). The analysis illustrates that despite the implementation of multiple voluntary severance schemes and cost reduction measures, urgent change is required to establish financial sustainability. Without intervention, the UHI partnership will collectively remain in an unsustainable financial deficit position.

At this stage, given the need to define the preferred option’s route map, the financial case does not currently calculate the impact of the potential merger options. It is also important to note that the analysis is not designed to present a detailed financial forecast for future UHI performance or to support a decision regarding the selection of a preferred option. UHI recognises that further detailed analysis is required to ensure that there are up-to-date and accurate financial projections as part of the development of a Full Business Case which will support the implementation of the preferred option and the provisional route map within the OBC. Recognising that the OBC currently contains a high level and partial assessment of the financial case, it also proposes a series of next steps to ensure the financial implications of the future operating model are fully considered to inform the selection of the preferred option.

The Option 6 route map will also impact on the roles and responsibilities within UHI and therefore the implementation will require a review of UHI’s funding model including the top slice and Resource Allocation Model (RAM) to reflect revised arrangements. It should also be noted that SFC are planning a review of national funding models for FE and HE in parallel with this transformation programme, the impacts of which will need to be considered as the programme progresses.

5.2 Baseline Financial Position

5.2.1 Income and Expenditure

To understand the potential financial impact of UHI retaining a “do nothing” position, a Financial Baseline has been established. The Financial Baseline represents the unaudited consolidated income and expenditure of UHI, including specialist colleges, from the FFR (Financial Forecast Return) which were updated at the end of October 2024 to reflect the projected quarter one financial position. This updates the previous historical baseline position and gives a more realistic representation of the UHI partnership’s baseline financial position and the significant challenges it faces, taking into account the actions already undertaken to reduce the net costs of delivery.

In order to establish the Financial Baseline position and using Academic Partner-supplied data, assumptions have been applied across all UHI members respectively. However, UHI acknowledge that the constitutional arrangements of UHI Orkney and the specialist colleges will not change. As such, whilst the costs of the specialist colleges have been modelled to establish the total cost of UHI, the impact of the cost or benefit of the options on the specialist colleges and UHI Orkney has not been considered beyond the assumptions that are included within the Financial Baseline.

Table 8: Financial Baseline (excluding non-cash items)

Category	Oct 24 updated FFR excluding specialists (£'000)	Oct 24 updated FFR Specialists £'000)	UHI consolidated Financial Baseline £'000)
Tuition fees and education contracts	17,829	3,531	21,360
SFC / RSB Grants	93,992	8,241	102,233
Research grants & contracts	5,807	6,313	12,120
Other income ⁹	18,908	5,143	24,051
Investment Income & Donations	1,451	116	1,567
Total Income	137,987	23,344	161,331
Staff cost	(94,709)	(16,349)	(111,058)
Other operating expenses	(40,999)	(7,805)	(48,804)
Interest and Finance Costs	(2,793)	(81)	(2,874)
Exceptional restructuring costs	(2,253)	(13)	(2,266)
Total Expenditure	(140,754)	(24,248)	(165,002)
Pensions, loans and capital adjustment	(5,880)	-	(5,880)
Underlying Operating Surplus/(Deficit)	(8,647)	(904)	(9,551)

Source: Updated October 24 FFR Partner submissions

The Financial Baseline position shows that UHI had a net deficit in FY24 of c£9.551m, of which c£0.904m was driven by the specialist colleges.

Table 9 below reflects the balances that were not considered for inclusion within the Financial Baseline. Non-cash items such as depreciation and deferred grant release has been removed to establish the underlying operational performance of UHI.

⁹ Other income includes endowments, residences and catering, other services rendered, other revenue grants, royalty income, accommodation charges and rental income and other misc. income.

Table 9: Non-cash items not included in Financial Baseline

Category	Oct 24 Updated FFR excluding specialists (£'000))	Oct 24 Updated FFR Specialists £'000)	UHI consolidated Financial Baseline £'000)
Depreciation	(8,461)	(1,918)	(10,379)
Deferred capital grant	4,192	514	4,706
Pension Int and FRS102	(471)	-	(471)
Other	5,880	-	5,880
Adjustments	1,140	(1,404)	(264)
Underlying Operating Surplus/(Deficit)	(8,647)	(904)	(9,551)
Surplus/(Deficit on continuing operations	(7,507)	(2,308)	(9,815)

5.2.2 The Balance Sheet

The 31 July 2024 figures submitted in the FFR, updated at the end of October 2024 for the movement in cash and operating position, have been included in the Table 10 below. The specialists do not all submit FFRs. Where no FFR was submitted, the balance sheet from the most recently audited accounts was used and the income and expenditure reserve was updated to reflect the subsequent operating position outturns. The balance sheet shows a consolidated reserve position of circa £137.610m, and a positive consolidated cash position of circa £37.113m. The consolidated cash position in Table 10 covers four different categories:

- + **Restricted Reserve:** contains balances where a donor has designated a specific purpose for funds and therefore the use of these funds is restricted for that purpose.
- + **Income and Expenditure Reserve:** contains unrestricted balances that can be used to cover expenses or to absorb future deficits.
- + **Revaluation Reserve:** an accounting provision created to adjust the carrying value of assets upon revaluation.
- + **Cash & cash equivalents:** represents the cash at hand which can be used by the respective UHI partners.

Table 10: FY23/24 FFR balance sheet extract (updated)

Category	Argyll £000	Inverness £000	Moray £000	NWH £000	Perth £000	Shetland £000	EO £000	Specialists £000	Total UHI £000
Restricted Reserve	-	-	-	-	-	-	1,891	3,148	5,039
Income and Expenditure Reserve	5,200	10,815	5,927	(359)	4,634	(2,550)	8,937	8,824	41,428
Revaluation Reserve	-	12,507	19,279	26,172	32,321	-	-	864	91,143
Total Reserves	5,200	23,322	25,206	25,813	36,955	(2,550)	10,828	12,836	137,610
Cash & Cash equivalents	5,401	8,619	1,171	1,929	984	371	17,232	1,406	37,113
Total Loans	-	-	1,043	4,625	-	3,320	7,850	919	17,757
Loans - SFC	-	-	880	2,980	-	1,300	7,250	-	12,410
Loans - RSB	-	-	-	725	-	2,020	-	-	2,745
Loans - other	-	-	163	920	-	-	600	919	2,602

Source: Updated October 2024 FFR Returns

Although the total reserves position is positive, there are several reasons why the balance sheet position is challenging and presents significant financial uncertainty to UHI:

- + The revaluation reserve accounts for c£91m (66%) of the total reserve figure of £137.610m. However, the revaluation reserve can only be utilised upon the sale of a revalued asset and cannot benefit UHI's working capital position.
- + The balance held in the income and expenditure reserve, which can be used without restriction and makes up most of the remaining reserve balance, only totals c£41m. Although there are no restrictions on this balance, the income and expenditure reserves include pension revaluations. In the updated Financial Forecast Returns three colleges (Moray, NWH and Inverness) held pension assets of over £16m, which will reduce the income and expenditure reserves if reversed out.
- + The c£37m cash and cash equivalents balance suggests that UHI are cash rich, however it is likely that this is inflated due to timing differences that relate to the national pay award (approximately £4.5m) and the delivery of financial recovery plans. Executive Office have £10.89m of cash ring-fenced for clawback. Additionally, there is no mechanism in place for all partners to transfer each other funds meaning that a college with a cash surplus cannot support a college that is in a cash deficit.
- + Several of partners, including Moray, NWH, and Shetland have loans on their balance sheets that have been provided by UHI RSB. At the point of consolidation if funds have not been recovered these will likely be absorbed / written off, adding an additional c£2.745m to UHI's deficit.

UHI's consolidated cash position of c£37m as per June FFR returns is only sufficient to cover expenses for 81 days should income cease (see Table 10) and assuming UHI could utilise this full balance to cover expenses. If UHI were to overspend against its agreed implementation budget, during the implementation of a preferred merger option, this could further reduce UHI's cash position and may prevent UHI from paying their creditors.

UHI, with its current levels of reserves cannot sustain a recurring deficit position and therefore will not be able to continue operating without significant changes in the cost base, diversifying income streams, and / or receiving significant levels of ongoing intervention from Government, which is unsustainable in the current funding climate.

The existing cost saving exercises have focussed on pursuing short and medium-term savings and reduces management's ability to pursue strategic opportunities. To become financially sustainable UHI must reduce its baseline costs and generate sustained income growth to meet annual cost inflation and generate sufficient surpluses for future investment opportunities.

5.3 Key considerations for the future operating model

The development of a future operating model will involve significant analysis and scrutiny. This must include a detailed understanding of the potential pension and VAT implications, explored further below.

5.3.1 Pensions implications

Moving pension schemes is a multifaceted complex issue and can influence financial liabilities, operational costs and administrative complexity. There are regulatory and compliance considerations that must be navigated to ensure UHI's legal obligations are met. Comprehensive due diligence will be required in the next programme of work to ensure impacts and risks are identified early, and mitigations are put in place. The OBC, however, introduces a series of considerations that must be developed in the FBC.

There are several pension considerations which might impact on the employer(s) of a defined benefit pension scheme. There are several defined benefit pension schemes, including unfunded schemes, including the Scottish Teachers' Superannuation Scheme (STSS) (which is less likely to be impacted by the restructure from a covenant perspective due to their unfunded nature), the Universities Superannuation Scheme (USS) (a non-associated multi-employer scheme) and a number of funds within the Scottish Local Government Pension Scheme.

Legal advice will require to be sought in relation to each of the schemes/funds to fully understand the implications of any restructure, including any political or structural changes to the pension schemes. Detailed work has not yet been carried out to understand the position of each of the schemes/funds and the commentary below is therefore wide ranging in nature.

The pensions considerations include:

- + The impact of winding up an employer entity and transferring staff to a different employer. For each option, there is a risk of a debt being triggered under Section 75 and 75A of the Pensions Act 1995 (and related regulations) for that employer's share of the debt. There are a number of mechanisms available (subject to certain conditions) for such debts to be managed or postponed enabling legitimate corporate activity such as group restructures, including apportioning debt to another employer. This would need to be agreed by the trustee(s) of the relevant scheme, such as the USS.

- + The employer(s) ability to support the schemes now and in the future. The scheme's trustees will require clarity that the future operating model will not result in a weaker covenant position for the scheme.

In relation to further detailed pension analysis, next steps should include:

- + Seeking legal advice to understand the impact of the restructure on each of the pension schemes and the options available for managing or postponing any S75 debt which might be triggered as a result of change to the corporate structure.
- + Developing a proposal for how any S75 debt or exit debt arising might be dealt with
- + As a preferred option is identified, assess the potential impact on the covenant support provided to each of the schemes to understand any impact on covenant.

5.3.2 VAT Implications

UHI must also consider the VAT implications of implementing a new operating model. For this reason, several ways in which VAT may impact change/transformation has been identified. UHI must consider the following key questions from a VAT structuring perspective:

- + Establish a baseline of the current partner VAT practices across the UHI partnership
- + Establish how much cross charging of services takes place between UHI partners and the VAT costs of this activity to the partnership
- + Consider how the merger options will impact the VAT registration of the partners
- + Understanding the impact on VAT recovery method and the need for new/additional/updated Partial Exemption Special Method (PESM)
- + How the use of buildings/facilities will and impact on VAT treatment
- + The impact on systems and the ability to retain and process VAT data and information
- + The impact on subsidiaries and the supplies made by/to merging entities.

Following the selection of a preferred option, the full VAT implications will be considered at FBC.

5.3.3 Capital Expenditure

As part of the route map for the new operating model, detailed capital plans must be developed. For the purposes of this analysis, additional capital expenditure has not been factored into the financial forecast. UHI and its partners are developing capital plans and seeking clarity from the SFC on the split between revenue and capital funding and how it will impact its future model. In the financial baseline, UHI partners utilised £1.371m of the £2.927m FE capital grant to fund revenue costs. The SFC FFR guidelines had indicated that there was no flexibility to use FE capital grant to fund revenue costs, however, there is some uncertainty about whether this guidance will change. Therefore, the UHI partners have indicated that they would have used £2.15m of the FE capital grant as revenue income in financial year 2024, if the option to do so was available.

During the FBC, this should be re-examined and included within the updated financial analysis. This should include an assessment of the real estate and IT capex requirements, including strategies to replace significant assets and reduce ongoing maintenance costs.

5.4 Affordability

To establish the affordability of a “do nothing” option, UHI and its partners have provided financial forecasts, which are illustrated below. The forecasts have been updated to amend

inconsistent assumptions across the partners. The following amendments have been made to the submitted data:

- + Credit growth has been removed
- + Assumed employers NI increase has been removed
- + Assumed national pay award funding has been removed
- + Distant Island Allowance (DIA) funding has been removed
- + STSS funded pension contribution increase income has been removed
- + STSS 3% pension contribution cost increases have been included

In addition to the amendments above, the table excludes non-cash items to establish the underlying operation performance excluding the cost of capital. The baseline position only reflects the work force planning exercises that have impacted the 31 July 2024 FFR data submitted.

The following assumptions are applied consistently across the FFR submissions:

- + A year-on-year increase of staff costs at 3%
- + A year-on-year increase in STSS pension cost at 3%

Table 11: Four-year forecast based on updated FFRs

Category	Financial Baseline Year 1 £'000	Financial Baseline Year 2 £'000	Financial Baseline Year 3 £'000	Financial Baseline Year 4 £'000
Tuition fees and education contracts	21,360	22,886	23,672	24,100
SFC / RSB Grants	102,233	98,448	99,114	99,515
Research grants & contracts	12,120	11,750	11,452	11,999
Other income	24,051	20,791	21,789	22,343
Investment Income & Donations	1,567	2,387	978	952
Total Income	161,331	156,262	157,005	158,909
Staff costs	(111,058)	(106,325)	(105,887)	(108,843)
Other operating expenses	(48,804)	(50,931)	(50,733)	(51,177)
Interest and Finance Costs	(2,874)	(2,989)	(2,993)	(2,995)
Exceptional restructuring costs	(2,266)	(3,258)	(1,950)	-
Total Expenditure	(165,002)	(163,503)	(161,563)	(163,0155)
Pensions, Rev to loans and capital	(5,880)	(935)	(935)	(931)
Underlying Operating Surplus/(Deficit)	(9,551)	(8,176)	(5,493)	(5,037)
Adjustments ¹⁰	(264)	(6,628)	(6,297)	(6,082)
Surplus/(Deficit) on continuing operations	(9,815)	(14,804)	(11,790)	(11,119)

¹⁰ Adjustments include non-cash items such as depreciation, deferred capital grant and FRS 102 adjustments.

Table 12: Four-year FFR balance sheet extract (updated)

Category	Financial Baseline Year 1 £'000	Financial Baseline Year 2 £'000	Financial Baseline Year 3 £'000	Financial Baseline Year 4 £'000
Cash & Cash equivalents	37,113	26,828	25,962	15,506
Total Loans	17,757	24,047	24,727	24,942
Loans - SFC	12,410	18,412	18,721	18,487
Loans - RSB	2,745	2,745	2,745	2,745
Loans - Other	2,602	2,890	3,261	3,710

Restricted Reserve	5,039	5,039	5,039	5,039
Income and Expenditure Reserve	41,428	26,624	14,834	3,715
Revaluation Reserve	91,143	91,143	91,143	91,143

Table 12 shows that without intervention UHI will continue to encounter an underlying operating deficit position year on year, with the Year 4 position still showing a significant operating deficit of £5.037m. Although UHI is actively seeking opportunities to limit the size of this operating deficit, income growth is limited (with modest increases in Tuition fees and education contracts being outweighed by falling levels of grant support and other income) coupled with significant ongoing pressure on a growing UHI cost base. Any future operating model must create opportunities for income growth as well as the ability to reduce costs.

In the financial baseline year 2024 there were four UHI partners that had loans from either the SFC or the RSB. Additionally, by the end of year two it is anticipated that UHI Perth will also require a loan of over £1.5m, resulting in a total of five partners requiring financial support. In addition, UHI Orkney, which is part of Orkney Islands Council (OIC) currently has a loan from OIC to cover any retained deficits. As these deficits continue and the loan increases, OIC have indicated that they may need to ask SFC/RSB to cover the retained deficit loan, which could be over £2m by the end of year four if additional income and savings are not found. Orkney's Local authority loan and Perth's SFC loan are included in the financial baseline forecasts.

UHI Moray is forecasting negative cash positions in 2025-26 and 2026-27. As UHI Moray will require cash working capital to meet its ongoing payment obligations, it is anticipated that there will be additional cash loans of more than £1.2m required from SFC by year 4. UHI Moray's financial base line does not reflect the additional loan, instead choosing to show a negative cash balance (in years 3 and 4).

To understand the impact of sensitising key assumptions within the analysis, Table 13 summarises the impact on UHI's underlying operating surplus / (deficit) across two scenarios. These scenarios reflect additional income which is not reflected in the base case financial forecast, but which may be realised within the four-year period.

Table 13: Income scenarios

Scenario		Financial Baseline Year 1 £'000	Financial Baseline Year 2 £'000	Financial Baseline Year 3 £'000	Financial Baseline Year 4 £'000
Base case	Base case underlying Operating Surplus/(Deficit)	(9,551)	(8,176)	(5,493)	(5,037)
Scenario 1 – Additional STSS income	Additional income ¹	1,000	1,030	1,061	1,093
	Revised underlying Operating Surplus/(Deficit)	(8,551)	(7,146)	(4,432)	(3,944)

Base case	Base case underlying Operating Surplus/(Deficit)	(9,551)	(8,176)	(5,493)	(5,037)
Scenario 2 – Distant Island Allowance (DIA) income uplift	Additional income ²	738	738	738	738
	Revised underlying Operating Surplus/(Deficit)	(8,813)	(7,438)	(4,755)	(4,299)

Source 1 Estimated Scottish Teachers' Superannuation Scheme income figures provided by UHI partners in Q4 of 2023-24

Source 2 Estimated Distant Island Allowance income figures provided by UHI partners

UHI may also benefit from additional, less tangible income opportunities. These are described below but have not been modelled due to a lack of credible data.

The academic partners are currently over-delivering on FE credits, by around 6% (METIS 21.11 shows UHI delivered 107,729 credits against the minimum threshold of 101,632 in 2023-2024). This is a planned reduction of unfunded over-delivery compared to previous years. There have been estimates made of the unmet demand for FE education across the UHI region, and how many FE credits the partners could deliver. The partners' ability to deliver additional credits is reducing because of reductions in academic staffing through VS.

The FE credit price has not increased since 2022-23, whereas costs of delivery have increased including the recently agreed back-dated pay award of 4.14%.

In 2020-21 and 2021-22 SFC allocated, respectively, 1,297 and 2,500 FTE "SQA" funded places to the Scottish HE sector. UHI received 132.5 FTE from these allocations. In 2024-25 SFC removed 1,289 FTE of these places from the funding allocation, taking 141.7 FTE from UHI. Potentially SFC may subsequently remove some or all of the remaining 2,508 "SQA" FTE allocation or adjust the value of grant per FTE to maintain budgets at current levels. Any future HE FTE funded place reductions will impact the UHI partnership's opportunity for recovery and funded growth and the future financial sustainability of the UHI partnership.

The analysis indicates that although the additional income has a positive impact, it does not have a material impact on the total deficit position.

5.5 Delivering financial sustainability

The proactive actions being taken by the UHI partnership are projected to reduce the underlying annual deficit from £9.6m in year 1 (2024-25) to £5m by year 4 (2028-29). At that point some £18.5m of loans are projected to be outstanding to the SFC. To reduce the underlying deficit and address the loan position significant change to how we operate will be required to generate further efficiencies and deliver on income and growth opportunities in years 1 to 4.

Fundamental to this financial recovery is growing our HE provision back to the SFC target.

To address financial sustainability, the financial objectives for the operating model as it is developed will be:

- Address the underlying deficit and the need for ongoing SFC financial support;
- Generate sufficient operating surpluses to support growth and investment;
- Generate sufficient operating surpluses to enable repayment of existing debt;
- Diversify our income;
- Build financial resilience through growth in reserves; and
- Enable leverage of external finance.

A range of key performance indicators will be used to test the financial effectiveness and sustainability of the new operating model once the costing of the preferred option is undertaken within the full business case. Preliminary measures proposed to underpin this approach (with exemplars based on current turnover) are:

- Surplus as a % of total income – target 3% -10% (£4.8m-16m annually based on turnover of £160m)
- Staff costs as a % of total income – benchmarked annually against peers
- Unrestricted Reserves as a % of total income – minimum of 10% (£16m based on turnover of £160m to be built over first few years)
- External borrowing as a % of total income - benchmarked annually against peers
- Days liquidity – minimum of 60 days liquidity
- Debt Service Ratio – to be developed following analysis of asset base and debt leverage options

For illustrative purposes at this stage, assuming that the projections for years 1-4 remain unchanged (the underlying recurring deficit remains at £5m by year 4) and that repayment of outstanding SFC debt at that point of £18.5m is scheduled over a 5 year period (£3.7m repayable annually), a progressive approach is taken to surplus generation starting at 3% whilst SFC debt is repayable (£4.8m based on 3% of £160m) the annual reduction in net expenditure required would be £13.5m in the first 5 years.

This sum could be reduced if greater progress is made in reducing the underlying deficit over years 1-4 (through additional cost reductions or income growth), the SFC position on outstanding debt repayment was to change or consolidation into a single institution allowed for a restructuring of outstanding debt. Previous work such as that within the UHI 2024 programme and previous versions of the OBC has largely been based on taking existing structures and identifying potential savings through merger type activity savings of circa £6.0 - £12.0m. That high level analysis based on previous merger analysis and benchmarking needs to be revisited given the number of changes already undertaken within academic partners to reduce costs in

the past 12 months since that analysis was presented. The potential reduction in net expenditure therefore needs to be developed for both the route map and preferred outcome to assess its sustainability against the tests set out above.

5.6 Next steps – costing the preferred option

The analysis demonstrates that in a “do nothing” scenario UHI will continue to generate a multi-million pound underlying operating deficit. Although efforts have been made to manage the UHI partnership’s cost base and reduce this deficit, it is imperative that urgent action is taken to reverse and improve UHI’s financial outlook. This must include assessing the financial implications of the new operating model and be coupled with short-term funding support to meeting the UHI partnership’s ongoing operational commitments.

The economic case established that Option 6 was the preferred route and under this operating model, partners would merge to create a single tertiary institution. To assess the significant implications of structural reform, a bottom-up assessment of the financial implications needs to be undertaken. This route map approach is developed further in the Management Case, but the following factors must be considered to fully cost this option:

1. Realising savings now: UHI will continue finalising the cost savings and income generation exercise and should implement further savings into the financial base case. This will help to minimise the significant operating deficit position that is forecast over the next four years.

2. Develop the preferred option’s detailed operating model: The route map required for a single tertiary institution, including how options 3 and 4 will may? form interim stages, is explained in the Management Case. Once this has been agreed, the financial implications must be mapped out. This will include understanding the likely financial savings from the new model, as well as the costs of implementation:

- + **Detailed additional income and saving analysis:** All partners should provide timely and accurate data to allow for more detailed analysis to be undertaken on the potential cost savings and additional income generation that could be realised as a result of the preferred option, and to enable regular monitoring of UHI’s consolidated performance. With more accurate data, savings could be refined for workforce planning and process efficiencies and quantified for curriculum optimisation. This will also enable savings and costs to be quantified relating to IT. Partners should also provide all relevant contracts so that a legal review of contracts within procurement, estate, etc can be undertaken to understand any financial implications of each of the options.
- + **Accurate transition cost:** Following the development of a detailed route map, the cost of implementing the new operating model must be finalised. This will involve significant levels of cost. Costs are likely to include staff costs, communications and marketing, legal, financial administration and system costs.

3. Funding & cash: UHI’s current reserve position will not be sufficient to cover the cost of change, and therefore further funding is required. A delivery plan and supporting cash plan should be developed so that the roll out of the preferred route can be done effectively and without posing risk to UHI’s working capital. Analysis shown in the Management Case demonstrates that, as part of the development of the operating model, work will be required to recast the UHI funding model to reflect the roles and responsibilities within the organisation including the review of the top slice and RAM.

6 Management Case

6.1 Introduction

The Management Case sets out how the proposed programme of change could be delivered. This programme of change is subject to the constitutional underpinnings of the selected option and route map to deliver it, and the governance required to deliver a successful programme. The OBC Management Case outlines:

- + Governance requirements for the next phase of work through to approval of the FBC planned for full draft by June 2025, prior to public consultation and finalising by the end of the year
- + How the Route Map to a single tertiary institution will be developed and implemented
- + Programme plans and project management approaches to be used for Risk Management, Quality Assurance, Benefits Realisation and Communications.

A more detailed Management Case will be developed for the FBC.

Note: The three specialist partners and UHI Orkney are not exploring constitutional change at this time. These partners remain an essential part of the UHI partnership and are fully involved in the discussions about how changes to the majority of partners will progress. These partners will remain connected and part of a new UHI operating model, and this will be further explored in the FBC.

6.2 The approach to change

6.2.1 Taking forward the Options Appraisal

The options appraisal process and outcomes are detailed in the Economic Case (section 3.4). The Transition Executive Board has agreed that the approach to change should be as follows:

- + Mobilise a programme of work that will run alongside the development of the FBC encompassing the changes that can be made within its current constitution that require to be delivered regardless of the final agreed constitutional form for UHI. This focusses primarily on process and system consolidation and culture change and complements project work currently being undertaken by the Shared Services Working Group.
- + Develop a route map to an integrated institution that includes the consideration of current corporate service provision across EO and academic partners to reduce unnecessary duplication and ensure that the balance between global and local services¹¹ reflect value for money and align with the seven principles for reform. Consideration of current funding allocation mechanisms and the top-slice will form part of this work.
- + Develop and model any mergers between partners as part of the FBC that constitute part of the route map to a more integrated institution or provide greater financial resilience within the partnership.

¹¹ Local and global definitions are discussed later in the Management Case, in the section describing the Organisational Change workstream.

- + Develop and agree the governance and management arrangements, both corporate and academic, that would frame a single institution in line with the seven principles.
- + Engage with Scottish ministers, the Scottish Government and the SFC to gauge the appetite for the different routes to create a single institution and their feasibility.
- + Agree a final FBC for presentation to UHI governing bodies in June 2025 for onward consultation and implementation.

6.2.2 Programme Governance

Two boards have been established to oversee this programme of work. The Transition Oversight Board and the Transition Executive Board have been designed to provide a clear framework with defined objectives, membership, roles and responsibilities going forward. Each board has distinct purposes and are responsible for progressing the transformation project as efficiently and effectively as possible.

- + The **Transition Oversight Board** has been established to guide and monitor the strategic transformation of the UHI partnership's new operating model. *Its main purpose is to ensure that the transformation aligns with the university's strategic objectives and is implemented in an effective, sustainable, and efficient manner.* The board reports to UHI Court, providing oversight, governance, and corrective action as necessary throughout the transformation process. This includes ensuring proper resource allocation, tracking progress, mitigating risks, and ensuring that both financial and non-financial benefits are realised. The board is composed of various members, including university officials, several independent Court and partner boards' members, and student representatives. It meets every two months to review progress, and discussions are facilitated by the Chair. Members bring their expertise from various areas to help guide decision-making and ensure that the transformation project stays on course. Communication about the transformation initiative follows an agreed protocol, and updates are reported to University Court. The Terms of Reference are reviewed every six months to ensure they remain relevant and effective in guiding the transition process.
- + The **Transition Executive Board** is responsible for guiding the development of the business cases to deliver a new operating model for the UHI partnership. *Its primary role is to oversee the practical work of the transformation programme, ensuring that there is full partnership involvement and scrutiny.* This involves managing the progress of programme workstreams and work packages through effective partnership engagement and clear communication. The board's objectives include providing leadership and oversight of the transformation programme of work, making sure all partner views are considered, monitor spend and budgets, and overseeing risk management. The members meet monthly to review progress, approve workstreams, and keep the programme aligned with its goals. The board also monitors financial impacts and tracks the benefits of the transformation. It reports to the Transition Oversight Board and reviews its Terms of Reference every six months to stay adaptable as the programme evolves.

Transition governance arrangements for UHI partners throughout the transformation programme are outlined in Appendix 7.11.

6.2.3 Workstreams

The overall Operating Model programme will be delivered by undertaking four, complementary workstreams that will be run in parallel: Constitutional change, Organisational change, Academic affairs and Culture change. The major work packages of these four workstreams are shown below and summarised in the subsequent sections of the Management Case:

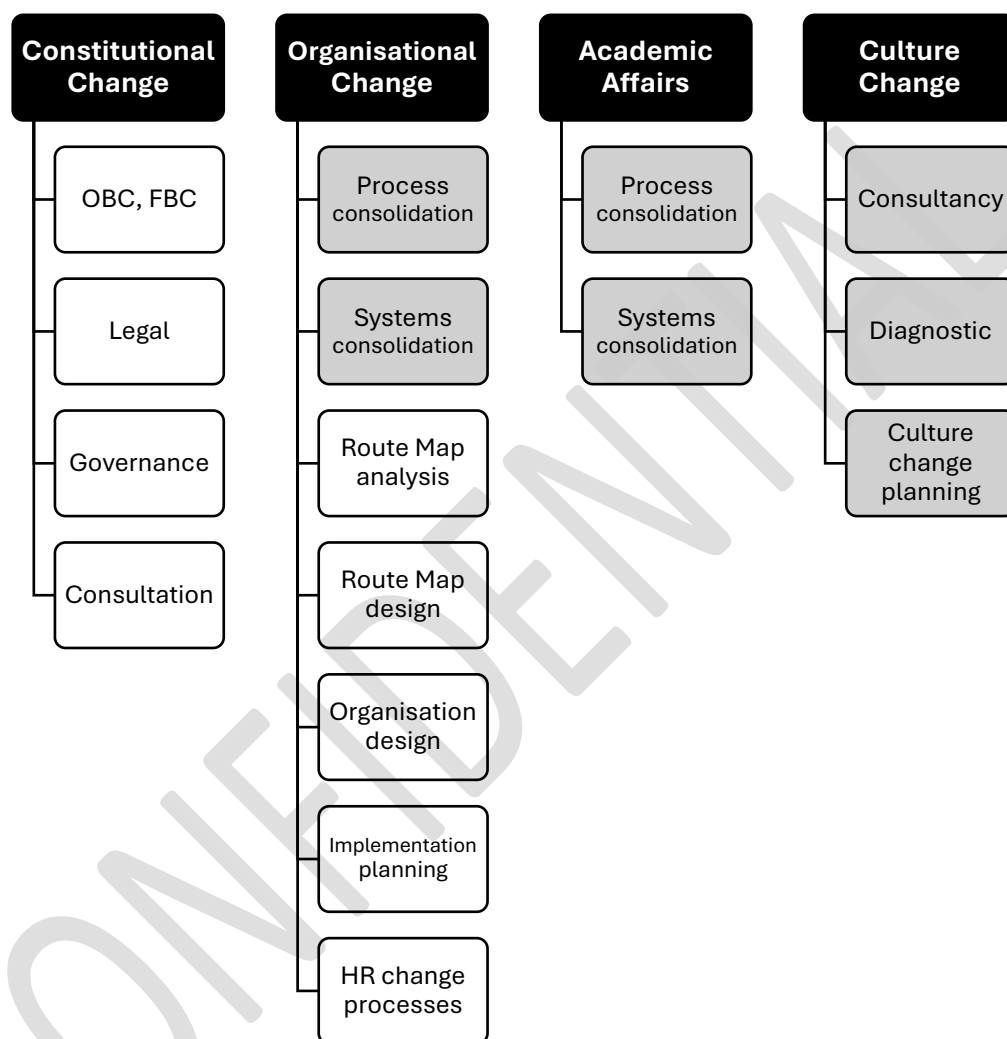


Figure 7: Operating Model workstreams

Notes to Figure 7:

- + The grey boxes together comprise the activities that will be taken forward now as the FBC is developed.
- + The four stages of developing and implementing the Route Map (described in the Route Map section later in this Management Case) would be incorporated within the Organisational change workstream.
- + Communications, project management and project performance management would be cross-cutting activities across all 4 workstreams.

6.2.3.1 Constitutional Change

The constitutional change workstream focusses on the development of the FBC, the elements of constitution change that form part of the route map and the necessary legal, financial and management due diligence and agreements. This workstream will:

- + Lead the development of the FBC and undertaking the necessary consultation to build consensus for the change and ensure that the case is supported by key stakeholders.
- + Identify, seek approval and support implementation of the corporate governance frameworks that need to be in place to oversee progress through the Route Map
- + Identify legal, statutory and constitutional aspects that need to be collaboratively agreed and addressed, including Scottish Government approvals, partner constitutions, pensions, TUPE and data sharing.
- + Formal consultation with major, constitution-relevant stakeholders e.g. Scottish Government, SFC, students, staff and recognised trade unions.
- + Identify and model the impact of the merger activity associated with route map, both mergers between current partners and merger to create a single institution.
- + Take forward discussions on the constitutional form of a fully integrated tertiary institution with key stakeholders

6.2.3.2 Organisational Change

This workstream would drive forward the agreed programme of change to develop, plan and implement the Route Map-driven organisational change. Key objectives would be:

- + Drive forward a Process, Systems & Culture programme to consolidate, update and align ways of working during the development of the FBC. These have been described as the “no regrets” work, and includes process and systems consolidation activity to identify, agree, schedule and implement the changes needed in terms of:
 - o Policy, processes and templates
 - o Information Systems and data formats
 - o UHI funding models, to reflect the roles and responsibilities within the organisation including the review of the top slice and RAM.
- + Analyse and evaluate the current corporate service provision across EO and academic partners to reduce unnecessary duplication and ensure that the balance between global and local services (see box below) reflect value for money and align with the seven principles for reform.
- + Analyse and evaluate the Route Map’s potential interim stages, including mergers between partners that are short of full integration.
- + Design the Route Map needed to implement (1) the interim stage(s) needed to progress from the current state, and (2) the future state end point.
- + Design organisational structure(s) of the Route Map interim and end point stages for approval and implementation.

Explanation of Local & Global Functions

A concept running through the supporting work of the Operating Model options appraisal and the OBC, is the requirement to define the extent to which functions are currently carried out as *local* or *global* functions. The Transformation Team has drafted the following definitions, which need to be reviewed, amended as required and approved by the Transition Executive Board:

- **Function:** In the context of the OBC and UHI Reform, the term “function” is used to describe a closely-linked group of activities an organisation performs to achieve its goals and objectives. This definition excludes the use of function as describing an organisational unit such as a team. *For example, the Finance function refers to Finance activities and process, instead of referring to a Finance department.*
- **Local:** “Local” refers to function activity whose delivery is site-dependent and therefore is highly likely to be conducted in-person to meet a specific need at a specific partnership location. This doesn’t imply a local function must be delivered from every site: some local functions may only be required at specific sites only where relevant, or undertaken from geographical ‘hubs’.
- **Global:** refers to a function which can be managed and delivered from any partnership site in support of either: multiple locations across the partnership, or to the whole partnership. Global functions will be dependent on use single processes, such that delivery is consistent and location-agnostic.

Once the final version of these definitions is agreed it will influence foundational work required to define an agreed list, and definitions, of partnership functions; and mapping of which functions are carried out by which partner. The results of that work will feed into the Organisational Change workstream to inform the staged Route Map needed to implement a new Operating Model.

6.2.3.3 Academic Affairs

The Academic Affairs workstream will focus on activities to transform the review, planning, management and delivery of all academic activity types (learning & teaching, scholarship, research and knowledge exchange) in line with the relevant stages of the Route Map. Activities would include:

- + As part of the Process, Systems & Culture programme to consolidate, update and align ways of working, in all Academic areas – identify, agree, schedule and implement the changes needed in terms of:
 - Policy, processes and templates
 - Information Systems and data formats
 - Funding mechanisms
- + Within the above programme, defining shared ways of working and modernisation objectives for the restructured partnership, which could include the Partnership adopting single frameworks for Collective Curriculum Planning, Shared HN & FE delivery models, Tertiary academic quality regulations, E-portfolios, and digital-enabled innovations.
- + Addressing impacts of organisational and constitutional change on Learning, Teaching & Research and knowledge exchange.
- + Developing future arrangements for curriculum delivery, research and knowledge exchange in alignment with the Route Map and wider organisational change workstream.

6.2.3.4 Culture Change

Alongside the practical process and systems aspects of the Operating Model programme, there is also the need to instigate a culture change programme to underpin the change management and provide a foundation for the long-term partnership-wide culture. Activities would include:

- + Recruitment of staff engagement resource to lead on the practical aspects of culture within the partnership.
- + Procuring specialist consultancy support.
- + Undertaking culture diagnostic exercises with partnership senior leaders and wider staff.
- + Implementing the resulting Culture change programme activities, which would be dependent on outcomes of the diagnostics.

6.2.4 Programme Plan

The programme plan outlined in the following diagram describes the various activities and workstreams required for UHI to design and develop the route map to a more integrated institution. The sub-activities that sit beneath each of the primary activities described overleaf are detailed in Appendix 7.12. The route map design and delivery are explored in further detail in the following section, and includes the following:

- + The Process, Systems & Culture programme required to support the route map delivery
- + Route Map Analysis
- + Route Map Design
- + Implementation of interim stage(s)
- + Implementation of a single tertiary institution

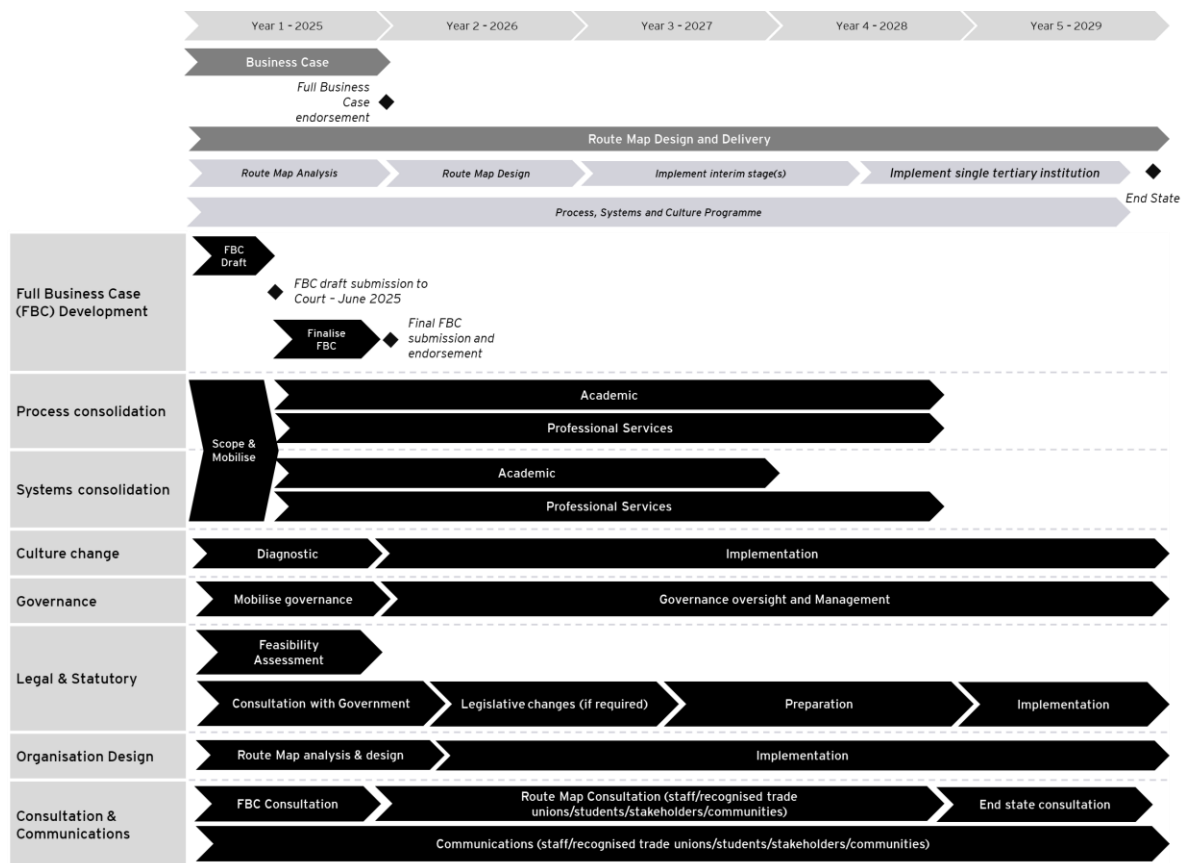


Figure 8: Programme Plan

The programme plan will continue to be refined during the Full Business Case stage as the preferred delivery map is developed by the transition executive board.

6.2.5 Designing and Delivering the Route Map

This section explores the design and delivery of the route map, and the overarching programme plan to achieve a single tertiary institution. This includes the detailed assessment required to determine how Options 3 and 4 might constitute interim stages prior to achieving a single tertiary institution.

The main stages of the route map to develop and implement the Operating Model are:

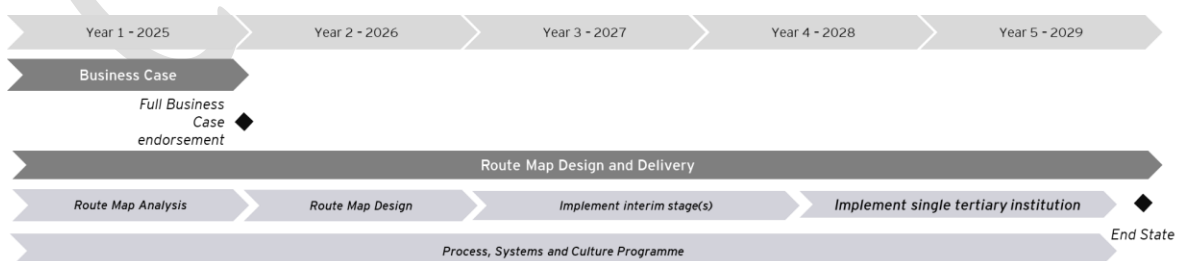


Figure 9: Route Map Development & Implementation stages

The first two stages (Route Map analysis and Route Map design) would be undertaken as an integral part of the work to create the FBC. The resulting approved Route Map would then be implemented, including the stages required to achieve the creation of a single tertiary

institution. The full endeavour would be underpinned throughout by a comprehensive parallel programme to consolidate UHI partnership process and systems, and to create the conditions needed for supporting the necessary Culture change. These Route Map development stages are described in more detail below; further planning assumptions are described in Appendix 7.11.

6.2.5.1 *Process, Systems & Culture programme*

At the Options Appraisal Phase workshop, the Transition Executive Board membership agreed the need for a series of projects to focus on extensive rationalisation, updating and unifying, to the fullest possible extent, of how the partnership delivers all of its functions – without changes to organisation structures. This had been presented as a major component of the potential scope for option 3. Furthermore, it has been agreed that this Process, Systems & Culture programme should be implemented irrespective of the options ultimately chosen as stages towards a single institution. The work will be an essential element to support the Route Map, and the programme priorities would be influenced by the findings of the Route Map analysis and design phases.

The projects would consolidate and align ways of working in terms of policy, processes, information systems, funding allocation mechanisms, templates and data formats in order to enable the UHI partnership to *practically* think, plan and act as one. The overall programme equates to the integration of process and systems that is normally undertaken post-merger and instead front-loads this work in order to de-risk and minimise the workload involved in the stages to create a single institution.

The success of any large-scale integration programme is dependent on a ‘three-legged stool’ model of structure, systems *and* culture. All three are essential to enabling a successful outcome. Therefore, alongside the practical process and systems aspects of these projects, there is also the need to instigate a culture change programme to support the change management required by senior leadership, to support staff undergoing planned changes, and to provide a foundation for the long-term partnership-wide culture. This work would be undertaken as the Culture Change workstream (section 6.2.3.4). The impact on staff of not addressing these issues appropriately is discussed further in Appendix 7.10.

An initial draft of the projects that would comprise the Process, Systems & Culture programme is summarised in Appendix 7.13.

6.2.5.2 *Route Map Analysis*

The purpose of the Route Map Analysis phase is to model and evaluate the suitability and feasibility of how options 3 and 4 could be leveraged as interim building blocks between the UHI partnership’s current state through to the end state of a single tertiary institution. The analysis would evaluate the full range of potential staging opportunities within options 3 and 4:

- + The sub-options and potential programmes within option 3 (*Change/transformation within current constitutional structures*) are multifarious and revolve around functions, roles, responsibilities and funding being devolved to a single partner or partners to deliver on behalf of UHI; or the development of shared arrangements that all partners invest in that then delivers to all partners, such as through a shared services business unit or company.

- + Under option 4 (*Use mergers to deliver a small number of partners*) the UHI partnership would take forward one or more mergers between partners to create a smaller number of institutions of greater scale, with the aim of making partners more resilient to external shocks and challenges. There are numerous possible merger permutations: theoretically any one partner might merge with any one other, or with any two, or three, and so on.

The various sub-options of 3 and 4 are considered more fully in Appendix 7.11.

The analysis outcomes would be used to understand how management structures should be developed and how they will flow from the decisions around core functions¹², and the extent to which functions can be managed, delivered and accountable: either as ‘global’ services (i.e. the function can be delivered from any UHI location) and/or as ‘local’ services (i.e. must be delivered at a specific UHI location). This requires detailed work to develop how best to balance global and local management of academic and support functions, to ensure that economies of scale are maximised within the evolution of the partnership, whilst remaining locally embedded and focussed and devolving executive responsibility and accountability for decision-making to the right level. Lessons will be drawn from the existing partners who currently operate distributed management structures across their geography.

6.2.5.3 Route Map Design

This phase of the process takes the outputs of the Route Map Analysis phase (and the progress and findings on the Process, Systems & Culture programme by that point) and uses them to select, design, consult on and plan the optimum sequence of interim stages to take the UHI partnership from its Current State through to the Future State of a single tertiary institution. Main outputs from this phase would be:

- + An Organisation Design of the single tertiary institution.
- + An implementation plan of interim stages to deliver the single tertiary institution.
 - The plan would be fully aligned to both the Organisation Design end point and to the agreed constitutional basis of the institution.
 - The interim stages would be based on the most beneficial blend of components derived from option 3 and 4 – at this stage it is not possible to say which of these (or any other emerging concepts) would be taken forward until the Route Map Analysis is undertaken as part of the FBC.
- + Identification of how the implementation plans enable savings and growth to be realised as soon as possible and deliver a higher proportion of spend on UHI students.
- + A corresponding plan for the changes of programme and partner governance to oversee the UHI partnership’s evolution stages to the single tertiary institution.

¹² For the purposes of the Management Case, the term “function” is used throughout to refer to a top-level process or activity type, and not an organisational unit. For example, if referring to ‘the Curriculum function’ this means Curriculum planning, development and delivery activities, rather than referring to a Curriculum department.

- + A corresponding programme performance management framework that would be used to monitor the implementation with respect to benefits realisation, the Operating Model's principles and other relevant performance indicators.

6.2.5.4 *Implement Interim Stage(s)*

This phase refers to the practical implementation of the organisational changes that were evaluated, selected and planned in the Route Map phases – and implementing these changes as an interim stage or stages in a logical and efficient sequence.

The objectives and work packages of the Process, Systems & Culture programme would be very closely integrated and aligned with the implementation of the interim state. Moreover, it would be complemented by the commensurate evolution of the programme and partnership governance, and managed and monitored in accordance with the programme's performance management framework.

6.2.5.5 *Implement Single Tertiary Institution*

The implementation of the interim stage(s) would be superseded by the end point of the Route Map: the implementation of a single tertiary institution that has subsumed all of the UHI partnership (excluding UHI Orkney and the specialist institutions) into one legal entity. A single governing body would lead a single executive and workforce to deliver tertiary education, research, knowledge exchange and enterprise - based in and across the UHI region.

Similar to the previous phase, the Process, Systems & Culture programme would be very closely integrated with implementing the single tertiary institution; and it would also be overseen by the latest version of partnership governance and managed in accordance with the programme's performance management framework.

6.3 Resourcing Arrangements

6.3.1 Internal Resourcing

As outlined in Section 6.2.3, there will be four workstreams mobilised to deliver the FBC and the programme of work to transition the partnership from the Current State, through as yet unspecified interim option 3 and 4 stages, to the end point of option 6. The workstreams will need to work in parallel to continue the momentum and ensure the programme plan can be achieved. As such, resources will need to be mobilised quickly and efficiently in order to adhere to timelines set out in the programme plan.

In addition to the roles outlined in Table 14 below, corporate knowledge and engagement across all partners will be essential to drive the process forward. The resources outlined below may not be required full time and will be brought in as required to ensure workstreams are as efficient and effective as possible.

The Transformation team, reporting to the Transition Executive Board, will lead on the development of the FBC and the next phase of work. The table below outlines the additional resources required to support the Transformation team in the development of the FBC.

Table 14: Staffing required for OBC-FBC.

Staffing costs for OBC-FBC end July 25	FTE	Full Year Costs	24/25	25/26
Programme Management	1	75,165	56,374	18,791
Programme Governance	1	62,950	47,212	15,737
Enterprise Architect	1	117,586	88,189	29,396
Communications Public Affairs Resource	1	52,718	39,539	13,180
Project Support Resource	2	105,437	79,078	26,359
Student Engagement Officer (HISA officer)	1	52,718	39,539	13,180
Employee Engagement Resource	1	62,950	47,212	15,737
			397,143	132,381

6.3.2 Use of specialist advisors

To ensure the necessary skills and capabilities have been leveraged to maximise the potential delivery of a successful project, specialist advisers will be engaged for areas including economic & financial analysis, FBC development, data protection, legal and Financial Due Diligence, Pensions and HR & employment law specialists, communications public affairs and cultural diagnosis and change. This is typical of a programme of this scale and complexity and ensures that necessary skills and capabilities have been leveraged to maximise the potential of delivering the next phase of work. The use of specialist advisors has been factored within the funding request, outlined in the Financial Case, however, the following specialist advisor resource is expected to be required to support the programme.

Table 15: Non staffing required for OBC-FBC

Non-staffing costs for OBC-FBC end July 25	Full Year Costs	24/25	25/26
Economic & Financial Analysis	100,000	90,000	10,000
FBC Development Consultancy	300,000	270,000	30,000
Communications Public Affairs Consultancy Fees (inc. media training)	60,000	60,000	-
Gaelic Translation Costs	10,000	10,000	-
Branding Materials - Consultation	30,000	30,000	-
Web development	24,000	24,000	-
Consultation meetings/events	30,000	30,000	-
Legal & Financial Due Diligence	150,000	150,000	-
Legal, Pensions & HR Advice	50,000	50,000	-
Data Protection (DPO and DPA)	90,000	90,000	-
Culture Change Programme	80,000	80,000	-
Leadership Programme	15,000	15,000	-
Risk Management training for PM team	10,000	10,000	-
Process Mapping training	10,000	10,000	-
		919,000	40,000

6.3.3 Systems resourcing

The extent of the Systems consolidation work will depend on the Route Map to a single institution and at this stage it is envisaged that up to £11M would need to be invested, £11m has been reported demonstrating the significant investment potentially required to upgrade and implement 5 essential systems: timetabling (Celcat), HR & payroll, SITS, finance and estates. Figures have been estimated based on current APUC Framework costs where possible although the total value of system investment would depend on the scope, scale, type of investment and implementation required which is subject to further investigation within the FBC including systems mapping across the institutions.

6.4 Communications

An Operating Model Communications Strategy was approved by principals and senior leaders in August 2024, and the main objectives and approach are summarised in Appendix 7.14. This strategy established clear objectives and outlined key messages to effectively engage a comprehensive range of stakeholders essential for the programme's success. Additionally, a Communications Protocol was agreed, defining the framework for collaborative partnership efforts to ensure a consistent and coordinated communication approach across all stakeholder groups.

Building on these foundational documents, a Consultation and Engagement Strategy has been developed. This strategy outlines a phased approach to stakeholder engagement. Phase one will be delivered in early 2025 and emphasises the proposed benefits of a more integrated operating model, while phase two, to take place in the second half of 2025, will include a broader public consultation on the Full Business Case.

It is proposed that phase one takes a targeted approach and will focus on gathering insights into key stakeholder views on UHI's founding mission, vision, and the seven reform principles, as well as the anticipated benefits the organisation aims to deliver through transformation.

The key stakeholder groups targeted in phase one are outlined below:

Table 16: Key stakeholders

Stakeholder	Interests & Concerns	Level of Influence	Impact on UHI
Staff: senior management, professors/lecturers, operational staff	Job security, working conditions, career growth, institutional reputation	Medium-High	Internal operations, quality of education, student satisfaction
Students: FE, HE, apprentices & postgraduate	Quality of education, tuition fees, campus facilities, job prospects after graduation	Medium-High	Institutional success, reputation, enrolment, financial implications
Politicians: Scottish Ministers, MSPs, MPs, local authority councillors	Policy alignment, funding, education standards, community impact, jobs, investment in rural communities	High	Policy decisions, financial support, public image

In alignment with statutory obligations, phase two will include a formal consultation on the Full Business Case, scheduled for late summer / autumn 2025. This consultation will incorporate feedback from phase one to guide and refine the FBC's development.

Additional engagement strategies will be developed for key stakeholders, including trade unions, outlining how consultation and engagement processes will be conducted for both the OBC and the FBC.

A comprehensive communication strategy, covering the period from July 2025 onward, will be formulated as an integral component of the Full Business Case to ensure transparent and effective communication throughout the consultation and decision-making process.

6.5 Risk Management

Strong risk management is the key to the effective governance and management of the proposed merger. UHI's Risk Management Policy outlines the roles and responsibilities of the University Court, Finance and General Purposes Committee, Audit Committee, internal audit, risk review group and Senior Executive Team. Whilst it is noted that partners may have their own Risk Management policies, agreement will be sought for UHI Partners to use a single Risk management approach and policy for the development of the FBC. The risk management process is a continuous cycle, aiming to manage threats that may hinder the delivery of priorities, and maximise the delivery of potential opportunities. The process involves identifying, analysing and evaluating the risk based on existing controls. Risks are then recorded in the risk register, with their relevant risk owner to be monitored and reviewed regularly.

Every stage of the risk management process is carried out in consultation with the appropriate stakeholders, as outlined in the UHI Risk Management Policy¹³. Risks are escalated and reported in a timely manner.

The project team have developed and are managing a detailed risk register for the project. The effective identification, quantification and monitoring of risk is a critical part of effective project delivery. A risk register outlining all the pertinent risks to the successful delivery of the programme is contained in Appendix 7.15. Risks will be identified, assessed and escalated from a programme level with effective mitigation strategies and escalation put in place. The criteria for determining likelihood and impact accords with UHI's Risk Management Policy.

- + 1: Insignificant
- + 2: Minor
- + 3: Significant
- + 4: Major
- + 5: Catastrophic.

The programme risk register will be reviewed on a monthly basis and the highest rated risks will be escalated to the appropriate governance forums for review and implementation of mitigations. The significant programme risks are outlined below. All programme risks are outlined in Appendix 7.15 and will be further refined and amended at the Full Business Case stage.

¹³ <https://www.uhi.ac.uk/en/t4-media/one-web/university/about-uhi/governance/policies-and-regulations/policies/risk-management-policy.pdf>

Table 17: Significant programme risks

Risk	Risk Rating	Mitigation	Rating after mitigation
Funding support is not obtained from Government, and onward delivery ceases	5	Regular engagement between senior management, partners, University Court, SG and the SFC to ensure UHI is able to deliver on its priorities and continue serving the Highlands and Islands communities. Development of Operating Model highlights how, how soon and how much savings and efficiencies will be realized.	4
Data to support financial and economic analysis is not available which hinders the ability to demonstrate a preferred delivery route	5	Clear communications and delivery plan to be shared with partners in advance. Appropriate data sharing agreements established between partnership data controllers.	3
There is a risk that the next phase of work distracts from business-as-usual (BAU) activities, leading to further stressors on partners	5	Assess resource allocation and identify potential shortages that may arise and escalate as required. Implement project management tools to track progress and ensure the delivery plan is on track and BAU tasks are achieved. Set up regular calls between partners and governance forums to assess the impact of the next phase of work on BAU activities.	3
Industrial relations: Collective Consultation through the Unions is delayed or disputed because of Union stances on changes to the structure and staffing numbers or other disputes concerning the conduct of the CC process. The impact would be to delay implementation, which delays the organisation moving forward, affects staff morale, and delays realisation of savings.	5	Providing the appropriate information <i>via</i> all consultative meetings, in writing, and <i>via</i> a shared SharePoint site for forum-related documents; and ensuring we meet the legal obligations of information to be provided; Timely responses and engagement provided to the stakeholders of the Local Dispute in accordance with the LRPA's for both trade unions, in order to seek the quickest possible resolution.	3
Failure to meet stakeholder expectations	4	Mobilise a communication strategy to ensure appropriate stakeholders are engaged throughout the process. Seek regular feedback from key stakeholder groups to determine whether stakeholder expectations are being met. Escalation to governance forum as required.	3
Lack of adequate resources impacts delivery milestones	4	Identification of resourcing requirements and monitor requirements against the delivery plan. Escalation to the Director of Transformation and appropriate governance forums as required.	3

Risk	Risk Rating	Mitigation	Rating after mitigation
Audited financial statements are not signed off and partners do not share timely updates of financial information, which delays further financial analysis and monitoring.	4	Consultation with principals and chairs will be undertaken in June and July. Buy-in from key stakeholders will ensure that partners are committed to providing regular financial information to allow the programme to monitor UHI's consolidated financial position. Partners will continue to put pressure on the auditors to close out the FY22/23 financial statements to allow further detailed analysis and monitoring to continue.	3
There is a risk that the Scottish Election (no later than 7 th May 2026) may result in legislative timetabling being difficult and therefore shorten the timeline for development and consultation on the proposed new operating model	4	Ensure early and regular communication and consultation with the SFC and Scottish Government about the model being proposed and any legislative requirements needed to bring it together	3
Delay in approvals, and delivery of key milestones	4	Monitor progress against the delivery plan closely, with delays being flagged early to the Director of Transformation and appropriate governance forums.	2
Development of a robust full business case setting out costs and benefits of preferred delivery route as a means of securing necessary enabling funding	4	Ensure that the programme is fully resourced, with the appropriate internal and external expertise assigned to the programme. Ongoing discussions with stakeholders to ensure that it meets stakeholder expectations.	2
Consensus on the preferred delivery route cannot be reached amongst partners which impacts delivery	4	Regular engagement between the governance and management team and the partners to ensure buy-in is achieved early, and there is visibility over the work being conducted. Key decision gates mapped as part of the development and delivery of the process.	2
Lack of in-house capability to deliver a large transformation (e.g., estates expertise)	4	Creation of a robust OBC and FBC which clearly articulates capability and capacity needs to deliver the next phase of work. Identification of resources required to deliver the next phase of work against the delivery plan. Ongoing discussions with key stakeholders such as SFC to highlight need for external resources, such as estates expertise.	2

Risk	Risk Rating	Mitigation	Rating after mitigation
There is a lack of political support for the changes we are seeking to make to UHI	4	Early engagement and consultation with local and national politicians setting the clear boundaries and principles we have set for this reform and building in their feedback into the process	3

6.6 Benefits Realisation

To effectively evidence benefits delivered by the programme, a Benefits Realisation Plan (BRP) has been developed and should be enacted at FBC stage. This includes the development of a benefits realisation strategy, benefits realisation framework and benefits register. This will enable benefits management to be in place to measure, benchmark and track the benefits as they crystallise. The benefits management will be monitored and evaluated on an ongoing basis throughout the life of the project by roles defined in the BRP. Refer to Appendix 7.3 for the BRP.

6.7 Delivery and Quality Assurance

Seven principles (section 2.1) have been agreed to frame and cohere the development of a new operating model. To be meaningful they require an underpinning evidence base, both quantitative and qualitative. The resulting measures will be used to inform implementation of the Route Map as the programme progresses.

These measures will help to illuminate for colleagues and stakeholders how the UHI partnership is ensuring that the programme is staying on track with the vision, mission and objectives of the chosen Operating Model. An initial draft of the metrics needed to monitor progress in the context of the principles is at Appendix 7.16 and these will be developed further in the FBC.

Delivery and quality assurance, to enable the realisation of benefits, will be managed through the outlined programme governance model. Monitoring and evaluation will be critical to ensuring the overall success of the programme. An evaluation plan should be created and mobilised during the development of the FBC.

6.8 Next Steps and Dependencies

Post-OBC the UHI Partnership needs to assess the optimum operating model which would deliver a single tertiary institution. Feasibility analysis will need to be conducted at Full Business Case stage to determine an operating model that provides value for money, protects students and staff, and provides a clear Route Map to achieving a single tertiary institution. The following immediate next steps will be critical to progressing to the ambition of the UHI partnership becoming a single tertiary institution.

- + Mobilisation of interim governance measures
- + Development of a detailed delivery Route Map, which considers the key risks and considerations for achieving a single tertiary institution, including:

- + Discussions with the SFC and Scottish Government to understand the legislative appetite for change
- + The TUPE, VAT and Pension Implications of the Route Map
- + The process and system changes required, and an understanding of the feasibility and sequencing for delivery
- + Consultation with key stakeholders such as Trade Unions, Staff, Students and Government on the delivery Route Map
- + Development of a commercial strategy for systems and specialist advisors
- + Detailed economic and financial analysis to support the delivery Route Map

There are several key dependencies that will need to be closely monitored and revisited throughout the next phase of delivery, including:

- + Consultation and endorsement from the SFC and SG
- + Thorough financial analysis including detailed baseline costing and ongoing monitoring, to determine the financial viability of the programme and implications to UHI partners
- + Due diligence to determine financial, operational and legal implications of the Route Map
- + Outcomes of stakeholder consultation.

Risks and dependencies should be monitored closely throughout the duration of the programme and appropriate mitigation strategies should be put in place. Significant emerging risks should be escalated to the Transition Executive and Oversight boards where required.

7 Appendices

7.1 Appendix 1: Abbreviations & Definitions

AP: Academic Partner

APUC: Advanced Procurement for Universities and Colleges Limited

Assigned Colleges: means a college assigned to a regional strategic body.

AY: Academic year

BAU: Business-as-usual

BRP: Benefits Realisation Plan

Clawback: SFC provide grant funding based on HE student number target. Any shortfall against target is subject to recovery or “clawback”. This is always calculated by SFC retrospectively and any estimated clawback is retained by EO as restricted reserves until the SFC position on recovery is confirmed.

Controlled subject areas: Based upon guidance from the Scottish Government, the SFC publishes intake targets for the controlled subjects of Dentistry, Medicine, Pre-registration Nursing & Midwifery Education, Paramedic Education, Prosthetics & Orthotics, Optometry and Initial Teacher Education.

Credit Targets: The SFC provides teaching funding to colleges that undertake to deliver a specified volume of activity measured in ‘credits’ (1 credit is equivalent to 40 hours of learning)

DIA: Distant Islands Allowance

EO: Executive Office

EY: Ernst and Young

FBC: Full Business Case

FE: Further education

FFR: Financial Forecast Return

FTE: Full time equivalent

Function: For the purposes of the Management Case, the term “function” is used throughout to refer to a top-level process or activity type, and not an organisational unit. For example, if referring to ‘the Curriculum function’ this means Curriculum planning, development and delivery activities, rather than referring to a Curriculum department.

FY: Financial year

GVA: Gross value added

HE: Higher education

HIE: Highlands and Islands Enterprise

HISA: Highlands and Islands Students' Association

HN: Higher National

HR: Human resource

HTC: Highland Theological College

ICIA: Island Communities Impact Assessment

Incorporated Partners: college with a board of management under part 1 of the Further and Higher Education (Scotland) Act 1992.

IPVC: Interim Principal and Vice-Chancellor

IT: Information technology

KPI: Key performance indicator

LGPS: Local Government Pension Scheme

Non-controlled subject areas: Courses not subject to SFC intake targets.

NRPA: National Recognition and Procedures Agreement

NSET: National Strategy for Economic Transformation

OBC: Outline Business Case

OIC: Orkney Islands Council

OUVS: Open University Validation Services

Partner: Education and research delivery institutions for UHI.

PESM: Partial Exemption Special Method

RAM: Resource Allocation Model, used by the University to calculate how the money to and from the partners flows according to predictions by partners for Higher Education student Full Time Equivalent numbers.

RSB: Regional Strategic Body

RUK: Rest of the UK

S75: Where there is a wind up of an employer of a defined benefit pension scheme or where all employees move from an existing employer to another employer there is a risk of a debt being triggered under Section 75 and 75A of the Pensions Act 1995 (and related regulations) for that employer's share of the debt. The s75 deficit would be the estimated cost of purchasing annuities from a company to meet the scheme's benefits.

SAMS: Scottish Association for Marine Science

SCQF: Scottish Credit and Qualifications Framework

SDS: Skills Development Scotland

SET: Senior Executive Team

SFC: Scottish Funding Council

SG: Scottish Government

SQA: Scottish Qualifications Authority

STSS: Scottish Teachers' Superannuation Scheme

Tertiary education: in the UK tertiary education refers to all post-secondary education, including both further and higher education from school senior phase and access courses to doctoral research.

Top slice: The executive and professional services required to support the RSB are provided by UHI and resourced through a top slice of 35% of the HE Undergraduate Teaching Grant and assumed fee income, 20% of the Research Excellence Grant and a fixed sum of £0.3m of FE Teaching Grant.

TUPE: Transfer of Undertakings (Protection of Employment) Regulations 2006

UCAS: Universities and Colleges Admissions Service

UHI/University partnership: The collective, e.g. executive office and partners

The University/executive office: The University of the Highlands and Islands, an autonomous institution. It is a Scottish Company (limited by guarantee), a Registered Scottish Charity and a Regional Strategic Body (RSB).

UK: The United Kingdom

USS: Universities Superannuation Scheme

VAT: Value added tax

VSS: Voluntary Severance Scheme

7.2 Appendix 2: History of UHI

The University of the Highlands and Islands (UHI) is a unique institution created by a shared vision and drive in the 1990s to become a vital economic development and educational building block for future generations which was essential for the long-term sustainability and growth of the Highlands and Islands, Moray and Perthshire regions. The UHI Project was formally created in 1992 with the aim of establishing a new regional university with four founding principles:

- + Educational opportunities for all within the regions, based in communities.
- + Driving economic growth: Anchor institution and catalyst of economic development.
- + Co-creating education and research: Curriculum and research linked to the regions' unique landscape, heritage and culture.
- + Delivering social change to build better futures for the regions.

UHI's creation was as a vital economic development and educational building block, essential for the long-term sustainability and growth of its regions. Prior to the creation of UHI, there was little choice for school leavers to stay to study at university level. Generations prior were taught that to be successful they had to leave. This resulted in outward migration of young people seeking a university education, and a failure to meet the needs of those people, of all ages, who could not, or did not, wish to leave the regions to study and no higher education offering to attract others to come to the regions to study and then build their lives and careers.

The UHI Project was formally created in 1992 with the aim of establishing a new regional university to address these concerns, creating choice and opportunity for young people to stay, for local people to retrain, and for others to be attracted to the area and return. The major milestones for UHI over the last three decades are outlined in the figure below.

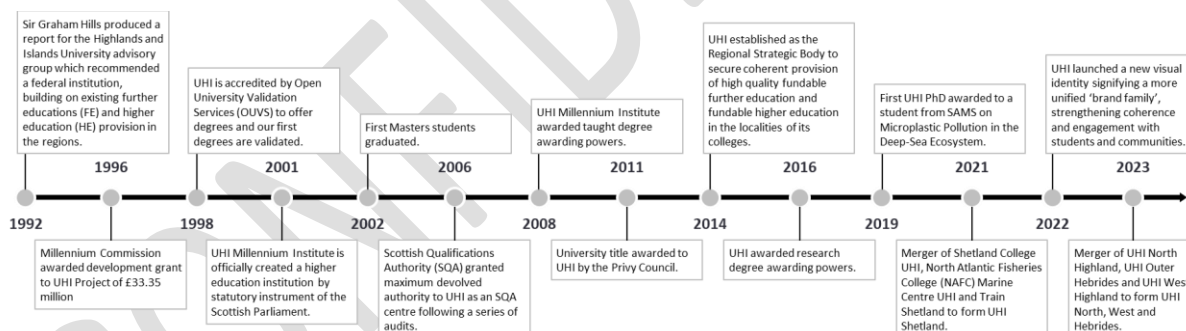


Figure 10: Major milestones for UHI

UHI is an anchor institution in its regions with a key role to play in supporting people, communities and businesses and was established with four founding principles that remain as relevant now as they did in 1992:

- + Educational opportunities for all within the regions, based in communities.
- + Driving economic growth: Anchor institution and catalyst of economic development.
- + Co-creating education and research: Curriculum and research linked to the regions' unique landscape, heritage and culture.
- + Delivering social change to build better futures for the regions

7.3 Appendix 3: Benefits Realisation Plan

7.3.1 Purpose

The Benefit Realisation Plan (BRP) is developed throughout the business case process. This document will be refined at Full Business Case stage, once the route map to progress to a single institution has been determined.

Its purpose is to, firstly, demonstrate that adequate plans are in place for the realisation of benefits. It is also to be used for reviewing realisation progress during delivery. This information will provide the basis for quarterly reports to the Project and Programmes Board.

This document will be approved as part of the business case process. The purpose of this document is to:

- + Agree the benefits to be tracked and delivered;
- + Outline the method for the tracking, measurement and delivery of benefits;
- + Agree roles and responsibilities; and
- + Agree how the project's benefits contribute to the UHI's Strategic Objectives

7.3.2 Review

This document should be reviewed at least on a quarterly basis, and:

- + The Benefits Tracker should be reviewed and updated and reported to the appropriate governance forums once delivery has commenced;
- + Any material changes to the benefits should require a change request to be resubmitted for approval; and
- + On an annual basis, or in line with key milestones, the Project should hold an in-depth benefit review session, chaired by the Vicki Nairn and attended by key stakeholders.

7.3.3 Roles and Responsibilities

The programme team will assign benefit realisation roles and responsibility at Full Business Case stage.

Table 18: Benefit Realisation Roles and their responsibilities

Benefit Realisation Role	Responsibility
Senior Responsible Owner	<ul style="list-style-type: none">+ Personally accountable for UHI's outcomes and benefits+ Ensures that the Project and the business areas affected maintain a focus on benefits delivery+ Chairs benefits reviews involving relevant stakeholders, business managers and possibly internal audits+ Authorises benefits achievements+ Accountable for the programme's governance arrangements
Programme Manager	<ul style="list-style-type: none">+ Provides day to day leadership of the programme+ Develops the BRP and Business Case in consultation with the Business Change Managers, relevant stakeholders, and members of the Project teams

Benefit Realisation Role	Responsibility
	<ul style="list-style-type: none"> + Initiates benefits reviews as part of the BRP or in response to other triggers + Validates benefits data entered onto Benefits Dashboard + Sets the strategic direction on benefits identification and mapping to strategic objectives
Business Change Manager	<ul style="list-style-type: none"> + Provides information to support the creation and delivery of the BRP + Develops and maintains the Benefits Profiles + Ensures there is no double counting of benefits + Ensures the implementation and embedding of the new capabilities are delivered by the programme + Initiates benefits review after the Project has closed + Identifies and quantifies the benefits with the support of relevant stakeholders and Benefits Manager
Transformation Management Office	<ul style="list-style-type: none"> + Monitors the progress of benefits realisation against the plan + Produces performance reports as defined by the Project Manager + Maintains benefits information under change control and maintains audit trails of changes
Benefits Recipient	<ul style="list-style-type: none"> + Agrees the Benefit Profile prepared by the Business Change Manager + Agrees criteria for delivery of benefit(s) and signs off against these criteria on delivery of benefit(s)
Benefit Owner	<ul style="list-style-type: none"> + Agrees the Benefit Profile prepared by the Business Change Manager + Monitors the successful delivery of enabling business changes + Collects and reports data to evidence the realisation of benefits

7.3.4 Benefits

This programme of work aims to review the current constitutional and organisational structure at UHI. The Strategic Plan 2030 aims to achieve the following outcomes by 2030, with students being the main driver of UHI:

- + Becoming a financially sustainable tertiary education institution
- + Access to a stronger, sustainable, and enhanced Learning, Teaching & Research offer
- + Providing an enhanced 'one UHI' Student Experience across all locations and online: with equity in provision, opportunity, policy, and support for our students
- + Providing better opportunities for staff including progression and career development
- + Enhanced capacity for engagement and partnerships

To demonstrate the alignment of the benefits to UHI's overall strategy, the benefits have been mapped to the strategic aims. The benefits have been developed at a holistic level and are not option specific. Further work will be undertaken to understand the benefits of UHI progressing to a single tertiary institution, and the route map to deliver this has been refined.

Holistically, the programme aims to deliver the benefits described in Appendix 7.3.4. The benefits outlined below are subject to change once a detailed route map has been determined.

Table 19: Benefits expected across the options

#	Benefit	Beneficiaries	Enablers required
1	Becoming a financially sustainable tertiary education institution	Students Staff Employers Communities Public Sector stakeholders	<ul style="list-style-type: none"> + A significant reduction in the organisational, duplicated services, management and governance running costs of UHI. + A greater proportion of our funding flowing to directly support academic delivery, research and engagement with local and regional stakeholders. + The reduction of unhealthy internal competition within UHI and the embedding of a new and more positive culture. + A significant reduction in the time taken that UHI spends on internal management and debate at the expense of external opportunities. + Creating capacity to reinvest in growth opportunities across learning & teaching, skills, research, knowledge exchange, IP, and commercial activities.
2	Access to a stronger, sustainable, and enhanced Learning, Teaching & Research offer	Students Employers Communities	<ul style="list-style-type: none"> + A greater proportion of funding flowing to directly support academic delivery, student experience and research. + More coordinated and effective academic decision making across our tertiary curriculum offer. + Widened access across locations for in-person learning & teaching and through contemporary digital learning provision. + Up-to-date, responsive, relevant curriculum for the regions, their communities, and key stakeholders. + Unified curriculum offer with distinct and clear progression routes and pathways. + Capacity within curriculum teams to focus on the development of new programmes and new and innovative ways of delivering learning. + Enhancement of research and knowledge exchange environment
3	Providing an enhanced 'one UHI' Student Experience across all	Students	<ul style="list-style-type: none"> + A greater proportion of funding flowing to directly support academic delivery, student experience and research. + Single UHI value proposition regarding quality of student support arrangements – both local and online – and single policies and systems.

#	Benefit	Beneficiaries	Enablers required
	locations and online: with equity in provision, opportunity, policy, and support for our students		<ul style="list-style-type: none"> + Increased capacity and resource invested in Student Support, infrastructure, HISA engagement, sports, clubs and societies. + Efficient and consistent processes for students from enquiry to application to graduation. + Improved consistency and coordination will significantly aid the attraction and recruitment of prospective students, and the retention of existing students, both of which will enhance our ability to meet SFC funding targets and thus improve income generation.
4	Providing better opportunities for staff	Staff	<ul style="list-style-type: none"> + Equity in policy, opportunity, terms & conditions, practice and organisation structure for our staff. + The creation of larger single geographically dispersed teams to provide for greater job security, progression opportunities, professional development and specialist roles across our corporate functions. + Efficiency and resilience through combined resource, reducing dependencies on stretched teams duplicated in partners. + The reduction of unhealthy internal competition within UHI and the embedding of a new and more positive culture. + Greater job satisfaction, recognition and reward.
5	Enhanced capacity for community, engagement and partnerships	Employers Communities Public Sector stakeholders	<ul style="list-style-type: none"> + A greater proportion of our funding flowing to directly support academic delivery, research and engagement with local and regional stakeholders. + A significant reduction in the time taken that UHI spends on internal management and debate at the expense of external opportunities. + Raised profile of UHI local, cultural and linguistic identity, including the Gaelic Language Plan. + Fewer 'front doors' with which to engage with business and industry to maximise UHI's commercial potential + Measure and promote the tangible impact that UHI has on economic development across the regions.

#	Benefit	Beneficiaries	Enablers required
			<ul style="list-style-type: none"> + Locally responsive and knowledgeable staff providing a local presence across the regions, with specific processes for community engagement.
6	Streamlined governance and the move to a single leadership and governance structure	Students Staff Employers Communities Public Sector stakeholders	<ul style="list-style-type: none"> + A greater proportion of our funding flowing to directly support academic delivery, research and engagement with local and regional stakeholders. + Single UHI value proposition regarding quality of student support arrangements – both local and online – and single policies and systems. + A significant reduction in the organisational, duplicated services, management and governance running costs of UHI. + The reduction of unhealthy internal competition within UHI and the embedding of a new and more positive culture. + A significant reduction in the time taken that UHI spends on internal management and debate at the expense of external opportunities. + Creating capacity to reinvest in growth opportunities across learning & teaching, skills, research, knowledge exchange, IP, and commercial activities. + More coordinated and effective academic decision making across our tertiary curriculum offer. + Widened access across locations for in-person learning & teaching and through contemporary digital learning provision. + Up-to-date, responsive, relevant curriculum for the regions, their communities, and key stakeholders.
7	Enhanced growth in regionally significant and emerging sectors, driving economic development and strengthening	Employers Communities Public Sector stakeholders	<ul style="list-style-type: none"> + Creating capacity to reinvest in growth opportunities across learning & teaching, skills, research, knowledge exchange, IP, and commercial activities. + Offer enhanced employability skills, ensuring access to a local workforce and skills pipeline matching local demand and need. + Measure and promote the tangible impact that UHI has on economic development across the regions.

#	Benefit	Beneficiaries	Enablers required
	contributions to the local economy.		<ul style="list-style-type: none"> + Higher growth will lead to an increased demand of UHI services. + Long-term sustainability and resilience within UHI.

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7.3.5 Benefits Realisation Tracker

The benefits realisation tracker aims to map the benefit categories to the strategic objectives and outline any cashable benefits. The benefits will be measured by the Transformation Team, with oversight from Vicki Nairn. The benefits outlined below are subject to change at Full Business Case stage, once further design work has been undertaken.

Table 20: Benefits Realisation Tracker

Ref	Description of benefit	Link to Strategic Objectives	Measure <i>[NB: The below measures will be finalised at FBC stage]</i>	Cashable benefits <i>[NB: Economic analysis to be undertaken]</i>
1	Becoming a financially sustainable and enduring tertiary education institution	<ul style="list-style-type: none"> + Partnership financial sustainability + Operational savings secured through streamlined governance, mergers, shared services and single system approaches + Optimise physical infrastructure and digital excellence 		
2	Access to a stronger, sustainable and enhanced curriculum offer	<ul style="list-style-type: none"> + Operational savings secured through streamlined governance, mergers, shared services and single system approaches + Attract and retain talented staff 		
	Providing an enhanced 'one UHI' Student Experience across all locations and online: with equity in provision, opportunity, policy, and support for our students	<ul style="list-style-type: none"> + Operational savings secured through streamlined governance, mergers, shared services and single system approaches + Attract and retain talented staff 		

Ref	Description of benefit	Link to Strategic Objectives	Measure <i>[NB: The below measures will be finalised at FBC stage]</i>	Cashable benefits <i>[NB: Economic analysis to be undertaken]</i>
	Providing better opportunities for staff	+ Attract and retain talented staff		
	Enhanced capacity for community, engagement and partnerships	+ Partnership financial sustainability		

7.3.6 Next steps

- + Refine roles and responsibilities at Full Business Case stage
- + Refine benefits to align to the benefits achieved from the preferred delivery model
- + Consider additional key performance measures as data is made available
- + Determine the baseline for benefits when data is made available through UHI
- + Once BRP has been refined, draft an Evaluation Plan to ensure benefits are being monitored and evaluated
- + Ongoing monitoring of the BRP and Evaluation Plan

The benefits register is the key document which will assist monitoring and tracking of benefit realisation as the programme progresses. Both the roles and responsibilities and realisation plan are living documents that will be mobilised at Full Business Case stage and updated throughout the lifecycle of the programme.

7.4 Appendix 4: UHI partnership institutions

7.4.1 Partner Constitutions

Baseline information as of September 2023. The below table provides an overview of the governance forums for each partner as of September 2023, per UHI partners websites.

Table 21: UHI Partnership Institutions

Operating Name	Legal Name	Legal Structure	Established By	Subsidiaries
HTC UHI	Highland Theological College	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	
SAMS	Scottish Association for Marine Science	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	SAMS Research Services Ltd
SMO	Sabhal Mòr Ostaig	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	Sabhal Mòr Ostaig (Developments) Ltd
UHI	University of the Highlands and Islands	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	UHIRE Ltd – Active MPI Elgin & MPI Dornoch Ltd Made in Scotland - Dormant UHI Shared Services Ltd - Dormant
UHI Argyll	Argyll College UHI Ltd	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	
UHI Inverness	Board of Management of Inverness College	Board of Management and Charity	Further and Higher Education (Scotland) Act 1992	
UHI Moray	Board of Management of Moray College	Board of Management and Charity	Further and Higher Education (Scotland) Act 1992	Moray College Enterprise Ltd
UHI North, West and Hebrides	Board of Management of UHI North, West and Hebrides	Board of Management and Charity	Further and Higher Education (Scotland) Act 1992	
UHI Orkney	Orkney Islands Council	Education, Leisure & Housing Committee	Orkney Islands Council	
UHI Perth	Board of Management of Perth College	Board of Management and Charity	Further and Higher Education (Scotland) Act 1992	Air Service Training Ltd
UHI Shetland	Shetland UHI	Company Limited by Guarantee and Charity	Memorandum and Articles of Association	

7.4.2 Partnership Governance

7.4.2.1 University-level

The governance across UHI and its partners is complex, encompassing seven colleges, three specialist partners, and the University itself, which acts as the RSB as set out within the Post 16 Education (Scotland) Act. The University is a charitable company with university title, taught degree and research degree awarding powers, undertakes some direct teaching, for example history and nursing, and undertakes research. As the RSB it has responsibility for distributing FE and HE funding across the partners and is responsible for ensuring the quality of the educational provision that the UHI partnership provides. The University is colloquially known as ‘executive office’ as the terms university or UHI are sometimes used to refer to the whole partnership. The governance forums for the University are as follows:

- + University Court is the most senior body within the University and is responsible for its overall strategic direction and governance of the university. University Court can delegate some responsibilities to individuals, committees or groups, for example academic council and finance & general purposes committee.
- + Partnership Forum comprises University Court members, the chairs of the partners’ boards of management and other key stakeholders to ensure the university partnership delivers high quality tertiary education strategically across the university partnership.
- + The UHI Foundation is an external network, comprised of up to a maximum of 120 people, providing a vital link between UHI and its communities. The Foundation acts as a custodian of UHI’s articles of association, aims to shape the University’s future and drive positive change for the regions.

7.4.2.2 Partner-level

Each institution has its own Board each underpinned by committees and totalling 51 when taken together. The accountabilities and responsibilities of the boards and committees that sit within each of the partners replicate each other, as some are legally necessary, such as Audit committee, and others are necessary for sector-specific reasons, e.g. the Learning, Teaching & Research committee. An example range of Board committees per individual partner is illustrated below. These duplicated committees are a necessary feature of the current governance arrangements; however, the multiplicity of decision-making groups is a huge hurdle to the strategic objective of acting as one.

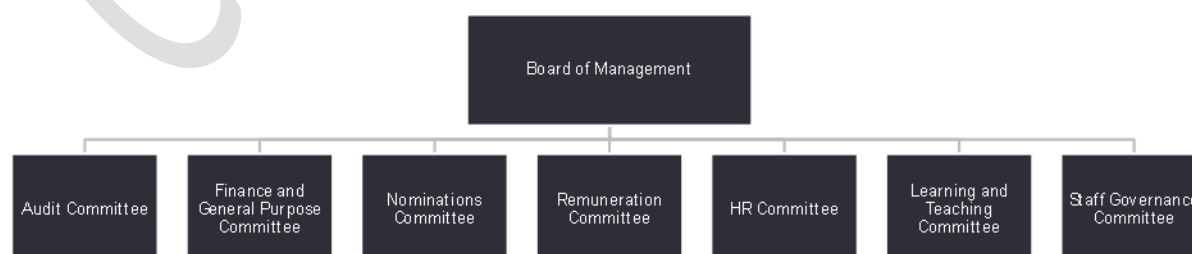


Figure 11: Example governance structure for an individual partner institution

The current state governance arrangements are not viable for any of the short-listed options outlined in the economic case because each option proposes mergers which would result in a fundamental change to the overall governance structure. Therefore, exploration of a new corporate governance model will be required once the route map has been determined. This is discussed later in the Management Case and will be explored further as part of the FBC.

7.4.3 Management

The University is led by its senior executive and senior management teams, and partner institutions each have their own principal, management structures and academic and professional services arrangements, whilst also belonging to the UHI structure. An example partner college management structure is illustrated overleaf.

The partnership agreed a new academic structure to provide the basis for the arrangements within the operating model. Two tertiary faculties comprise six cognate subject groups (academic management details at Appendix 7.13) whose scope is intended to include all elements of the core academic provision of UHI from activity related to the senior phase of school to work-based learning, apprenticeships, further education, higher education, and research, and knowledge exchange. Curriculum delivery is undertaken by partners and the University across a range of face-to-face and virtual delivery models. Curriculum management and staffing structures vary partner by partner – they are arranged in subject groupings that have evolved to reflect local priorities and arrangements, and in most instances these do not align fully to the cognate subject groups.

The range of professional services functions (e.g., HR, Finance, Estates, Marketing & Communications) is similar for the University and its partner institutions but they are all autonomous in terms of policy, practice, function-specific information systems, templates and data formats. A level of collaboration is enabled by practitioner groups in most functions. The inconsistent application of systems impedes determining a consolidated single source of truth and creates enormous inefficiencies across the partnership. The current arrangement lacks connectivity and integration, which creates financial sustainability risk and delays decision making.

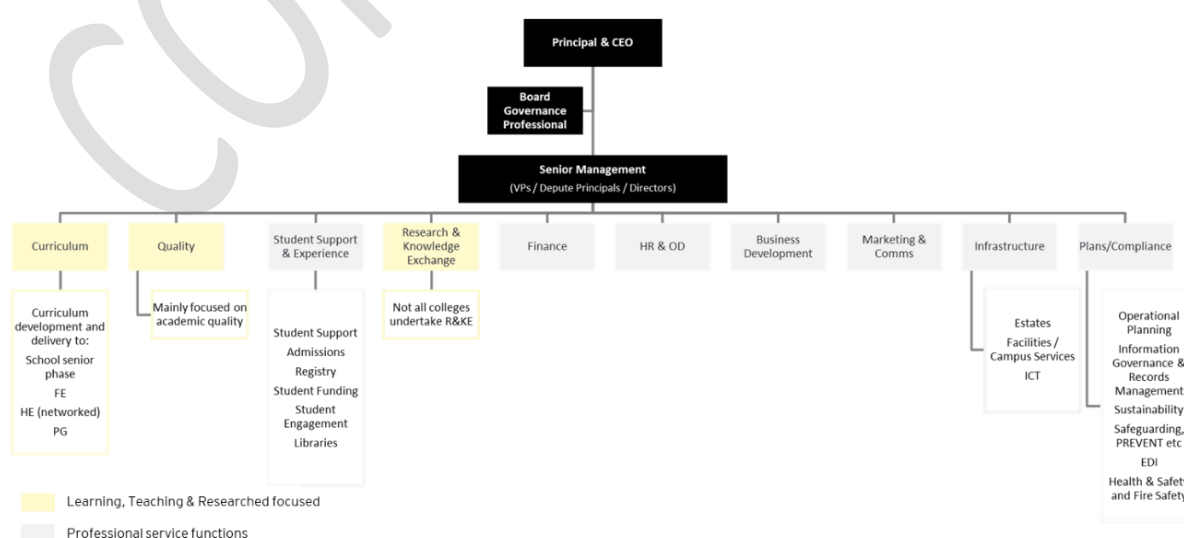


Figure 12: Example management structure of partners

7.5 Appendix 5: UHI Demographics and Enrolments

In 2023-24, UHI had 34,775 enrolments across its tertiary provision. The majority of students come from the UHI regions, both part-time and full-time, across all age ranges, in addition to drawing students from the rest of Scotland, the UK and internationally to come and study with UHI.

Further Education Statistics data from SFC shows that for Higher National Qualifications (HNCs and HNDs) UHI has a 70% market share of all students domiciled within its regions (2020-21) and a 14% market share of full time, first year degree students, against a backdrop of more school leavers going directly into employment.

Table 22: HE and FE enrolments 2023-24

	HE	FE
Total	10,057	24,718
Full-time	5,049	4,035
Part-time	5,008	20,683

Table 23: Age (breakdown relevant to each market) 2023-24

	HE		FE
<21	31%		Under 16 28%
21-24	13%		16-17 19%
25-29	11%		18-19 9%
30-49	35%		20-24 8%
50+	10%		25+ 36%

Table 24: Home location 2023-24

	HE	FE
UHI catchment	58%	88%
Rest of Scotland	33%	9.5%
Rest of UK	3%	0.3%
International	6%	0.2%
n/a*	0%	2%

* Anomalies where postcodes have been incorrectly inputted or where a new postcode has not been verified

7.5.1.1 Success Against Credit Targets

Pre-pandemic UHI had strong performance in meeting its Scottish Funding Council (SFC) FE target, consistently delivering and absorbing some of the additional demand from the regions where the underlying financial position of the partners allowed. UHI's HE provision also grew strongly over this period as the curriculum expanded with year on year increases to both the SFC target and our delivery numbers.

In addition to changes in leadership in UHI, Brexit, the pandemic, and the cost-of-living crisis has had a significant and disproportionate impact on the regions due to population demographics, digital connectivity within rural and island geography and the level of reliance on EU workers in many of the key sectors. By extension this had a follow-on and significant impact on UHI due to our widening access and regional focus and our higher reliance on mature students.

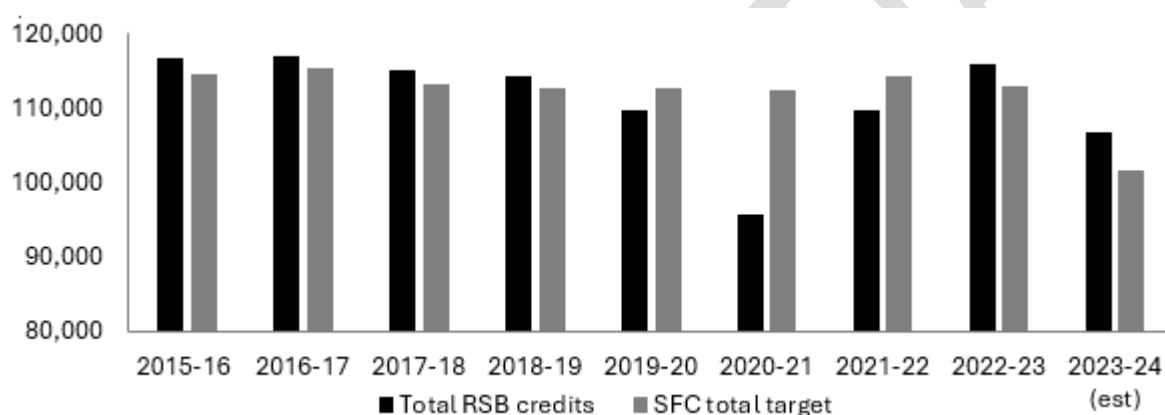


Figure 13: Regional FE credits (SFC) actual to target

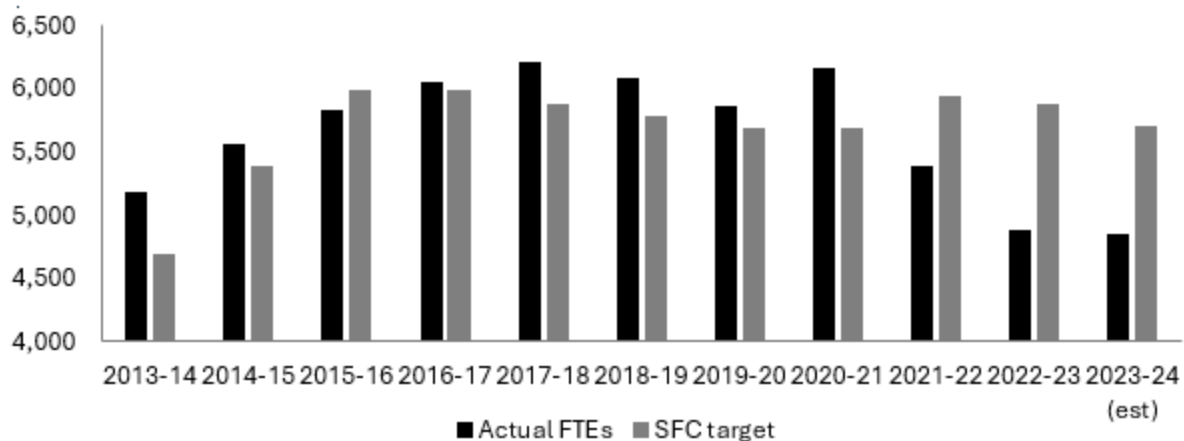


Figure 14: SFC non-controlled funded FTEs (undergraduates) - actual to target

Putting the UHI's position in the context of other Scottish universities, the impact on UHI has been more pronounced than other modern institutions, many of whom also recruit significantly from HN college students. Universities and Colleges Admissions Service (UCAS) data reveal the negative impact of the pandemic from 2021 entry for the modern universities group, with the ancients seeing a significant uplift (see Figure 15). This was influenced by the 4% uplift to funded places allocated across the sector from SFC and grade inflation due to online exams. Since then, all university groups have seen a decline in accepted applicants.

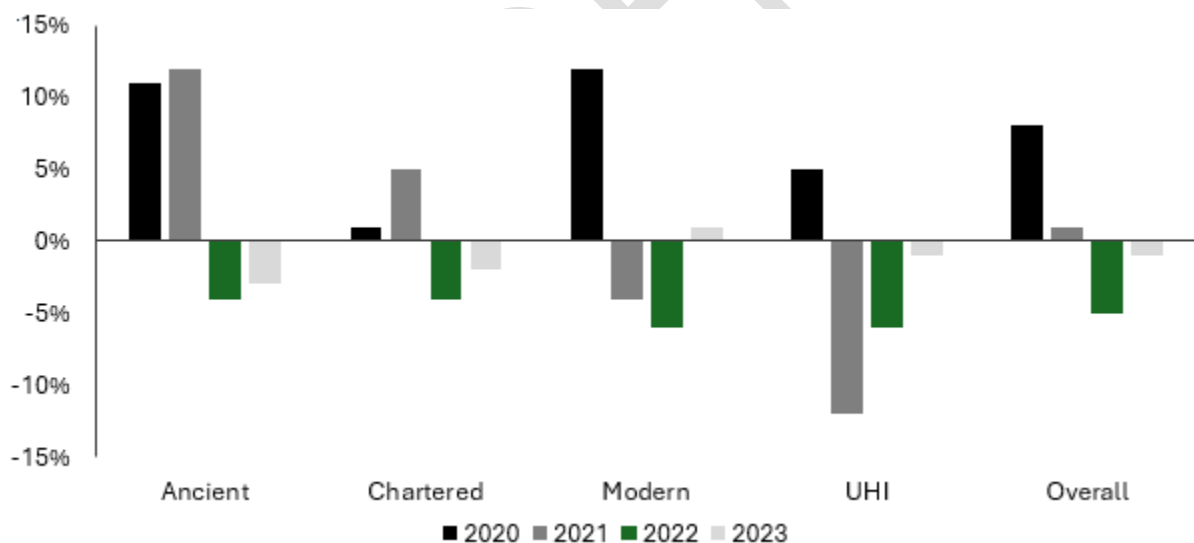


Figure 15: Impact of pandemic and beyond - UCAS accepted applications^[1]

Since the pandemic there has been a strong recovery in FE demand that continues to grow and outstrips UHI's credit target set by SFC. This demand will continue to grow given the major economic initiatives in the regions such as the Inverness & Cromarty Green Freeport. Given the financial position of UHI as explored within this document, UHI's ability to continue to deliver provision for its regions beyond our credit target is significantly hampered reducing the opportunities it is able to provide at this level of study. Separate representation to the SFC on this issue has been made and is ongoing.

^[1]The categorisation of education institutions into ancient, chartered and modern can be found [here](#)

The impact on UHI's HE position has been far more profound and only stabilised in 2023-24, reduced from pre-pandemic and pre-Brexit levels. Application and early enrolment analysis for 2024-25 show that recovery in recruitment has begun. Growth particularly in graduate apprenticeships is offsetting reductions in continuing students as the recent lower intakes work through their studies. We have in place a high-level growth model that sets out an ambitious plan for HE student growth based on progression trends and recruitment recovery.

The model predicts a return to the SFC funded target for HE students by AY 2027/28, the amount of time will depend on any further changes in government funded places allocated, as well as increases in income from the rest of UK (RUK). Growth in recruitment from in-regions, Scotland and RUK is supported by a refreshed student recruitment strategy, tertiary curriculum planning and developments in streamlining admissions processes and systems. UHI has recently launched a retention strategy to drive year-on-year improvements in students completing their studies and will invest in developing our international student base to increase income.

7.6 Appendix 6: Relevant Legislation, Strategies, Context and Memoranda

7.6.1 National Strategies and Priorities

The Scottish Funding Council (SFC) is the non-departmental public body responsible for funding Scotland's further and higher education sector, including UHI. In their most recent Letter of Guidance to the SFC, the Minister for Higher and Further Education identified the following strategies and priorities:

- + [Green Industrialisation Strategy](#)
- + [Independent Review of the Skills Delivery Landscape](#)
- + [Just Transition](#)
- + [National Performance Framework](#)
- + [National Strategy for Economic Transformation \(NSET\)](#)
- + [Programme for Government 2024 to 2025](#)
- + [Skills Development Scotland \(SDS\) Strategic Plan 2022-27](#)
- + [SFC Strategic Plan 2022-27](#)

The Programme for Government 2024 to 2025 includes a main priority on 'growing our economy', which corresponds to UHI's growth ambitions, and commits to the introduction of a bill on Post-School Education Reform.

Additional national strategies of relevance include:

- + [Gaelic Language Plan](#)
- + [National Innovation Strategy](#)
- + [Scotland's International Strategy](#)
- + [The Entrepreneurial Campus](#)
- + [The National Plan for Scotland's Islands](#)

Each of the partners has an outcome agreement with the SFC that identifies individual priorities for the college and their students.

7.6.2 National Sectoral Legislation

Although the UHI model operates as an integrated tertiary institution, for legislative reasons different levels of qualifications are awarded by different institutions within the partnership. For this reason, the legislative landscape is complex and includes:

- + [Further and Higher Education Act 1992](#)
- + [The Public Finance and Accountability \(Scotland\) Act 2002](#)
- + [Post-16 Education \(Scotland\) Act 2013](#)
- + [Higher Education Governance \(Scotland\) Act 2016](#)
- + [The Education \(Listed Bodies\) \(Scotland\) Order 2018](#)
- + [The Education \(Recognised Bodies\) \(Scotland\) Order 2018](#)

The UHI partnership recognises its responsibilities in relation to the relevant legislation and acknowledges that if any of its plans may require a legislative change then detailed engagement with the Scottish Government would be necessary.

7.6.3 Regional Context

The UHI partnership covers the largest geographical area of any campus-based university or college in the United Kingdom, including seven local authority areas. Its relationship with local authorities and the regional development agencies, HIE and Scottish Enterprise, is crucial to deliver on its mission. Relevant regional context documents include:

- + [Argyll and Bute Council Plans and Strategies](#)
- + [Comhairle nan Eilean Siar Corporate Strategy](#)
- + [HIE Strategy 2023-28](#)
- + [Highland Council Priorities](#)
- + [Moray Council Corporate Plan](#)
- + [North Ayrshire Council Plan](#)
- + [Orkney Islands Council Plan 2023-28](#)
- + [Perth and Kinross Council Plans and Strategies](#)
- + [Scottish Enterprise: Focus on economic transformation](#)
- + [Shetland Islands Council Plan 2021-26](#)
- + [Skills Development Scotland strategic plan.](#)

UHI is committed to continued close relationships with local authorities and notes the particular relevance of HIE's regional strategy and remit alongside its own. UHI is a key partner within the Convention of the Highlands and Islands, chaired by the Deputy First Minister, and of the Regional Economic Partnership. UHI also leads and chairs an Islands Forum alongside Island Local Authorities to deliver against its Islands Strategy.

7.6.4 National Legislation of Regional Relevance

Due to the UHI partnership's geography, there are some non-sector Acts of the Scottish Parliament that have particular regional relevance and place duties on UHI:

- + [Gaelic Language \(Scotland\) Act 2005](#)
- + [Islands \(Scotland\) Act 2018](#)

UHI must produce and publish a Gaelic Language Plan every three years, as per Section 3 of the Gaelic Language (Scotland) Act 2005.

In respect of the Islands (Scotland) Act 2018, UHI has specific responsibilities as a Relevant Authority, meaning that it must carry out Island Communities Impact Assessments (ICIAs) in response to a change in strategy, policy or service. This requirement does not apply to any of the UHI partners and is instead a legislative obligation placed on the university itself.

UHI must also follow all relevant legislation that pertains to both companies and charities in the discharge of its responsibilities.

7.6.5 SFC Financial Memoranda

The SFC [Financial Memorandum with Higher Education Institutions](#) and [Financial Memorandum with Fundable Bodies in the College Sector](#) require the governing body of every university and college in Scotland to comply with the principles of good governance set out in respective Codes of Good Governance. The SFC also requires the governing body to ensure that the 'institution strives to achieve value-for-money and is economical, efficient and effective in its use of public funding'. Furthermore, it specifically states under its section on value for money that: 'The institution must have a strategy for reviewing systematically management's arrangements for securing value for money'. Linked to this are the requirements of those in receipt of grant funding to comply with the Fair Work First framework.

7.7 Appendix 7: UHI reform initiatives since 2011 – Options Appraisal (Sept '24)

7.7.1 Purpose

The purpose of this document is to set out some of the previous reform initiatives that the UHI partnership has undertaken to create significant change within our current operating model. This paper should be read alongside the summary of consultancy reports that pertain to change within the partnership.

7.7.2 Background

The UHI Project was formally created in 1992 with the aim of establishing a new regional university, the major milestones for UHI over the last three decades are outlined in the figure below.

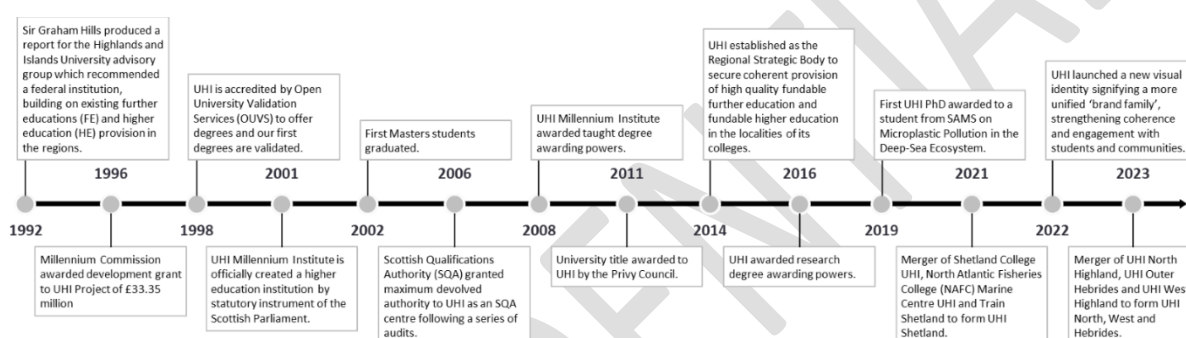


Figure 16: Major UHI milestones

Major milestones for UHI were:

- achieving taught degree awarding powers in 2008
- receiving University title in 2011 and the
- establishment of Court as regional strategic body in 2014 in accordance with the Post-16 Education (Scotland) Act 2013.

Today UHI delivers further education, higher education and world class research to over 40,000 students per year, across 70 campuses and 300 courses. It is a complex and unique institution, particularly from a governance and management perspective currently devised of eleven institutions covering two thirds of Scotland's landmass and all of Scotland's inhabited coastal islands which span nine local authorities, two enterprise regions and seven health boards. Since achieving University title, UHI has long been considering its operational and constitutional arrangements and as such there has been several initiatives aimed at reform within the UHI partnership. This paper outlines some of these major reform initiatives since 2011.

7.7.3 Reform initiatives

The following table summarises key organisational reform initiatives.

Table 25: Key organisational reform initiatives

Date	Change initiative	Proposal	Comment and Observations	Outcome
2011	Post-title governance structure review	To consider and recommend governance arrangements for future University delivery.	Partners agreed the need to achieve cohesion and economies of scale to meet demands and the only way to do this was to act cohesively, as if it were a single institution. Models considered in the report 'Future Financial Sustainability' ¹ included 'the university 'core' and partnership model'. The group proposed that an external exercise could objectively examine the implications of becoming a single institution and Capita Consulting group were commissioned to examine such implications. Capita concluded that maintaining the status quo was an "unsustainable proposition", and that the partnership's governance and management structures were the "source of many inherent tensions". The organisation needed "to rapidly mature in a period of increasing economic austerity." ²	Not delivered
2011 & 2013	Shared services	To create a wholly owned partnership wide shared services company - initially for IT, but to extend to other corporate areas over time.	The UHI ICT Shared Services Business Case and Business Plan full business case ³ was approved by all partners to establish a wholly owned shared services company "UHI Shared Services Limited" to which staff would transfer. Attempts were unsuccessful due to the identification of pension and VAT-related issues later in the programme hence collapsing the project the day before it was to go live. The proposal did not deliver any meaningful change.	Not delivered
2014	Merger	To merge Inverness, Lews Castle College and the University	Merger discussions between the university and partners were discontinued following a meeting with all academic partner board chairs and principals at which a number of academic partners had expressed strong views that they did not wish a merger within the partnership to proceed. ⁴	Not delivered
2015	Partnership wide strategy for change	To consider how the university, as an organisation, might respond to the significant challenges facing the institution, in particular the challenge of financial sustainability.	Paper " <i>Our University, Our Future</i> " ⁵ outlined the challenges for the institution - <i>financial sustainability, ownership and engagement, local versus regional</i> , and proposed a series of solutions at structural, governance, academic and leadership management levels, to contribute to the sustainability of the partnership. A new group and management structure were proposed, including creation of VP roles for pan-partnership planning however, this created no meaningful change. The VP FE established Post 16 RSB arrangements for FE and the VP tertiary started the branding project that was successfully delivered under "the assembly" workstreams.	Partially delivered

2015	Merger initiative	To develop a process for identifying and considering alternative models, and to map out possible future mergers	An action from Court's March 2015 ⁴ meeting on the development of a sustainable model for the university was to develop a process for identifying and considering alternative models, and to continue to develop a generic framework document to map out how a merger with an academic partner might work in future	Partially delivered
	Single Finance Platform	To implement the Technology One finance system across the majority of the partnership	The partnership agreed that UHI would develop, with technology one, a bespoke version of their finance system that would be tailored to each of the partners specification. There were significant delays and cost overruns resulting in all partners pulling out except EO, who now use the system.	Partially delivered
2016	Strategy working Group	To consider a <i>Future Working Model for UHI</i> ⁶ proposal	This paper outlined how the 13 academic partner principals agreed that the status quo was not an option. The proposal stated that a unique solution was required to ensure continued operational and financial sustainability, and only by delivering a fully effective operating academic partnership, could the full potential and ambition of the university partnership be realised. Outputs included actions that would enhance opportunities for staff, improve the tertiary student experience, and included staff and student consultations and resultant reports. The proposal did not deliver any meaningful change.	Not delivered
2017	Integration	Integration of Inverness College UHI, Lews Castle College UHI, Moray College UHI, North Highland College UHI, and the University	The attempt to integrate failed within five months of the formal start of the programme of work due to lack of partnership buy in and political support. The proposal did not deliver any meaningful change. ⁴	Not delivered
2017-2021	Assembly change programme	Progressing the strategy working group outputs from 2016 including Curriculum Review, EO Evaluation, Operational Arrangements and Financial Planning & Mitigation.	The assembly change programme included a set of proposals and recommendations to Partnership Council ⁷ of how coherence can be brought to the discussions to make savings, align professional services, deliver on the EO recommendations and consider greater alignment between partners. The Assembly change programme workstreams began in January 2020, with the EO evaluation complete by early March 2020, but the arrival of COVID reshaped the priority actions.	Not delivered

2020	COVID	To jointly respond to the challenges presented by COVID and the subsequent national lockdowns	Whilst not a change programme in its own right, the response to COVID, that wrapped some of the assembly work into it, was an exemplar of partnership working with streamlined and collective decision making, the sharing of resources, staff time and responsive practice across the partnership.	Delivered
2021	UHI Blueprint	A financial sustainability plan.	The proposal was to identify £20m of partnership wide savings and income growth deliverable by June 2022. UHI Blueprint identified £9.5m of savings that could be achieved within our current arrangements and a further £5.5m that could be delivered with a step change in how we operated. ⁸ However, the objectives and savings targets were not met. This was due to lack of sufficient accountable resources to promote ownership and accountability for the work and targets to be delivered on a cross-partnership basis, lack of cross-partnership trust, cultural issues around cost-savings and income generation and governance complexities were viewed as major barriers to agreeing and progressing shared activities. The data to underpin the work took 9 months to gather and remained incomplete with some partners not providing the necessary information to allow for substantive work to progress. The proposal did not deliver any meaningful change.	Not delivered
2021	Merger	Merger between Shetland College UHI, North Atlantic Fisheries College (NAFC), Marine Centre UHI and Train Shetland.	Merger successfully vested in August 2021 to form UHI Shetland although well beyond the original timescales which left significant financial challenges to be met.	Delivered
2021 - 2023	Merger	Merger between Lews Castle College UHI, North Highland College UHI and West Highland College UHI.	Merger successfully vested in August 2023 to form UHI North, West and Hebrides on time and within the merger budget allocated by the SFC. The process did unearth an underlying financial gap in two of the merging partners that required a significant cash injection from the SFC.	Delivered
2022	UHI One	To consider and implement change to our operating model	The then Vice Chancellor hosted a series of meetings in Nairn and Inverness supported by consultancy reports to agree upon a change to our operating model. This work ceased with the resignation of the Vice Chancellor.	Not delivered
2022 – present	UHI 2024	To deliver substantive change to our operations	Seven workstream started on curriculum, shared services, EO, Governance, People and Culture and Vision and Strategy. Curriculum review through SMRS, 2030 strategy, partnership workforce profile all completed. HR / Payroll system failed with all other workstreams being wrapped into the operating model work.	In progress

In addition to reform initiatives outlined above, there have been several UHI commissioned consultation reports which are summarised in [Previous Organisational Change Summary Reports paper](#).

7.7.4 Observations

Most reform initiatives undertaken to date since the University received title in 2011 have either not been delivered or have been partially delivered. Recurrent and key themes have been observed relating to the failure of substantive change to be taken forward:

7.7.4.1 *Governance, strategy and structure*

- The complexity of our governance, accountability and decision-making arrangements
- Partnership's governance and management structures were the "source of many inherent tensions"²
- Competition between academic partners
- Partnership working - lack of formal relationships binding academic partners together to consider partnership consequences/considerations in the decisions they make
- Lack of understanding of executive office's role and the central corporate body's responsibilities

7.7.4.2 *Culture*

- Lack of the sense of a collective ownership of the partnership mission and strategy
- Lack of trust, common values and culture of misinformation
- Fear of centralisation and loss of independence
- Inertia and resistance to change from differing partners at different times
- Lack of commitment, buy in and political support
- Repeated initiatives about structural change, control and power rather than focussing on developing the partnership to deliver more than the sum of its parts for students, staff and the communities it serves

7.7.4.3 *Financial sustainability and efficiency*

- Lack of sufficient accountable resource to promote ownership and accountability for targets to be delivered
- Lack of cross-partnership trust
- Resistance to sharing of data across partnership
- Cultural issues around cost-savings and income generation
- Inability to address operational organisational costs of ongoing duplication of a range of common functions across the university partnership

7.7.5 Conclusions

Over the last 12 years the UHI partnership has invested significant time in exploring different models and initiatives to address the same fundamental issues that impact on its efficiency, its coordination and its ability to maximise the offer for students and the communities it serves. The models and initiatives discussed and described to address these issues remain the same, there are only a limited number of options that the partnership has for substantive reform, and the warnings that the status quo is financial unsustainable have now materialised.

What has stopped the UHI partnership from making change is its internal politics, the partnership's inability to agree a direction of travel, to manage the multitude of views that different institutions, their governors and senior managers, bring to the debate. The failure, in the most part, speaks to our institutional culture of joint working and the lack of institutional

trust we hold in each other. The inability of the University and the academic partners to compromise to achieve change that will benefit all.

The current process provides the opportunity to break this decade long cycle and collectively shape UHI for the future. This is not an easy task, but is eminently possible with the current leadership, skills and experience that we have.

7.7.6 References

1. UHI Millennium Institute board of governors meeting papers: 'Future Financial Sustainability' and 'UHI Millennium Institute Operating and Financial Review for the year ended 31 July 2010' (December 2010)
2. CAPITA report (Outline Business Case for new operating model for the UHI (January 2012)
3. UHI ICT Shared Services Business Case and Business Plan (October 2013)
4. Minutes of Court meetings (October 2014) (December 2014) (March 2015)
5. Discussion paper 'Our University, Our Future' by the Principal and Vice-Chancellor to strategy working group (July 2016)
6. Discussion paper 'A Future Working Model for UHI' by the academic partner principals (May 2016)
7. Progress report on the University Partnership's Change Management Plan, Partnership Council (2/9/2020)
8. Blueprint Completion Report (2021).

7.8 Appendix 8: Options Description

7.8.1 Option 1: Do nothing

Option 1 is the ‘do nothing’ situation and is considered the base case option against which all other options are assessed.

It assumes that the status quo is maintained, and decisions continue to be made through existing governance and management structures.

7.8.2 Option 2: Dissolution of UHI

In this option, the partnership could be partially or fully dissolved. This would result in a series of some, or all independent institutions. Full dissolution would involve no interlinkages between partners. Partial dissolution would involve some interlinkages between partners that remain in the UHI network.

Table 26: Option 2 Considerations

Category	Full dissolution considerations	Partial dissolution considerations
Governance	Each partner would retain their own governance structure and operate as single institutions, meaning there would no longer be a requirement for the existing partnership governance structures.	Partnership governance structures would remain for those that are still included within the partnership structure. For those leaving the partnership, they will retain their own governance structure and operate as single institutions.
Decision making	Decision making would be wholly undertaken by each institution and their respective senior management teams.	Exiting partners would determine their decision-making capabilities going forward. Those that remain within the partnership would remain subject to partnership governance arrangements alongside their own individual governance arrangements.
Legal	The SG would need to determine whether the University continued as the RSB or whether a different arrangement is put in place, through legislative change. A charge would need to apply if the University retained RSB status.	The separation of shared contracts and systems, as noted below, would require establishing a new legal framework and charging mechanism for their continuation and/or exit.

Category	Full dissolution considerations	Partial dissolution considerations
Regional Strategic Body	The SG would need to determine whether the University continued as the RSB or whether a different arrangement is put in place, through legislative change. A charge would need to apply if the University retained RSB status.	The University would act as the RSB for those within partnership. The exiting of one or more partners will result in partners no longer being part of the RSB. To change the assigned RSB for exiting partners, this will require approval from SG. As such, the SG would need to determine the arrangements for partners leaving UHI.
HR and staff development	Staff would only be able to teach within their own institution. There would be significant disruption as the delineation between FE and HE delivery is put into practice, causing significant risk to those staff teaching across the FE/HE boundary or on networked courses. Any staff involved in cross partnership activity would need to be put at risk or redundancy unless other roles could be found.	There would be disruption for staff within an exiting partner, particularly for those who teach / support HE students either directly or as part of networked arrangements and research staff. FE colleges have to be linked to a University to offer and award degrees, as such staff want to remain within the partnership, unless the exiting partner enters into an arrangement with another University.
Finance	The top slice would be removed, FE colleges would retain all FE funding, and the University would retain all HE funding. Cross charging would then need to be applied to allow for the continuation of study for current students. All cross partnership or shared contracts would need to be reviewed and renegotiated on a single institutional basis, which will likely push up costs for each individual partner. Significant additional costs would also be incurred around branding and marketing. It would create a far more competitive environment between previous UHI partners, which may benefit some more than others. Any shared arrangements would incur VAT. It is likely	The top slice would be removed for exiting partners and would need to be reassessed for those remaining in the partnership. An exiting partner would need to review and renegotiate access to any shared systems and services (such as SITS, Brightspace, general IT) that will push up costs for both UHI and the exiting partner. An exiting partner would need to rebrand. Further analysis would need to be undertaken to understand whether this would weaken the financial position of both the exiting partner and the partnership. This exercise would be costly, however, further analysis on the cost incurred to disentangle arrangements would need to be undertaken.

Category	Full dissolution considerations	Partial dissolution considerations
	that some smaller partners would be unable to operate.	
Learning, teaching and research	There would be a significant impact on our HE curriculum in particular, as networked courses would need to cease or be phased out, dependent on the individual decisions of the participating institutions. This is likely to have a far greater impact on the provision for Island and rural colleges as HE student numbers will not be high enough to make the delivery of the curriculum affordable. The impact on FE would be limited. If colleges wished to retain HE provision, they would need to negotiate with the University to provide for degree awarding powers or seek an arrangement with a different University. The costs of this are unknown. This model is likely to have a significant impact on (HE) students and alumni.	There would be disruption to HE provision, dependent on the exiting partner. The remaining partnership would retain as much HE, networked or otherwise. This would decrease HE provision at an exiting partner until they can put in place alternative arrangements with another University, or negotiate with the partnership for retention of the status quo. This model is likely to have a significant impact on HE students and alumni.
External engagement	Each institution would be required to independently carry out external engagements and any contracts or partnerships agreed with the University would no longer be accessible to colleges, and likewise the University would lose the access to college networks. It would likely have little impact on local engagement, as this is geographically bound, but have a significant impact on the ability to fully access pan-regional opportunities.	An exiting partner would retain local engagement but may lose access to regional opportunities. The exiting partner would be in direct competition with the remaining partnership for these opportunities, as well as other educational institutions.

Category	Full dissolution considerations	Partial dissolution considerations
Corporate functions, systems and processes	An exiting partner would be required to mobilise or outsource all corporate functions. The exiting partner would be required to purchase, set up and operate any corporate system functions left unfulfilled following partnership dissolution such as SITS, Brightspace, IT more generally. Similarly, where there are shared processes, new singular arrangements would need to be developed and implemented.	An exiting partner would be required to mobilise or outsource all corporate functions. The exiting partner would be required to purchase, set up and operate any corporate system functions left unfulfilled following partnership dissolution such as SITS, Brightspace, IT more generally. Similarly, where there are shared processes, new singular arrangements would need to be developed and implemented.

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7.8.3 Option 3: Change/transformation within current constitutional structures

In this option the UHI partnership would seek to develop or try and re-implement a substantive change to the operating model within its current constitutional structures. The sub-options and potential programmes within option 3 are multifarious and revolve around major process and systems consolidation; functions, roles, responsibilities and funding being devolved to a single partner or partners to deliver on behalf of UHI; or the development of shared arrangements that all partners invest in that then delivers to partners, such as a shared services business unit or company.

Options within current constitutional arrangements, and the discussions that pertain to the status quo, have considered how the 'top slice' funding mechanism and local corporate costs may be reduced or arranged in different ways.

Table 27: Option 3 Considerations

Category	Considerations
Governance	All institutions would retain their governing bodies as they are currently constituted, and no institutional cost efficiencies would be generated.
Decision making	Decision making would remain the same as the status quo with both institutional and partnership decision-making arrangements as established. All institutions would retain primacy over their own decisions in line with financial memorandum, guidance, regulation and legislation.
Legal	No legal or legislative change is required so changes within this model can be made without Ministerial approval, though this may be required if funding is sought from the SFC. Ideas such as a shared services company would need to take legal and expert guidance on issues such as TUPE, pensions and VAT.
Regional Strategic Body	The University would remain as the RSB unless the SG decided to implement legislative change to this arrangement.
HR and staff development	The arrangements for staff are likely to remain broadly similar as the majority of options within our current constitutional framework retain current employer status, except for the creation of a shared services company, that would see corporate staff from the partnership transferred to a new body. Staff development and career opportunity would largely be constrained for the majority to current organisational boundaries.
Finance	Savings and efficiencies may be realised dependent on the change/transformation implemented. It is unclear at this stage how much saving would be realised as attempts to deliver shared services / systems in the past have not delivered savings or have reverted back to the status quo. It is likely that each institution would have to target savings from their own staff cohorts, coordinating where possible, in line with an agreed

Category	Considerations
	integration strategy, though the ability to reduce headcount individually is becoming significantly constrained.
Learning, teaching and research	The arrangements for learning, teaching and research would remain largely as is, relying on the current arrangements and processes, such as APC, the curriculum review, to enact change within the curriculum.
External engagement	Arrangements would likely continue as per status quo.
Corporate functions, systems and processes	The creation of single or shared corporate teams and the implementation of single processes and systems has and remains significantly challenging for UHI though would result in efficiency savings for the partnership. However, as shown by the UHI 2024 Shared Services work investigating the viability of a shared HR and payroll system, the up-front investment costs of any such changes are likely to be significant and generate cash flow pressures due to the complexity of shared system usage within our current structure, including the requirement to import data from varied systems in different forms, and the requirement for institutional data partitioning due to Data Protection and GDPR.

[Appendix 11](#) discusses the various components of Option 3 which may be considered for use as interim stages in the Route Map to a single tertiary institution.

7.8.4 Option 4: Use mergers to deliver a smaller number of partners

In this option the UHI partnership would take forward a number of mergers between partners to create a smaller number of institutions of greater scale, with the aim of making partners more resilient to external shocks and challenges.

The number and composition of the merger groups is undefined and would need to be agreed.

HTC, Sabhal Mòr Ostaig, SAMS and UHI Orkney would remain in their current constitutional arrangements.

Table 28: Option 4 Considerations

Category	Considerations
Governance	This would reduce the number of institutions within the partnership and therefore reduce the number of boards and committees. It would reduce the institutional overheads within the partnership, time and money spent on internal and external audits, external quality reviews and audits, production of end of year accounts etc.
Decision making	A reduction of the number of partners is likely to have a positive impact on decision making as a more consolidated, integrated and streamlined approach to performance management, operational delivery, policy and strategy would be deliverable. The creation of a “single senior team” may be more achievable under this option, however, engagement would need to be undertaken to determine whether this is a possibility.
Legal	As with any merger option, significant legal advice and support would be required. Further analysis will be required to determine what legal input is required. The merging of partners would require legislative change and so is subject to SG approval.
Regional Strategic Body	The University would remain as the RSB unless the SG decided to implement legislative change to this arrangement.
HR and staff development	HR arrangements would continue as per status quo. VSS schemes would likely be used to reduce workforce in merging colleges and reduce duplication. Restructures involving consultation would likely be required in order to deliver efficient colleges of scale. Improvements in staff development may be realised via mergers and delivery of colleges of scale.
Finance	It is likely that the top slice could be reduced as less colleges of greater scale would require less support from central and coordinating functions. The costs of implementing this model are likely to be high, given

	that this involves two or three merger processes with separate scope being run in parallel. The model does require that multiple senior teams and corporate structures remain in place. This is subject to further analysis but it is assumed that this would create some savings but it may be limited.
Learning, teaching and research	Arrangements would likely continue as per status quo, with slightly reduced complexity from smaller number of partners. May allow better for refined articulation pathways from FE courses into HE courses and other training opportunities and potentially reduce the costs of having both local and regional academic management structures. This model is likely to have a minimal impact on students.
External engagement	Arrangements would likely continue as per status quo, with slightly reduced complexity from smaller number of partners. May allow for improved processes due to smaller number of internal stakeholders, but competition between partners remains a reality.
Corporate functions, systems and processes	Arrangements would continue, however some complexity may be reduced. It is likely that shared/single systems and processes would be easier to implement, given the reduced number of partners that would help to reduce duplication and could be built into the merger delivery process. However, as shown by the UHI 2024 Shared Services work investigating the viability of a shared HR and payroll system, the up-front investment costs of any such changes are likely to be significant and generate cash flow pressures due to the complexity of shared system usage even with a smaller number of partners, including the requirement to import data from varied systems in different forms, and the requirement for institutional data partitioning due to Data Protection and GDPR.

[Appendix 11](#) discusses the ways in which certain components of Option 4 might be considered for use as interim stages in the Route Map to a single tertiary institution.

7.8.5 Option 5: Use mergers to deliver a two-institute UHI model

In this option UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Perth and UHI Shetland would merge into a single consolidated college.

The University, HTC, Sabhal Mòr Ostaig, SAMS and UHI Orkney would remain in their current constitutional arrangements.

Table 29: Option 5 Considerations

Category	Considerations
Governance	This would result in the consolidation into the University Court, a single FE college board of management and the specialist partners, significantly reducing the current governance arrangements and their associated costs. It will require the establishment of local arrangements to enable the consolidated college to connect locally. The mechanism and costs for these arrangements would need to be agreed and factored in. There would be an opportunity to link the membership of the University Court and the College Board of Management together to allow them to operate in concert whilst maintaining independence from one another.
Decision making	Under this model a fully integrated senior team and operational arrangements would be achievable to allow for streamlined and timely decision making.
Legal	The merging of partners would require legislative change and so is subject to SG approval. As with any merger option, significant legal advice and support would be required.
Regional Strategic Body	The University would remain as the RSB to disperse funding to the consolidated college and UHI Orkney unless the SG wanted to change this arrangement.
HR and staff development	This arrangement allows for staff to remain within their current sector, avoiding in a large part TUPE across the public / university sector boundary, whilst working in an integrated and tertiary way. Improvements in staff development may be realised due to scale of consolidated college. Likely to be VSS schemes used to reduce workforce and duplication in the consolidated college and the University. HR arrangements would need to be established to allow single teams to operate under two employers.
Finance	The top slice would largely become redundant as integrated operational arrangements could be implemented and balanced across the two employers. Significant investment required to deliver consolidated college merger and the reorganisation of the University to deliver a single operating environment, but precise levels would require to be modelled based upon the final and agreed structure.

Learning, teaching and research	This would allow for full tertiary and consolidated planning for FE and HE rather than individual planning across each college. The reduced number of partners would facilitate rationalisation of FE curriculum, with the overwhelming majority of credits being delivered by the consolidated college. Potential of improvements in articulation pathways from FE courses into HE courses and other training opportunities. Likely no negative impact from an HE and research perspective.
External engagement	This would reduce the complexity in respect of engagement with regional partners / opportunities through a single team approach. However, considerable thought is required to ensure that local engagement is maintained or enhanced and linked to the governance mechanisms for local engagement and accountability.
Corporate functions, systems and processes	This model would improve the ability of UHI to implement the common delivery of functions, systems and processes. It would allow for single teams across all functions reporting to a single senior management team. Whilst the significant costs of implementing new systems remain, the environment within which these would be agreed and implemented would be simpler, helping to de-risk the process and maximise the efficiencies that this would deliver.

7.8.6 Option 6: Use mergers to deliver a single merged tertiary institution

In this option UHI Argyll, UHI Inverness, UHI Moray, UHI North, West and Hebrides, UHI Perth, UHI Shetland and the University would be merged to create a single tertiary institution. A single governing body would lead a single executive and workforce to deliver tertiary education across the whole of the UHI regions.

Table 30: Option 6 Considerations

Category	Considerations
Governance	This would create the first fully tertiary institution within Scotland with all FE, HE, research and knowledge exchange (outwith that delivered within specialist partners) within the same institution. It would allow for a single governing body and senior team and minimise institutional costs. It will require local arrangements to be established to ensure local engagement and accountability. The mechanism and costs for these arrangements would need to be agreed and factored in.
Decision making	Decision making would be at its most streamlined as there would be one governing body and one senior management team with all staff consolidated within one management structure.
Legal	The merging of partners would require legislative change and so is subject to SG approval. As with any merger option, significant legal advice and support would be required. Whilst a legislative route has been identified that achieved a merger of a college with a university, it remains to be confirmed if this would be appropriate for reform on this scale and a new Act of Parliament may be required to deliver this model. In many ways, it would be preferable.
Regional Strategic Body	The University would remain as the RSB to disperse funding to UHI Orkney unless the SG decided to implement legislative change to this arrangement.
HR and staff development	This represents significant change for staff within colleges currently as they would TUPE into the University, out of the public sector and national bargaining arrangements. Consultation will need to be undertaken to determine perception from external stakeholders (e.g. trade unions). Improvements in staff development may be realised due to scale of the consolidated institution. Likely to be VSS schemes used to reduce workforce and reduce duplication.
Finance	It is likely that the top slice could be reduced as less colleges of greater scale would require less support from central and coordinating functions. The costs of implementing this model are likely to be high, given that this involves two or three merger processes with separate scope being run in parallel. The model does

	require that multiple senior teams and corporate structures remain in place. This is subject to further analysis but it is assumed that this would create some savings but it may be limited.
Learning, teaching and research	Arrangements would likely continue as per status quo, with slightly reduced complexity from smaller number of partners. May allow better for refined articulation pathways from FE courses into HE courses and other training opportunities and potentially reduce the costs of having both local and regional academic management structures. This model is likely to have a minimal impact on students.
External engagement	Arrangements would likely continue as per status quo, with slightly reduced complexity from smaller number of partners. May allow for improved processes due to smaller number of internal stakeholders, but competition between partners remains a reality.
Corporate functions, systems and processes	Arrangements would continue, however some complexity may be reduced. It is likely that shared/single systems and processes would be easier to implement, given the reduced number of partners that would help to reduce duplication and could be built into the merger delivery process. However, as shown by the UHI 2024 Shared Services work investigating the viability of a shared HR and payroll system, the up-front investment costs of any such changes are likely to be significant and generate cash flow pressures due to the complexity of shared system usage even with a smaller number of partners, including the requirement to import data from varied systems in different forms, and the requirement for institutional data partitioning due to Data Protection and GDPR.

The diagram overleaf illustrates the operating concept for Option 6. It is followed by the equivalent diagram for the Do Nothing option, for comparison purposes.

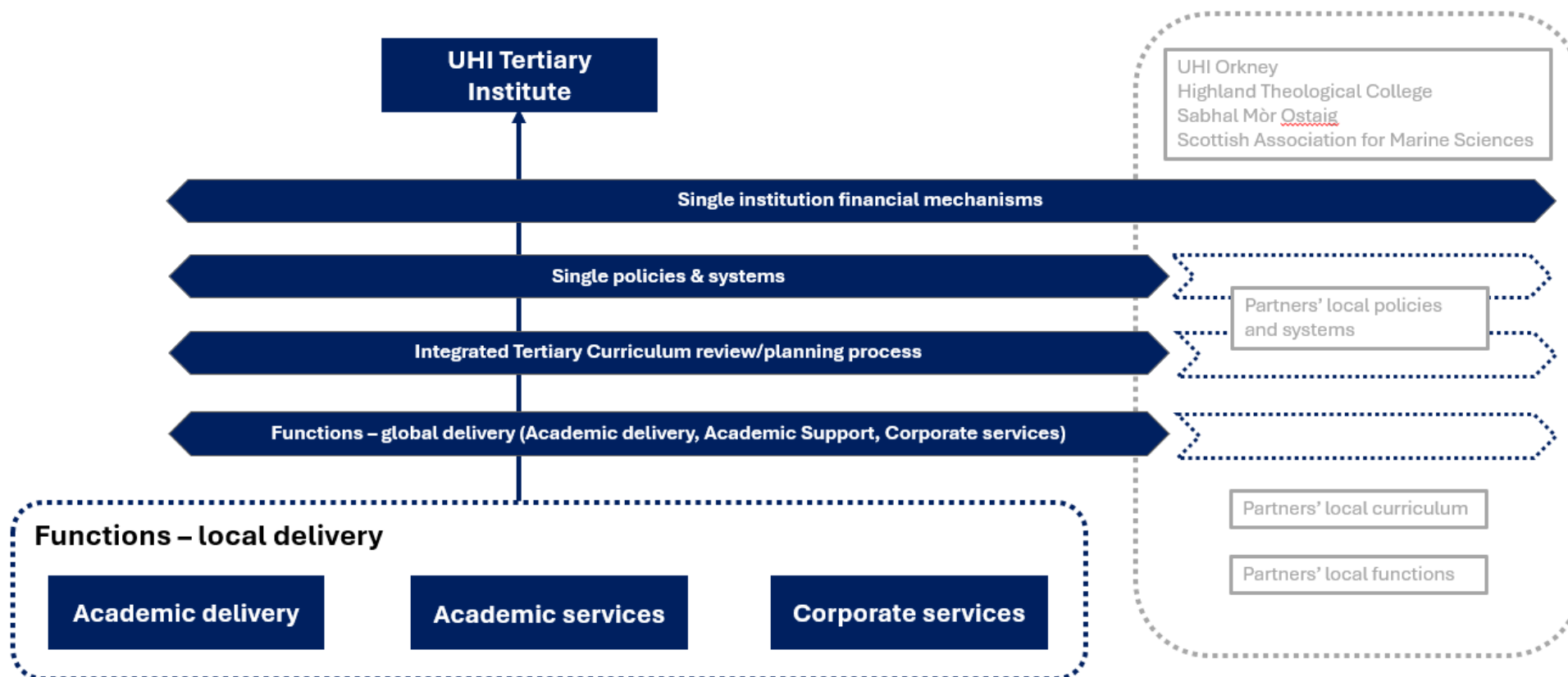


Figure XX: Operating Concept: Option 6 – Single Merged Tertiary Institution

Note: For illustration purposes, functions are grouped in broad categories of academic delivery (ie learning, teaching and research), academic support (eg admissions, learner support, academic quality etc) and corporate services (all other professional services). It is assumed that delivery functions will be undertaken as a combination of local delivery (ie must be undertaken at specific locations) and global delivery (ie can be managed and delivered in support of the organisation from any UHI location). The precise definitions of 'local' and 'global' will be defined and agreed by the Transition Executive Board shortly, to be followed by an analysis of all partnership functions to identify whether they should best be undertaken locally and/or globally.

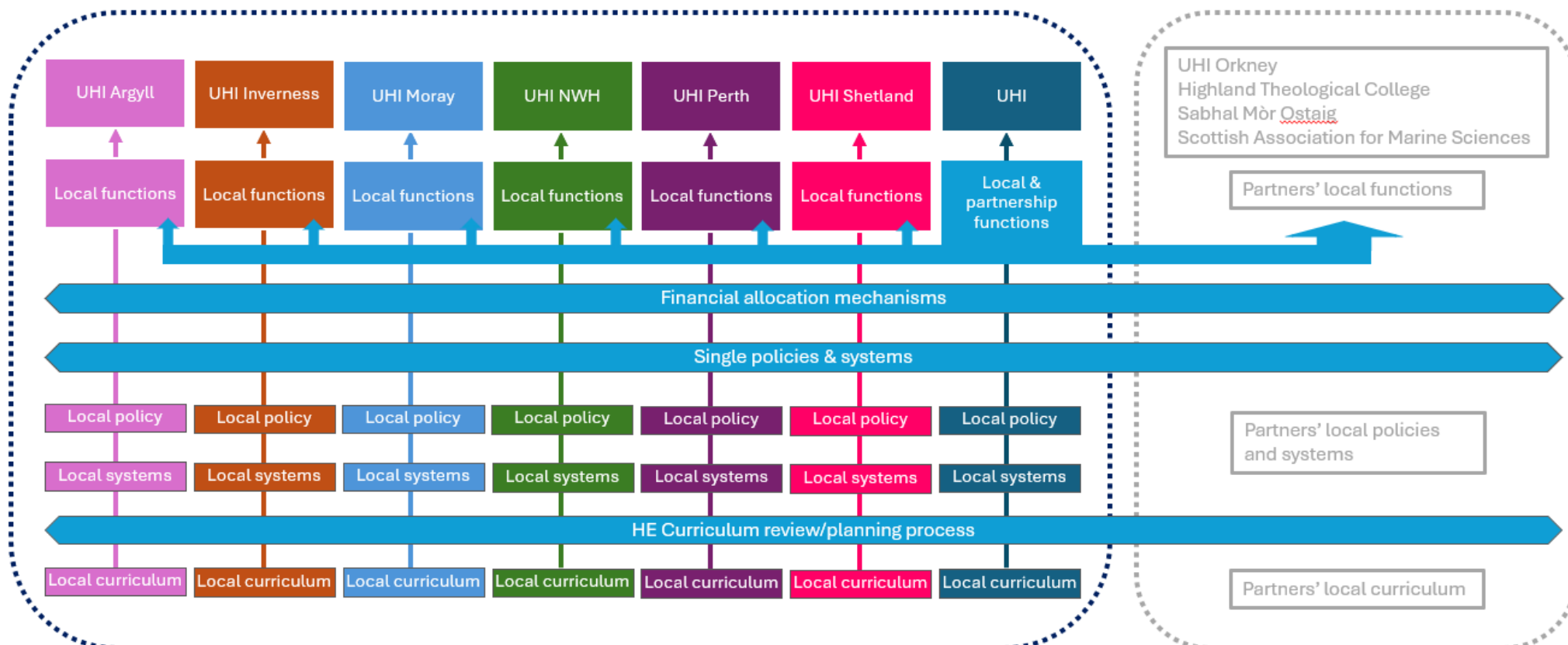


Figure XX: Operating Concept: Option 1 – Do Nothing

7.9 Appendix 9: Options Appraisal Workshop Attendees

7.9.1 List of Scoring Participants

- + Prof Chris O'Neil – UHI Inverness
- + David Patterson – UHI Moray
- + Elaine Munro – UHI Argyll
- + Dr Gillian Rothach – Sabhal Mòr Ostaig
- + Rev Hector Morrison – Highland Theological College
- + Prof Jane Lewis – UHI Shetland
- + Lydia Rohmer – UHI North, West and Hebrides
- + Prof Nick Owens – SAMS
- + Prof Seonaidh McDonald – UHI Orkney
- + Lynn Murray – UHI Perth
- + William Campbell – HISA President
- + Rachel Burn – HISA CEO
- + Vicki Nairn – UHI Executive Office
- + Mike Baxter – UHI Executive Office
- + Lorna Walker – UHI Executive Office
- + Prof Brian Williams – UHI Executive Office

Apologies: Dr Margaret Cook – UHI Perth, due to illness.

7.9.2 List of non-scoring participants

- + Max Brown – UHI transformation team
- + Steven Gregg – UHI transformation team
- + Lynn Thrower – UHI transformation team
- + Michelle Green – UHI transformation team
- + EY facilitation team

7.9.3 Additional Comments

The workshop was scheduled was 9:00am – 2:30pm on Monday 30th September 2024. Some participants were unable be present for the duration of the session due to other commitments. This includes Dr Gillian Rothach (left 1:30pm), David Patterson (left 1:45pm) and Elaine Munro (left 2:00pm).

7.10 Appendix 10: Workforce Implications

Whilst TUPE provides legal guidance on the transferring of employees, it does not fully recognise the potentially dramatic and personal effect on employees. These issues are widely recognised in the business world in the context of mergers and major corporate integration programmes, and should be addressed in equal measure as for the practical work to change structures and systems.

The following areas should be fully considered:

Cultural Differences and Integration: In the further and higher education sector, institutions often have distinct cultures shaped by their history, leadership, geography and student or staff demographics. The transfer of institutions brings together these unique cultures, which may lead to differences in teaching styles, administrative processes, and organisational norms. Failure to address these differences and facilitate cultural integration can result in conflicts, resistance to change, and a lack of cohesion among staff.

Emotional Wellbeing of Employees: The absence of measures to support the emotional wellbeing of employees during times of uncertainty can have detrimental effects on morale, productivity, and retention. Employees may experience anxiety, stress, and feelings of insecurity about their roles, job security, and future prospects. This can lead to increases in staff stress instances, decreased engagement, increased sickness absenteeism, and a negative impact on the overall organisational climate and performance.

Transparency and Communication: Feedback indicating the importance of transparency highlights the need for clear and frequent communication throughout the merger process. Uncertainty and speculation can fuel rumours and erode trust among employees. Open communication channels, regular updates, and opportunities for staff to voice their concerns can help alleviate fears, foster transparency, and build confidence in leadership decisions.

Capacity and Talent Retention: Retaining both the capacity and talent pool of employees during periods of change is crucial for maintaining operational efficiency and sustaining educational quality. The loss of experienced staff members or key personnel can disrupt workflows, impede knowledge transfer, and hinder the delivery of services to students and stakeholders. Efforts to identify and retain top talent, provide professional development opportunities, and ensure job security can mitigate the risk of talent drain.

Alignment of Processes and Management: While the partnership may have operated largely separately in the past, aligning processes, and collectively managing resources will be essential for a successful merger. This includes harmonising administrative systems, standardising policies, and procedures, and establishing clear reporting lines to promote efficiency and streamline decision-making. Failure to align processes can result in duplication of efforts, confusion among staff, and delays in implementing necessary changes. Revised processes will also play a key role in the design and structure of the functions to deliver activity post-merger and again the issues relating to culture, wellbeing and communication will be critical. There will also be a need to consider investment in development to support employees as they adopt new ways of working and adapt to a new working environment.

In conclusion, addressing the human impact and risks of organisational change in the partnership requires a holistic approach that prioritises cultural integration, employee wellbeing, transparency, talent retention, and process alignment. By proactively addressing

these challenges, the partnership can navigate the complexities of merger transitions more effectively and ensure a smoother transition for all stakeholders involved.

Whilst the above may be considered as secondary outcomes comparatively to the legal changes required such as TUPE, they have been shown historically through organisational change to be either a significant drag on an organisations ability to deliver a change (and therefore the efficiencies and quality improvements it aims to achieve) or the reason for failed change.

Taking a holistic 'fully systemic' approach to this activity will be important to ensure that the human impact is fully considered will be vital.

7.11 Appendix 11: Route Map Implementation Planning Considerations

7.11.1 Components of Option 3 for consideration as interim stages

Option 3 would implement substantive change to the operating model within the partnership's current constitutional structures. The sub-options and potential programmes within option 3 are multifarious and revolve around major process and systems consolidation; functions, roles, responsibilities and funding being devolved to a single partner or partners to deliver on behalf of UHI; or the development of shared arrangements that all partners invest in that then delivers to partners, such as a shared services business unit or company. The following sections illustrate the potential components of option 3 that can be considered for adoption as interim stages towards a single institution.

7.11.1.1 Opportunities for Devolved Functions

Option 3 includes the potential for devolving a function or functions to a partner or partners to deliver on behalf of the partnership. Development of the approach would necessitate detailed evaluation to identify and consider:

- + Which functions were feasible to devolve and to which partners;
- + The corresponding advantages, disadvantages and inter-dependencies;
- + The staffing implications of the proposed changes, including the utilisation of function-specific staff across UHI locations;
- + The implications for the appropriate balance needed for local versus global delivery of the function;
- + That the proposed solution was aligned fully to the model of single institution that is ultimately agreed, so that changes were not implemented temporarily only to then be dismantled in order to create the single institution.

During the interim pre-single institution phase, for any function devolved to a partner to deliver to the entire partnership there would need to be appropriate mechanisms in place to fund the function and ensure accountability for service levels. If academic-supporting functions (e.g. student funding, admissions, registry) were devolved to different partners delivering to the whole partnership then the implications for the student journey in all parts of UHI would have to be mitigated 100%.

If functions were selected to be devolved to individual partners then this would enable them to be delivered consistently for all customers by using single policies, processes and systems.

7.11.1.2 Opportunities for Shared Services

Option 3 includes the potential for delivering an agreed range of functions as shared services, through shared arrangements across the partners. There are several alternative approaches of how this could be delivered:

- + **Devolved:** By devolving each of the Shared Services functions to single partners, in the manner as described in the previous section;
- + **Virtual Teams:** By creating cross-partnership virtual teams to resource the delivery of the Shared Services functions, with staff remaining employed by their original parent organisation;

- + **Dedicated business unit:** By creating a Shared Services business unit within the organisation of EO or another UHI partner, with staff remaining employed by the parent organisation of the business unit;
- + **Dedicated UHI company:** By creating a partnership Shared Services company to undertake the delivery of Shared Services to the partnership, similar to as attempted previously for ICT. Staff would be employed by the company;
- + **Outsourced:** contracting out delivery of the selected Shared Services functions to an external provider.

The scope of the evaluation of functions required to consider opportunities for devolved functions should also include consideration of whether to undertake it on a shared services basis and which functions should constitute the shared services required. Widespread industry practice around shared services is to focus on core corporate functions: usually Finance, HR and ICT. However, for the UHI partnership the range of services that could be consolidated under a shared services 'framework' could be expanded to include other key enablers vital to the partnership's efficient and safe functioning. Potential 'clusters' of functions to deliver on a shared services basis are shown in the table below.

Table 31: Potential 'cluster' of functions on a shared services basis

Shared Services – 'Corporate'	Shared Services – 'Academic support'	Shared Services – 'Academic delivery'
<ul style="list-style-type: none"> + Finance + HR + ICT + Estates - Hard FM¹⁴ + Sustainability + Safety Management - encompassing Health & Safety and Fire Safety + Governance & Compliance - records management, data protection and FOI; and overall legal/statutory compliance. 	<ul style="list-style-type: none"> + Student Records - Admissions, Registry and Student Funding activities + Academic Quality - providing a single, tertiary QA/QE function to all partners, with independence from local curriculum management (similar to regulatory, quality and audit functions independently operating within business organisations) 	<ul style="list-style-type: none"> + Curriculum & scholarship functions + Research & KE functions

Several factors would apply to shared services scenarios, similar to as for the devolved functions approach:

¹⁴ Facilities Management (FM) industry standard practice is to split FM into Hard FM and Soft FM. Hard FM covers the maintenance and repair of buildings and infrastructure, whilst Soft FM relates to 'people services' such as reception, cleaning, janitorial, catering & vending and vehicle fleet management. Leasing and commercial use of buildings can be undertaken in either discipline.

- + During the interim pre-single institution phase if shared services functions were assigned to a partner to deliver to the entire partnership, then there would need to be appropriate mechanisms in place to fund the function and ensure accountability for service levels.
- + The proposed shared services arrangement would need to be aligned fully to the model of single institution that is ultimately agreed, so that changes were not implemented temporarily only to then be dismantled in order to create the single institution.
- + By providing shared services' functions from a single source they would be delivered consistently for all customers by using single policies, processes and systems.

7.11.2 Components of Option 4 for consideration as interim stages

Under option 4 the UHI partnership would take forward one or more mergers between partners to create a smaller number of institutions of greater scale, with the aim of making partners more resilient to external shocks and challenges. The model delivers a reduced number of larger institutions within the partnership, reducing the organisational complexity and improving the resilience of the individual partners.

7.11.2.1 Planning assumptions

There are numerous possible permutations of how smaller intra-partner mergers might be delivered across the 7 institutions in scope: theoretically any one partner might merge with any other, or with any 2, or 3, and so on. The 4 sets of key factors that would influence the selection of merger permutations are:

- + **Geographical.** Merging together partners – or groupings of colleges sites - on a regional basis would have the least impact (relatively) on leadership/governance span of control and might simplify alignment with local authorities or with significant regional economic opportunities.
- + **Span of control.** Partners could be merged on a basis that, as far as reasonably practicable, balances the proportion across partners of students, staff, academic specialisation, finance, geographical spread and/or risk.
- + **Institutional.** Partners could be merged based on their respective legal foundations¹⁵, noting the two main categories:

Incorporated under the FE & HE (Scotland) Act 1992: Inverness, Moray, NWH and Perth. Once statutory instruments have been approved a merger of partners within this category could be undertaken by designating a partner as a 'host' to transfer one or other incorporated partners' staff and assets into – similar to UHI Outer Hebrides transferring into UHI North Highland during the NWH vesting process.

Non-incorporated (Companies Limited by Guarantee)¹⁶: Argyll, Shetland and UHI. A merger of partners within this category could be undertaken by designating a partner as a host to transfer one or other non-incorporated partners' staff and assets into, and the legacy non-incorporated partner would then be dissolved.

¹⁵ Discussed further in section 7.3.3.

¹⁶ UHI Orkney and the specialist institutions also fall into this category.

- + **Alignment.** Similar to the option 3 components, the configuration of any mergers under option 4 should align fully to the model of single institution that is ultimately agreed, to negate the possibility of repeat changes and to minimise the impact on staff of the partners involved.

There is also the timescale factor to consider regarding selection of vesting dates for each merger, and the extent to which the ‘day 1 readiness essentials’ are in place by vesting versus the extent to which all other merger integration activities (consolidation of policies, processes, systems, contracts etc) are completed either before or after vesting.

7.11.2.2 Implementation challenges

- The UHI partnership has amassed considerable experience from its recent mergers¹⁷. The merger process aims to deliver a sustainable and viable platform for growth and innovation, and getting there imposes an especially demanding and time-consuming programme to plan, manage and execute.
- Detailed evaluation would be vital to identify feasibility and pros/cons of merger permutations. Theoretically there is an extremely high number of possible considerations, but the factors outlined previously should be used to identify a small number of the most feasible merger combinations that are most aligned to the agreed OM principles. The utmost minimum possible number of mergers should be considered due to the implementation costs and medium term impact on capabilities of the merging organisations. These factors make option 4 particularly unattractive as an interim stage(s) towards a single tertiary institution, because potentially some partners would need to undergo more than one merger.
- The process makes large demands on partners’ management capacity, and this is in addition to the workload required to maintain the delivery of learning, teaching, research and enterprise obligations to students, stakeholders and communities. The extra capacity required, therefore, reduces the organisations’ capability to address strategically significant matters - whether planned, unplanned, risks, or opportunities.
- The process is also a deeply worrying time for many staff in merging organisations given the time needed to develop and consult on restructure plans before their individual job circumstances can be confirmed. Furthermore, in amalgamating academic and professional services within a newly merged entity, the underpinning restructure must ensure that the appropriate level of ‘local’ delivery (i.e. in-person at specific sites in the merged institution) is maintained, compared with ‘global’ delivery of services (i.e. those activities that can be managed and delivered from any location in the merged institution).
- The need for local delivery has to be very carefully judged across the newly expanded geography of the ‘new’ institutions with respect to the expectations and genuine needs

¹⁷ UHI Shetland was established on 1st August 2021 through the merger of the *NAFC Marine Centre UHI*, *Shetland College UHI* and *Train Shetland* to create a single new tertiary-education college for Shetland. Secondly, on 1st August 2023 three colleges in the partnership – UHI North Highland, UHI Outer Hebrides and UHI West Highland – merged to create one tertiary education institution: UHI North, West & Hebrides (UHI NWH).

of students, employers and communities across their entire region. Rural and islands communities require particular consideration in this context.

- Each merger would incur a major HR project in each merger instance, to implement, manage and monitor the key processes associated with staff consultation, trade unions consultation, transition/transfer to the new structure, redeployment and voluntary severance. This places significant additional demand not only on HR staff, but also on the interim management team to conduct large volumes of individual consultations with potentially affected staff.
- Several mergers would incur the need to establish transition governance arrangements for each merger instance, which significantly increases the workload for board/court members and senior managers as dual legacy/transition arrangements are maintained until legacy boards are wound up.

7.11.2.3 Unlocking capacity

Once a reduced number of tertiary institutions is established in the partnership there would be a commensurate reduction in board-level and operational-level governance and statutory reporting activities, collectively reducing the volume of management time spent on governance across the revised partnership. The reduced number of tertiary institutions would provide the opportunity to simplify and streamline curriculum management, quality processes and shared delivery arrangements. Amalgamated teams in different functions could pool expertise and, post restructure, create capacity to refine and enhance 'single team' ways of working. In so doing, the resilience and depth in teams is enhanced. Creating larger teams in the merged colleges, noting that they would be distributed across their legacy college locations, enables the more efficient balancing of workloads and specialisation – following on from the resilience theme above – and this also means that there are enhanced professional development opportunities for staff. This could either be through opportunities for professional specialisation, or through an increased range of career opportunities that result from being part of a larger institution.

7.11.2.4 Option 4 Merger Combinations

Detailed evaluation and modelling would be needed to assess which potential merger combinations could be delivered - as a minimum *and* as the best fit in terms of the factors described above - as interim stages to a single institution rather than as an end point themselves, and to what extent they would yield opportunities for growth and savings.

The aim for any mergers to be taken forward as interim stages is, ideally, that each institution involved, including the 'host' organisation (which could either be in the college or university sector, depending on the direction agreed with Scottish Government) undergoes the minimum possible number of vesting and restructuring instances. This assumes that the Process, Systems & Culture programme (Appendix 7.13) would address activities normally covered during post-merger integration. This approach is advocated in order to minimise the effects of merger activities on students and staff, and to minimise the costs of undertaking mergers.

For completeness a range of potential merger scenarios will need to be modelled for the FBC to identify the ideal merger(s) combination to integrate within the Route Map to a single institution.

7.11.3 Constitutional factors and Governance development

7.11.3.1 *Constitutional implications for the preferred option and delivery route map*

The options appraisal conducted as part of the OBC sought to determine the preferred end state for UHI. The precise detail of the preferred option, Option 6, is still to be determined, and will be further assessed at Full Business Case stage. This section details the constitutional implications for Option 6 in terms of it being a single tertiary institution (excluding UHI Orkney and the specialist partners) that would need to either be incorporated or non-incorporated. Implementing an end point of a single institution where partner colleges and the University merge would require legislative change because the Post 16 Education (Scotland) Act is predicated on a commissioner / provider split and the assignment of colleges to the Regional Strategic Body.

The sector in which a fully integrated tertiary institution sits is a decision for Scottish ministers ultimately, and likely the Scottish Parliament. Therefore, engagement with Scottish ministers, the Scottish Government and the SFC is required as soon as possible to gauge the appetite for the different routes and their feasibility. If the end point is directed to be non-incorporated, then a merger which consolidates colleges into the University would be preferable; and if it is directed to be incorporated, then consolidation into a host college would be preferable.

The decision on the legislative underpinnings of implementing Option 6 will have significant consequences for the route map itself and how any transformation programmes or mergers, as per options 3 or 4, would be carried out. Further discussions will be held with Scottish ministers, Scottish Government and SFC as the FBC progresses, to understand the appetite and key risks involved with such changes.

7.11.3.2 *Interim Governance*

The Transition Oversight Board (reporting into UHI Court) and the Transition Executive Board (reporting into the Transition Oversight Board) are responsible for governance of the transition programme, not the governance of the affected partners themselves. The Transition governance bodies are described in more detail in the Management Case section on Programme Governance (section 6.2.2).

UHI Court and partners' own Boards of Management would continue to exercise governance responsibilities for their respective institutions without change - up to the point that individual institutions merged with another depending on which aspects of options 4 and 6 were adopted. In these circumstances, partners' governance would develop as follows:

- + For each group of merging partners, a transition board would need to be established with a representative composition of affected legacy partners' board members. The transition board would run in parallel with the affected partners' legacy boards.
- + The legacy boards would continue to be responsible for governance of pre-vesting college activity until the board was wound up. Any topic exceeding a specified level of cost/risk that would continue into the post-vesting phase would be referred for review and approval by the transition board.
- + Legacy college boards for incorporated colleges would be wound up immediately post vesting, whereas for non-incorporated partners their boards would reduce to a skeletal board i.e. minimum required for a quorum, following the execution of the Transfer

Agreement. An application would then need to be made to Companies House for strike off once the non-incorporated college had been dormant for at least 3 months.

- + Post-vesting, the transition board would then reconfigure itself as the Board of Management for the newly merged institution.

In summary, the transition board of the merging partners would, therefore, provide board-level governance to (1) the merger programme's execution, and (2) to the legacy, longer-term business matters referred to it by the extant legacy boards in the scenario described above.

If option 4 was to be the end point of the Operating Model programme, the transition board of each merger group would simply become the Board of the newly merged institution, immediately post-vesting. However, assuming mergers - under option 4 - will be scheduled as incremental stages on the Route Map to establishing a single institution then, post-vesting, the merged institutions' Boards would need to integrate with the transition board of the next planned merger grouping that they were involved in.

The evolution of these transition governance arrangements to support the route map to the selected option will require specific planning once the end point and route map have been defined and agreed. It will be vital to ensure the adjacent transition governance responsibilities are clearly defined and deconflicted to maintain and assure legal compliance, prevent duplication and sustain the progress of delivering the Operating Model. In parallel with the statutory obligations of partner governance, the programme's 7 agreed principles feature local accountability and decision-making as remaining core to how UHI requires to operate. Different mechanisms to ensure local accountability were suggested by principals and governors - listed below - and further options may come forward as part of the development of the FBC and in consultation with UHI partnership stakeholders.

- + Local Advisory Committees
- + Wholly owned subsidiary boards
- + A strengthened UHI Foundation / Community Forum
- + Local authority engagement

The overall approach required for governance - institutionally and locally - will be defined further in the FBC.

7.12 Appendix 12: Programme Plan

Activity	Key objective	Actions	Dates
Full Business Case (FBC) Development	1. Determine the delivery model to achieve a single tertiary institution	+ Undertake financial and economic analysis of the delivery options	+ January 2025 – December 2025
	2. Finalise costings	+ Undertake stakeholder consultation	
	3. Finalise governance, management, programme approach	+ Finalise the governance approach to be taken forward under the preferred delivery model	
	4. Determine procurement approach	+ Develop and finalise the commercial approach if required	
		+ Complete the Island Communities Impact Assessment process	
		+ Complete a Diversity & Inclusion Assessment	
		+ Undertake TUPE, Pension and VAT consultation to determine impact of delivering a single tertiary institution	
Process Consolidation	1. Unify & standardise partnership-wide policy, process, info systems, templates & data formats – across all Academic and Professional Services functions	+ Develop agreed master list of partnership functions; and prioritise for process/systems consolidation	+ Scoping: January 2025 – December 2025 + Implementation: January 2026 – December 2029
		+ As priorities: conduct function current state mapping and maturity model analysis; develop and implement workstreams for policy and process standardisation	
	2. Create capacity by removing duplication; improve efficiency by standardising best practice		
	3. Ensure alignment with Systems Consolidation	+ Progress workstreams through action planning, consultation, approvals and implementation	

Activity	Key objective	Actions	Dates
Systems Consolidation	1. Unify & standardise partnership-wide Information Systems – across all Academic and Professional Services functions	+ Map current state of partnership Info Systems in use vs master list of functions (see above) + Identify and execute quick wins for standardisation e.g. DocuSign	+ Scoping: January 2025 – December 2025 + Implementation: January 2026 – December 2029
	2. Provide clear communication and training to explain and support System change implementation	+ Develop and execute procurements roadmap to standardise Systems, as per priority order defined in Process consolidation, above	
	3. Ensure alignment with Process Consolidation		
Culture Change	1. Implement Culture change process to underpin:	+ Procure specialist consultancy support	+ Diagnostic: January 2025 – December 2025
	a. Partnership senior leadership of the transformation programme	+ Undertake Culture diagnostic exercises with partnership senior leaders and wider staff	+ Implementation: January 2026 – December 2029
	b. Partnership staff engagement with the transformation programme	+ Implement the resulting Culture change programme activities, which would be dependent on outcomes of the diagnostics	
	c. Establishment of the long-term, unified partnership culture		
Governance	1. Agree and mobilise governance	+ Mobilise the transition oversight board and assign roles and responsibilities	+ Mobilise governance: January 2025 – December 2026
	2. Finalise leadership of key workstreams	+ Support UHI partners with the knowledge required to support their Boards of Management throughout the programme of change.	+ Oversight and Management: January 2026 – December 2029
		+ Once the delivery route has been determined, identify and mobilise the	

Activity	Key objective	Actions	Dates
Legal and Statutory		governance required for UHI to become a single tertiary institution	
		+ Seek approval from Boards of Management and University Court for proposal	
Organisational Design			

Activity	Key objective	Actions	Dates
Consultation & Communications	3. Determine procurement requirements if applicable 4. Finalise governance and leadership 5. Mobilise workstream for mergers	stages for approval and implementation. + Finalise regulatory implications, drafting reports across TUPE, Pension, VAT, Estates Planning + Finalise communication approach + Commence communication with stakeholders + Develop detailed job descriptions and designate roles + Carry out recruitment process + Undertake a full evaluation on benefits of the preferred delivery model Pending conversations with Scottish Government, transfer of staff may be required, and therefore preparation for the transfer of assets and liabilities will need to occur. Begin to consider the transfer staff	
	Consultation: 1. Mobilise a detailed stakeholder consultation approach 2. Conduct consultation with key stakeholders, including Charis, Principals, SFC, Scottish Government, students, trade unions, staff	SFC/SG: + SFC and SG, including consultation approach and set out timelines for each stakeholder group identified + Commence consultation process + Consider feedback from consultation and reflect in the FBC + Review of feedback	Consultation: + FBC Consultation: January 2025 – June 2025 + Route Map Consultation (staff/recognised trade unions/students/stakeholders/communities): January 2026 – December 2028

Activity	Key objective	Actions	Dates
	<p>3. Finalise feedback</p> <p>Communications:</p> <p>1. Mobilise a detailed stakeholder communications plan</p> <p>2. Provide clear communications to key stakeholders throughout the programme lifecycle</p>	<p>Boards of Management and Other Key Stakeholders</p> <ul style="list-style-type: none"> + Stakeholder consultation has commenced and will continue to be held through to FBC submission. + Finalise stakeholder engagement approach and set out timelines for each stakeholder group identified + Commence consultation process + Produce a summary of stakeholder feedback to incorporate into Full Business Case + Transformation Team and Reform Oversight Committee to determine what feedback will be taken on board. + Communication with key stakeholders should occur throughout the duration of the programme <p>A detailed stakeholder communications and consultation will be developed at Full Business Case Stage.</p>	<ul style="list-style-type: none"> + End state consultation: January 2028 – December 2029 <p>Communications:</p> <ul style="list-style-type: none"> + Communications (staff/recognised trade unions/students/stakeholders/communities): January 2025 – December 2029

7.13 Appendix 13: Process, Systems & Culture programme

This series of projects in this programme would o focus on extensive rationalisation, updating and unifying, as far as possible, how the partnership delivers all of its functions – without changes to organisation structures – and data collation and function mapping work to support planning and implementation of interim stages (e.g. mergers) prior to creating the single institution. In short, the activity would equate to the integration of process and systems that is normally undertaken post-merger and instead, implementing the approach immediately in order to de-risk and minimise the workload involved in the stages to create a single institution. Furthermore, it has been agreed that this Process, Systems & Culture programme should be implemented irrespective of the options used as stages towards a single institution – the work is required as standard. The table below is an initial draft of the projects required.

Table 32: Required projects under Process, Systems & Culture programme

Project	Tasks	Intended outcomes
Policy & Process consolidation	<ul style="list-style-type: none"> + Prioritise functions¹⁸ to undergo Policy & Process (P&P) consolidation + Identify P&P best practice in each area + Create single P&P, templates and data formats for priority functions + Generate lessons learned to inform subsequent project phases 	<ul style="list-style-type: none"> + Single P&Ps etc adopted partnership-wide + Each P&P etc assigned ownership and maintained + Global, version-controlled register of P&P on SharePoint
Initial systems roadmap	<ul style="list-style-type: none"> + Identify functions where information systems consolidation (either adopting a single system, or modifying how existing ones are used) has most potential to generate short-term operational efficiencies and long-term financial efficiencies + Note: should align with P&P work above 	<ul style="list-style-type: none"> + Selected functions progress towards systems consolidation + Single systems adopted partnership-wide in prioritised functions

¹⁸ In the context of this document the term “function” is used to describe a closely-linked group of activities an organisation performs to achieve its goals and objectives. This definition excludes the use of function as describing an organisational unit such as a team. For example, the Finance function refers to Finance activities and process, instead of referring to a Finance department.

Project	Tasks	Intended outcomes
	<ul style="list-style-type: none"> + Undertake cost-benefit analysis of options <ul style="list-style-type: none"> • Develop and implement roadmaps/plans for selected options • Generate lessons learned to inform subsequent systems consolidation projects 	<ul style="list-style-type: none"> + Plans defined for follow-on systems consolidation in other functions
Funding mechanisms	<ul style="list-style-type: none"> • Evaluate partnership funding allocation mechanisms, SFC and non-SFC, to identify and prioritise which mechanisms should undergo improvement review processes. This will be heavily influenced by the timescales and incremental steps chosen to deliver the Operating Model option that is ultimately selected. • Implement improvement reviews of selected funding allocation mechanisms. • Approve and publish new P&P for the amended mechanism(s). • Training in the changes provided to relevant staff. 	<ul style="list-style-type: none"> • Updating of selected funding allocation mechanisms. • Supporting P&P published • All staff informed; relevant staff trained.
Tertiary Curriculum	<ul style="list-style-type: none"> • In view of the separate approaches to curriculum review and planning across HE and FE and across faculties and academic partners - develop a single, integrated, tertiary curriculum review and planning process for partnership-wide adoption¹⁹. <i>The newly introduced Collective Curriculum Planning Cycle is a first step towards this.</i> 	<ul style="list-style-type: none"> • Partnership adopts single frameworks for: <ul style="list-style-type: none"> ○ Collective Curriculum Planning Cycle ○ Shared HN & FE delivery ○ Tertiary academic quality regulations. ○ E-portfolios

¹⁹ These tasks would be assisted by the FE Coding project outcomes.

Project	Tasks	Intended outcomes
	<ul style="list-style-type: none"> Aligned to the above, develop a partnership framework to maximise shared delivery of FE and HN curriculum in all feasible circumstances.²⁰ Building on adoption of Scotland's Tertiary Quality Enhancement Framework, develop a single set of tertiary academic quality regulations. Evaluate adoption of a single e-portfolio for work-based learning to maximise economies of scale, standardisation, sharing of information/experience and GDPR compliance. 	
Culture Change	<ul style="list-style-type: none"> Develop a Culture change programme to support the change management required by senior leadership, to support staff undergoing planned changes, and to provide a foundation for the long-term partnership-wide culture. Procure appropriate consultancy support. Undertake Culture diagnostic with TEB, and partnership senior leaders and wider staff. Subsequent Culture change programme activities and implementation is dependent on outcomes of the diagnostic. 	<ul style="list-style-type: none"> TEB and partnership staff cultural points of convergence/divergence identified through independent process. Tailored Culture change programme implemented.
Project Management	Conduct appropriate Project Management practices to manage, progress and monitor the above programmes activity – includes planning, reporting, impact assessments, risk management and project delivery.	Projects managed effectively and efficiently.

²⁰ May not be feasible in circumstances where it compromises large course cohorts at single locations.

7.14 Appendix 14: Communications Strategic Approach

7.14.1 Overall Aims

The overall aims of the strategy are to:

- + Provide clear communication to internal and external stakeholders through transparency, engagement, support and adaptation
- + Ensure that all stakeholders develop an understanding of the operating model, have ownership in the process and are given the opportunity to engage in constructive dialogue to contribute towards UHI's transformation

A corresponding range of materials and content has been created in support, including a partnership communications protocol, communications plan, Consultation and Engagement Strategy; and information on the 7 reform principles of the programme, key messages, and the 2030 Strategic Plan's Mission, Vision and Core Values.

7.14.2 Objectives

The Communication strategy aims will be achieved by delivering on the following objectives:

- + To ensure internal and external stakeholders understand the new operating model by explaining the background and rationale for the change
- + To raise awareness of the new operating model, including the process, timelines, and benefits that would be gained
- + To communicate clearly so that stakeholders understand the process of what is trying to be achieved
- + To communicate the vision, mission and values as defined in the Strategic Plan 2030, developing a positive profile and reputation to inspire stakeholders
- + To ensure key stakeholders are fully informed, engaged and consulted on all aspects of the new operating model
- + To enable staff, students and trade unions to become co-creators of change through two-way communication and engagement
- + To gather information, listen and respond to stakeholder views, informing communications tactics
- + To maintain and further develop effective relationships with key stakeholders, cultivating interest and support
- + To contribute to the development of a unified culture across the whole partnership

7.14.3 Stakeholder Engagement

Stakeholder engagement will be conducted with the following organisations and groups – the list will be subject to review and updating throughout the programme.

Internal:

- + University Court
- + Boards of management
- + Partnership Council
- + All staff employed within the partnership (includes principals and chairs)
- + Students

- + Student representative group: Highlands and Islands Students' Association (HISA) (local and regional)
- + Trade Unions and staff representative groups
- + UHI Foundation
- + Partnership Forum

External:

- + Scottish Funding Council
- + Scottish Government
- + Politicians (MPs/MSPs/Ministers)
- + Research councils and funders – including UK Research and Innovation
- + Further and Higher Education sector (including Universities Scotland, Colleges Scotland, Education Scotland, College Development Network, SQA)
- + Schools
- + Media
- + Gaelic language stakeholders
- + Third sector
- + Public Sector
- + Private Sector Partners and collaborators
- + Alumni & Donors
- + Businesses
- + Employers
- + Community groups
- + Enterprise agencies
- + Quasi-autonomous non-Governmental organisations

7.15 Appendix 15: Risk Register

Risk	Risk Rating	Mitigation	Rating after mitigation
Funding support is not obtained from Government, and onward delivery ceases	5	Regular engagement between senior management, partners, University Court, SG and the SFC to ensure UHI is able to deliver on its priorities and continue serving the Highlands and Islands communities. Development of Operating Model highlights how, how soon and how much savings and efficiencies will be realized.	4
Data to support financial and economic analysis is not available which hinders the ability to demonstrate a preferred delivery route	5	Clear communications and delivery plan to be shared with partners in advance. Appropriate data sharing agreements established between partnership data controllers.	3
There is a risk that the next phase of work distracts from business-as-usual (BAU) activities, leading to further stressors on partners	5	Assess resource allocation and identify potential shortages that may arise and escalate as required. Implement project management tools to track progress and ensure the delivery plan is on track and BAU tasks are achieved. Set up regular calls between partners and governance forums to assess the impact of the next phase of work on BAU activities.	3
Industrial relations: Collective Consultation through the Unions is delayed or disputed because of Union stances on changes to the structure and staffing numbers or other disputes concerning the conduct of the CC process. The impact would be to delay implementation, which delays the organisation moving forward, affects staff morale, and delays realisation of savings.	5	Providing the appropriate information via all consultative meetings, in writing, and via a shared SharePoint site for forum-related documents; and ensuring we meet the legal obligations of information to be provided; Timely responses and engagement provided to the stakeholders of the Local Dispute in accordance with the LRPA for both trade unions, in order to seek the quickest possible resolution.	3
Failure to meet stakeholder expectations	4	Mobilise a communication strategy to ensure appropriate stakeholders are engaged throughout the process. Seek regular feedback from key stakeholder groups to determine whether stakeholder expectations are being met. Escalation to governance forum as required.	3

Risk	Risk Rating	Mitigation	Rating after mitigation
Lack of adequate resources impacts delivery milestones	4	Identification of resourcing requirements and monitor requirements against the delivery plan. Escalation to the Director of Transformation and appropriate governance forums as required.	3
Audited financial statements are not signed off and partners do not share timely updates of financial information, which delays further financial analysis and monitoring.	4	Consultation with principals and chairs will be undertaken in June and July. Buy-in from key stakeholders will ensure that partners are committed to providing regular financial information to allow the programme to monitor UHI's consolidated financial position. Partners will continue to put pressure on the auditors to close out the FY22/23 financial statements to allow further detailed analysis and monitoring to continue.	3
There is a risk that the Scottish Election (no later than 7 th May 2026) may result in legislative timetabling being difficult and therefore shorten the timeline for development and consultation on the proposed new operating model	4	Ensure early and regular communication and consultation with the SFC and Scottish Government about the model being proposed and any legislative requirements needed to bring it together	3
Delay in approvals, and delivery of key milestones	4	Monitor progress against the delivery plan closely, with delays being flagged early to the Director of Transformation and appropriate governance forums.	2
Development of a robust full business case setting out costs and benefits of preferred delivery route as a means of securing necessary enabling funding	4	Ensure that the programme is fully resourced, with the appropriate internal and external expertise assigned to the programme. Ongoing discussions with stakeholders to ensure that it meets stakeholder expectations.	2
Consensus on the preferred delivery route cannot be reached amongst partners which impacts delivery	4	Regular engagement between the governance and management team and the partners to ensure buy-in is achieved early, and there is visibility over the work being conducted. Key decision gates mapped as part of the development and delivery of the process.	2

Risk	Risk Rating	Mitigation	Rating after mitigation
Lack of in-house capability to deliver a large transformation (e.g., estates expertise)	4	Creation of a robust OBC and FBC which clearly articulate capability and capacity needs to deliver the next phase of work. Identification of resources required to deliver the next phase of work against the delivery plan. Ongoing discussions with key stakeholders such as SFC to highlight need for external resources, such as estates expertise.	2
Significant change of political direction resulting from the 2026 Scottish election, leading to delays or to changes in priorities that may impact the ability to deliver the Route Map to a single institution.	3	Ensure early and regular communication and consultation with the SFC and Scottish Government about the model being proposed and any legislative requirements needed to bring it together	3
Challenges and difficulties of progressing may damage UHI's external reputation	3	Mobilise communication strategy that outlines procedures for preventing, detecting and responding to issues that could impact UHI's external reputation. Maintain transparent communication with key stakeholders and engage with student unions early. Ensure a media and communications specialist is handling all internal and external communications to minimise risk.	2
Lack of coordination and oversight leads to delays	3	Mobilise workstreams and agree Terms of Reference and delivery plan to set clear objectives for workstreams. Regular governance meetings will be set up to ensure progress is closely tracked and delays are escalated.	2
The next phase does not provide clear guidance to staff, which could result in student and staff experience being impacted and negatively affected.	3	Delivery plan to be shared with key stakeholders when appropriate to ensure visibility over future phases of work.	2

7.16 Appendix 16: Transformation principles and measures

Each of the 7 principles that have been agreed to underpin the transformation programme for the Operating Model are listed in the table below, along with initial thoughts on how to measures/assess outcomes. This framework will be developed further in the FBC.

Table 33: Principles and their measures

Transformation Principle	Measurement / KPIs / Qualitative measures
Enhance our ability to deliver learning, teaching and research.	<p>Interpreted as meaning the measures needed to assess <i>the extent to which we've enhanced our ability</i>, as opposed to usual LT&R outcome and attainment measures of which there are many already.</p> <ul style="list-style-type: none"> + Enhance our ability to develop L&T staff skills & competence <ul style="list-style-type: none"> + How many are fully trained, at what level, versus required (GTCS measures, TICT, TQFE etc etc) + L&T Enhancement strategy implemented – UHI-wide + Mentoring scheme implemented UHI-wide + UHI-wide supply bank implemented (not per partner) + Shared resources and shared delivery implemented at all SCQF levels, UHI-wide, <i>in every feasible instance</i> + Ability to deliver is dependent on the volume of students – hence the student recruitment and admissions system is vital to this + Quality enhancement of L&T – UHI AQRs (Academic Quality Regs) + separate FE QA systems should be replaced by single UHI Tertiary AQRs + LT&R delivery is underpinned by professional services (estates, facilities, ICT, admissions/registry/funding, learner support etc), therefore these should also be subject to a quality improvement system + Research – <i>REF might already cover this principle adequately? Further investigation required.</i>
Increase the proportion of the resources that are spent on our students to enhance their experience	<ul style="list-style-type: none"> + Partnership wide corporate vs delivery budget split, staffing and non-staffing + <i>Is there a sector standard approach to this already? Does, say, SFC have one?</i>

Transformation Principle	Measurement / KPIs / Qualitative measures
of studying with UHI, at whatever level, and the equity across that provision.	
Remain geographically dispersed, delivering the educational needs of our communities and enhance local economic growth and development.	<ul style="list-style-type: none"> + Geographic staffing profile + Volume of in-person LT&R delivered at each site + Volume of asynchronous/online LT&R led/delivered from each site
Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions	<ul style="list-style-type: none"> + Delineation of global and local services + Agreed definitions of global and local in terms of 'delivery' and 'management' + All functions assessed and mapped against Local/Global and Delivery/Management and agreed UHI-wide
Provide for greater opportunities for our staff and their career development across corporate and tertiary academic provision.	<ul style="list-style-type: none"> + Career progression pathways + Single CPD system implemented + Single PRD system implemented + Leadership & Mgt scheme implemented (equivalent of L&T scheme) + % of vacancies filled by internal / external candidates + % of vacancies filled by internal candidates that are promotions + <i>Further investigation required.</i>
Enhance our decision making through single point accountability	<ul style="list-style-type: none"> + Delineation of global and local services + Single Board implemented + Single exec & mgt teams implemented + One organisation-wide Strategy implemented + Delegated authority and accountability defined across organisational tiers and locations + Single policies, augmented <i>where essential only</i> by location-specific addenda
Become fully tertiary in everything that we do and use this to lead the post-16 education agenda in Scotland.	<ul style="list-style-type: none"> + Agreement and delivery of tertiary model + <i>What does "lead the post-16 education agenda in Scotland" mean? What does that look like?</i> + Integrated tertiary curriculum review/planning system implemented

Transformation Principle	Measurement / KPIs / Qualitative measures
	<ul style="list-style-type: none"> + Tertiary AQRs implemented + Tertiary student recruitment and admissions system

7.17 Appendix 17: Academic Management

Core academic structures for UHI were introduced at the start of the 2023/24 academic year following extensive discussion across the partnership, including all partners and Executive Office. The structure set out in Figure 17 below was agreed by SET and Partnership Council on 1st March 2023. Essentially there are two faculties and six cognate subject groups within these faculties. Each faculty and each cognate subject group includes further education, higher education, research and knowledge exchange. Equal value is attributed to the further education, higher education, research and knowledge exchange within the faculties and associated cognate subject groups.

Each faculty is led by a Dean of Faculty, and each cognate subject group uses the UHI branding as a prefix to the specific cognate subject areas. The leader of each cognate subject group is an 'Associate Dean' followed by the name of the cognate subject group. With this newly agreed structure, cognate subject groups will be reviewed in two years' time to ensure they are fit for purpose and fit with any further academic changes.

Due to the University's statutory and legal responsibilities, arrangements for the leadership, management and oversight of higher education continues to reside with executive office, but a deeply collaborative arrangement with partners is developing with this as well as there already being significant collaboration on some of these areas across the partnership.

The existing research clusters and knowledge exchange subject groups have been aligned with the new faculties. Approved academic centres and institutes are aligned with the faculties, to encourage the development of cohesive academic proposals and initiatives. The Deans of Faculty do not have managerial oversight of the centres or institutes, except where these are located within executive office. Figure 18 shows the alignment of the specialist research centres and institutes.



Note 1: Whilst the research clusters are shown as being aligned to specific cognate subject areas, in practice, they will be expected to have iteration with the work of a number of cognate subject areas beyond their 'home' cognate subject area.
Note 2: It is anticipated that the research cluster leads will report to the Deans of Faculty, but be aligned with particular cognate subject areas as per Note 1.

Figure 17: Academic Structures Diagram

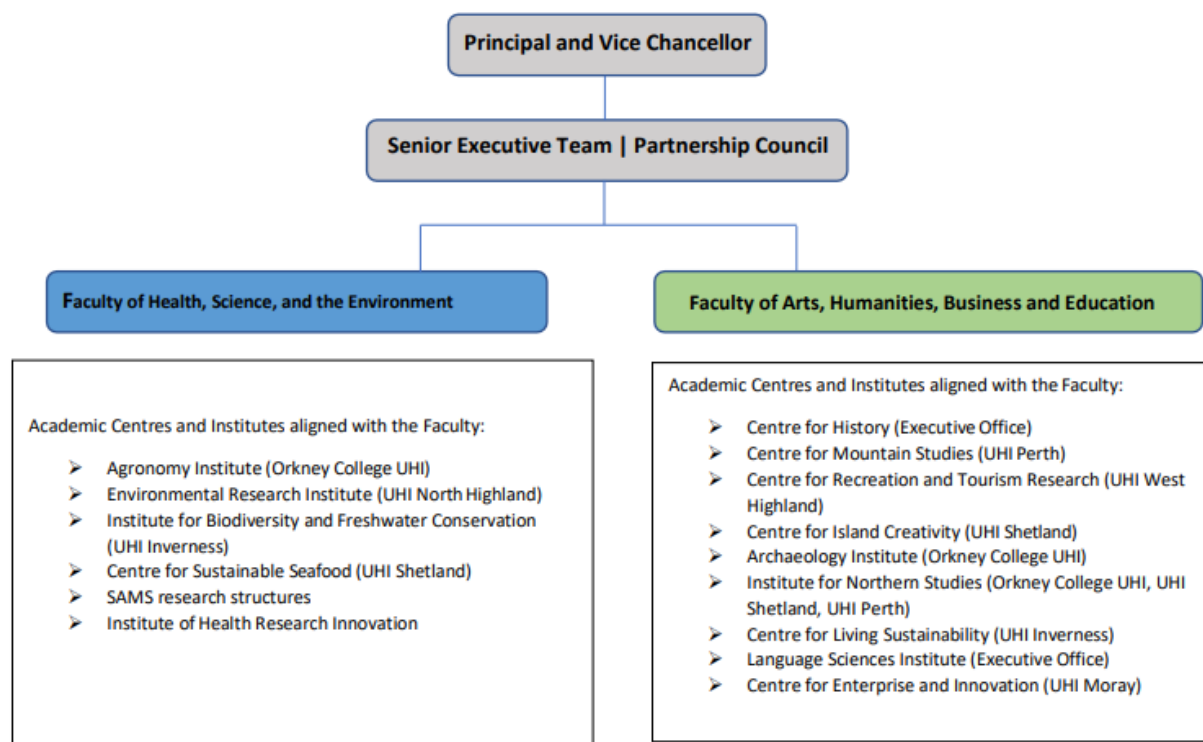


Figure 18: Specialist research centres and institutes alignment

7.18 Appendix 18: Academic Outcomes in the SFC Outcome Framework

The following represents items from the 7 main category areas within the SFC's new Outcome Framework that relate primarily to academic activity and outcomes.

7.18.1 What are our academic outcomes:

- + Institutions produce confident and highly capable work-ready graduates, engaging with employers to respond to industry and sector needs, skills alignment and to co-create solutions to challenges.
- + Students are equipped with the skills and knowledge to find employment, flourish in their career, meet employer needs and make a positive contribution to society and the economy.
- + Students can prioritise their mental health and wellbeing and are part of a safe and supportive institution which allows them to engage and participate in the student experience.
- + Students experience high-quality learning and teaching that allows them to engage with and succeed in their studies.
- + Students are equipped with the skills and knowledge to flourish in employment, further study and lead fulfilling lives.
- + Education is accessible to students from all backgrounds and protected characteristics and, with effective student partnership, students are supported through successful pathways and routes through their learner journey.
- + Institutions generate knowledge which they share to deliver value to Scotland, addressing the green recovery, wellbeing economy and the just transition.
- + Institutions' research and innovation attracts and nurtures talent and entrepreneurship; mobilises collaboration and additional investment; enhances our international reputation; and delivers economic transformation and societal value.

7.18.2 How we are to achieve this:

- + SFC funding is used for its intended purpose. Teaching funding is used effectively to deliver high quality coherent provision, with special attention to priority provision, and meeting volume targets and thresholds.
- + Student Support, Capital Funding and any ring-fenced funds are used for their intended purpose.
- + Research, innovation and strategic investments deliver high quality research outcomes.
- + Institutions' estates and digital infrastructure are well-managed, well-utilised and effectively support and enable high quality learning and teaching and research.
- + Institutions' estates and digital infrastructure are well-managed, well-utilised and effectively support and enable high quality learning and teaching and research.
- + Students are effectively engaged with the development of curricula and learning pathways.
- + The quality of learning and teaching and confidence in standards are enhanced through institutions delivering continuous improvement of robust and transparent quality processes.

8 Annexes

8.1 Options Appraisal Outcome Slide Deck and Report

Link: [University of Highlands and Islands - Options Workshop 2_Output_Issued](#)



20 December 2024

Issued by email

Strictly Private and Confidential

Mr G Watson
Chair
UHI Perth

Dear Graham

Please find attached a copy of the latest draft of the Outline Business Case (OBC) (Version 7.1) that has been collaboratively developed by the leadership in UHI over the last seven months. It provides governing bodies with the context with which the Regional Strategic Body (RSB), working with academic partners, are developing the work, the next steps we intend to take and asks for feedback on the OBC.

The draft document has also been shared with the SFC and you will note their response and guidance which is attached. The SFC have also attended all the Transition Oversight and Executive Board meetings in December to provide further guidance and support which is captured as part of this letter.

At this point in time, the document remains confidential to the UHI Partnership circulation, and we would ask you to reinforce this to your board members at the time of circulation. Meetings have been scheduled in January for us to discuss the document and for Boards to note the case for change and direction of travel, with further background provided below.

On receipt of these documents, I would be appreciative if your governance officer or board secretary would be able to circulate to your board members with the confidential markings as outlined above.

Background

The governing bodies of the UHI partnership and its respective principals have collectively agreed that the current operating model for the partnership is no longer fit for purpose and are developing a business case to set out a proposed new operating model, by June 25, to drive financial sustainability across the UHI tertiary University Partnership and to ensure

Seansalair: A h-Àirdeachd Rìoghail A' Bhana-phrionnsa Rìoghail
Chancellor: HRH The Princess Royal

Prionnsapal agus Iar-Sheansalair: Vicki Nairn
Principal and Vice-Chancellor: Vicki Nairn

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that collectively we maximise the resources that flow to our students. The process of change, starting with the OBC and subsequent staff, student, stakeholder and public consultation is outlined in the document, together with the engagement process with the Scottish Funding Council (SFC) and the Scottish Government.

In developing the OBC, the process has needed to take account of a considerable range of views across the eleven institutions that make up UHI, about both the status quo and what they are seeking to be articulated within the OBC. The OBC tries to balance this feedback but ultimately, the development and delivery of the Full Business Case (FBC) will provide the detail that governing bodies and principals are seeking through this process. The OBC makes the case that we need to change, and at an **outline** level identifies options for this change in line with our agreed 2030 Strategy. The work to develop a data and evidence based detailed change options will take place as we work through the full business case, whilst simultaneously working collectively to tackle current opportunities and challenges to make the UHI Partnership more effective and efficient.

In line with the feedback and discussions through the summer and autumn of 2024 the outline business case sets out:

1. The principles that will frame the new operating model and background to UHI's partnership.
2. The case for change and the benefits that UHI are seeking to deliver through changes to its operating model.
3. A high-level description of what an integrated institution could look like, subject to which constitutional approach would be favoured by the Scottish Government.
4. A description of the agreement reached with the majority of the principals that options 3 and 4 are included within the business case as potential components of a route map to achieving an integrated tertiary institution (now qualified with the SFC advice as noted below).
5. A jointly remodelled financial baseline by partnership Finance Directors and the UHI Chief Financial Officer of the current financial projections.
6. The range of outline measures and metrics that will be used to track and assess the development and implementation of the new operating model
7. A route-map and approach to the management of the programme of work.

University Court provided feedback on the OBC at their meeting of 12th December and highlighted the following:

- The culture change elements of the programme are of significant importance and should be accelerated.
- A desire to see a further level of detail about how option 6 will operate in practice and can be delivered.
- Some concern that the challenges presented by inter-partner mergers have not been fully captured within the document.
- A recognition that whilst the financial baseline is improved, the absence of financial modelling of the options does create a challenge. The approach to addressing this needs to be articulated to governing bodies so there is clarity of when and how this modelling will be undertaken and greater explanation, where possible, on some of the financial detail expressed within the financial case in-line with SFC requirements.
- Greater prominence given to the benefits that a new operating model can provide in respect of a more flexible and agile institution as our current inability to operate in this way is a critical weakness.
- Greater articulation of how academic delivery will change within the new operating model, the use of technology for example.
- That we need to get the right people, drawn from across the partnership, enabled with capacity to lead and take ownership of the different workstreams set out within the document.

SFC feedback

In line with the agreed change process, the RSB shared the OBC with the SFC on 5th December for their initial thoughts and the appended correspondence was received on 13th December, followed by a discussion at the transition executive board on 18th December. The attached correspondence makes clear that the Scottish Government expects that UHI, the RSB and Academic Partners, will move to a fully financial sustainable position as a matter of urgency and that public finance does not extend to the consideration of mergers that are out with the OBC process or in preference to the delivery of a single tertiary university solution.



Currently the management case within the OBC allows for the modelling of smaller mergers as an end point for UHI alongside those that facilitate the creation of a single institution. This approach will now be amended given the advice from the SFC that these will not be supported.

The SFC are now attending both the transition oversight and transition executive boards together with regular RSB/SFC review meetings, and this input is significantly helpful and welcome, as they are able to directly express their views on the programme of work as it moves forward. In these meetings the SFC have advised;

- The SFC has committed to provide funding for the development of the Full Business Case. They are providing £500k without prejudice to support this work in continuing, such as recruitment to posts, while they bottom out some of the information included in the £1.45M ask from UHI for this work, this process is ongoing and should be concluded shortly.
- SG have indicated that they are willing to provide funding to support implementation of the Full Business Case, provided that this demonstrates a credible path to a sustainable institution. This means prudent assumptions and clear actions to deliver the option that emerges from the Full Business Case.
- In line with their correspondence, the SFC is extremely unlikely to be able to provide funding for merger activity outside of the RSB-led work on the new operating model.
- Time is of the essence. The SFC cannot continue deficit funding indefinitely and they see the work that UHI are undertaking to develop the Outline and Full Business Case as central to resolving this situation but this needs to be undertaken urgently.
- They appreciate that there are currently some gaps in the OBC, but it's an outline business case to identify the options to pursue in the Full Business Case and urge UHI not to let perfection be the enemy of good. No decision is being made now about the end structure at this time, and UHI governing bodies will make that decision once the work on the Full Business Case has been completed. This will be informed by the detailed work and due diligence that will be undertaken in development of the Full Business Case. The SFC expect to see a sustainable solution presented as the end point of the Full Business Case. This will enable funding to be bought forward by Scottish Government.
- SFC won't define what the sustainable solution looks like – that is for the RSB and its partners to determine through the development of the Full Business Case.



Resourcing the programme

The SFC Board met on 6th December and agreed an advance of £500k to support the delivery of the FBC by June 25. A budget proposal based on this confirmed funding was presented to the transition oversight board, with agreement to progress with the appointment to some critical staff roles and to provide for the consultancy and legal support that UHI will require to complete the FBC by June 25. As noted above, the SFC are working through some of the detail within the full £1.4m ask and this should be concluded shortly.

Next steps

The next six months is a critical time for both this process and the UHI partnership more broadly. Whilst considerable discussion and debate has been held over the last year to agree the principles that frame the changes we are seeking to make; we now must move onto the detail that will deliver a comprehensive FBC by June. The transition oversight board at their meeting on 20th December approved the work that the executive board will take forward:

- The detailed modelling of the options that are laid out in the OBC to both fully articulate the different options and provide for a comprehensive evidence base.
- The development and implementation of projects and initiatives that will have the maximum impact on our effectiveness, growth potential, efficiency and financial sustainability.
- Broadening the input into the process to other key colleagues to ensure there is the operational capacity to deliver.
- Fuller engagement with staff, students, trade unions and key stakeholders to help shape the FBC.
- The contracting of consultancy to support the financial modelling and the development of the FBC, the culture programme, the engagement process and the necessary legal advice on the legislative framework, TUPE and pensions.

This will require the University and partners to release the necessary staff capacity to fully deliver on this work and provide the necessary financial and staffing data, so the work is robust and we have the strongest evidence base as possible to inform the decisions that UHI is required to make and the benefits that we will realise collectively via this process.



Recommendations

UHI Governing bodies are asked to;

1. Note the detail set out in this paper and the attached correspondence from the SFC.
2. Discuss document and the change process at the board meetings scheduled in January 25 and provide feedback on the OBC and the critical elements of the next steps from individual governing bodies' perspectives, noting that further, more detailed work will be done as we move forward through the FBC process.

Yours sincerely

Vicki Nairn
Principal and Vice-Chancellor

cc: UHI Boards of Management via Chair and Governance Officers
Scottish Funding Council



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BY EMAIL

Vicki Nairn

Principal and Vice-Chancellor
University of the Highlands and Islands
UHI House, Old Perth Road
Inverness, IV2 3JH

Dear Vicki

Thank you for the copy of the Outline Business Case which the SFC received on 5 December. The SFC is pleased to see the work developing, noting that a final draft will be circulated to the SFC before the festive break and that UHI will be engaging with Boards of Management in January to discuss further.

For clarity, the SFC supports the development of a solution that enables financially sustainable provision across all of the UHI regions (Highlands and Islands, Moray and Perthshire) - within the current funding envelope - and this solution needs to secure a sustainable future for all academic partners (UHI and the colleges) as a single partnership solution.

Reviewing the options being considered, and given the existing strains on public finances, I should advise you that it is extremely unlikely that there would be any funding available for merger activity outside of the UHI/RSB-led collaborative work with its academic partners to develop the operating model.

Any work to define business cases for mergers would need to be led and supported by the RSB in the first instance; however, the main focus has to be on making UHI financially sustainable as quickly as possible. Therefore, our view is very much aligned with that of the UHI Court and RSB via the UHI 2030 Strategic Plan, which is that there must be one solution for UHI as a whole and that SFC would be unable to provide support for parallel transition or merger programmes or mergers in preference to a single tertiary university solution.

I hope this is a helpful clarification of our position. I am happy for you to relay this to UHI's academic partners on the SFC's behalf.



Dr Jacqui Brasted

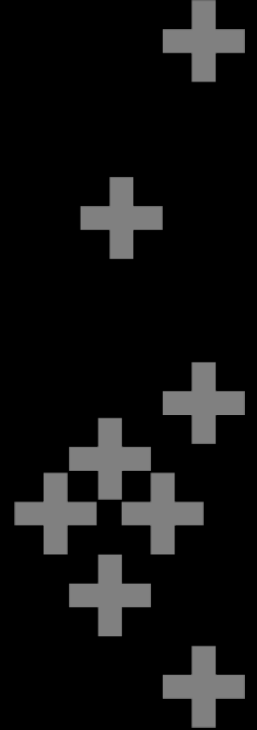
Interim Director of Access, Learning and Outcomes, Scottish Funding Council

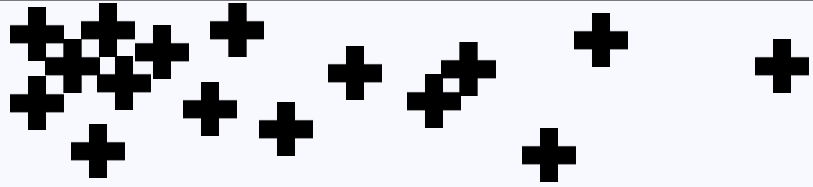
E-mail: jbrasted@sfc.ac.uk

OBC engagement and feedback sessions

UHI Governing Bodies

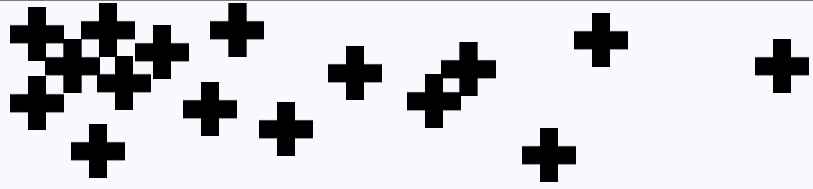
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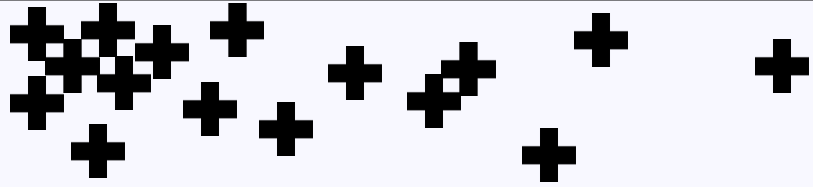
Background

- + Our agreed 2030 Strategic Plan sets out the strategic direction for UHI in line with our mission "To have a transformational impact on the people, communities and economy of our regions."
- + It's commits the UHI partnership "to think, plan and act as one in delivering on our mission and vision"
- + As part of the strategic plan, UHI has agreed that our current operating model is not fit for purpose and requires to be changed to meet both the opportunities and challenges that lie ahead.
- + Over the past year the UHI leadership has been collectively working on defining a new operating model, primarily through the development of an Outline and Full Business case for change.
- + During this period the operating environment has become worse, with increasing financial pressure across the sector and for UHI, lower than hoped HE recruitment.



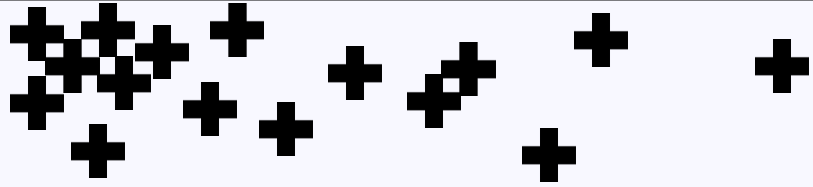
Seven principles

- + Enhance our ability to deliver learning, teaching and research.
- + Increase the proportion of the resources that are spent on our students to enhance their experience of studying with UHI, at whatever level, and the equity across that provision.
- + Remain geographically dispersed, delivering the educational needs of our communities and enhance local economic growth and development.
- + Ensure local accountability and empowerment and place-based approaches that underpin UHI with coherence and responsiveness across our regions.
- + Provide for greater opportunities for our staff and their career development across corporate and tertiary academic provision.
- + Enhance our decision making through single point accountability.
- + Become fully tertiary in everything that we do and use this to lead the post-16 education agenda in Scotland.



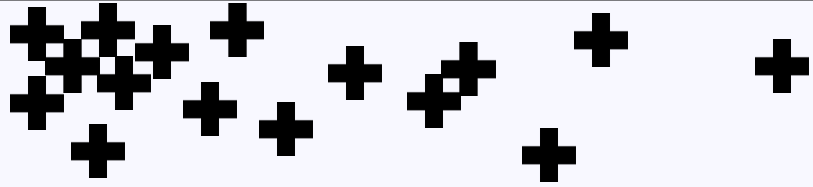
The OBC primarily sets out

- + The principles that will frame the new operating model and background to UHI's partnership.
- + The case for change and the benefits that UHI are seeking to deliver through changes to its operating model.
- + A high-level description of what an integrated institution could look like, subject to which constitutional approach would be favoured by the Scottish Government.
- + A description of the agreement reached with the majority of the principals that options 3 and 4 are included within the business case as potential components of a route map to achieving an integrated tertiary institution.
- + A jointly remodelled financial baseline for UHI with associated projections for maintain the status quo
- + The range of outline measures and metrics that will be used to track and assess the development and implementation of the new operating model
- + A route-map and approach to the management of the programme of work.



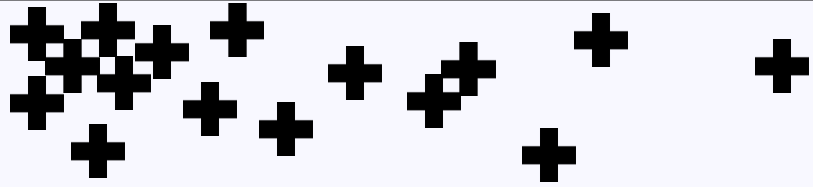
Strategic case

- + The principles that will frame the new operating model and background to UHI's partnership.
 - + Alignment through to the 2030 strategy, UHI founding mission and vision and the wider sectorial requirements as set out by the Scottish Government and the Scottish Funding Council.
 - + The case for change and the benefits that UHI are seeking to deliver through changes to its operating model.
 - + A high-level description of what an integrated institution could look like, subject to which constitutional approach would be favoured by the Scottish Government.
 - + Articulation of the institutional scope of the transformation programme.
- + Update to reflect the development of the other cases.
 - + Further develop the benefits that flow through the implementation of UHI transformation.
 - + Enhancement of the detail in respect of regional opportunities.
 - + Fully describe how the preferred model delivers on the strategic framework and deliverables.



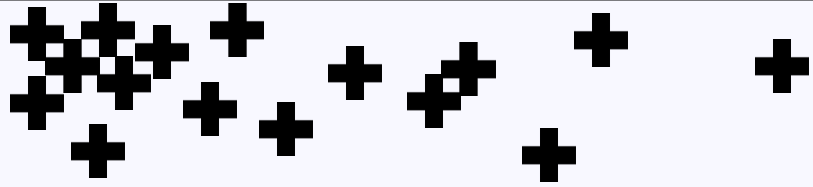
Economic case

- + Describes the two options analyses that were undertaken by EY and the transformation team and by the UHI executive leadership.
 - + Rejects models that “disintegrate” the partnership or move to a less integrated model.
 - + Affirms options that maximise opportunities within our current constitution and integrate the partnership further.
 - + Captures the agreement to take forward a programme of work that can be undertaken now as the transformation programme proceeds.
- + Develop a range of projects for implementation now that are likely to focus on recruitment, offer and curriculum, student experience and resourcing, central and devolved functions.
 - + Further development of the detail of three options, their scope, benefits and disbenefits.
 - + Fully describe the combination of options that leads to the preferred model for UHI.



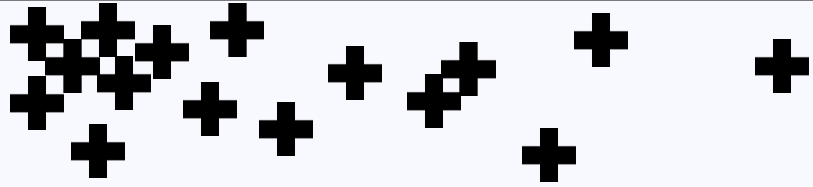
Commercial case

- + The least developed of the five cases as requires the preferred option and implementation programme to be further scoped.
 - + Includes considerations around the differences between University and college sectors, particularly financial flexibility.
 - + Costs and consequences that pertain to TUPE, Pensions, VAT liabilities.
 - + Articulation of contracts require to deliver supporting system infrastructure.
- + Discussions with the SFC / SG in respect of the sectorial split and the delivery of a fully tertiary model and the implications therein.
 - + Costing and procurement approach to systems consolidation.
 - + Legal and specialist advice in respect of TUPE, Pensions and VAT.
 - + Legislative pathways to deliver the preferred option.



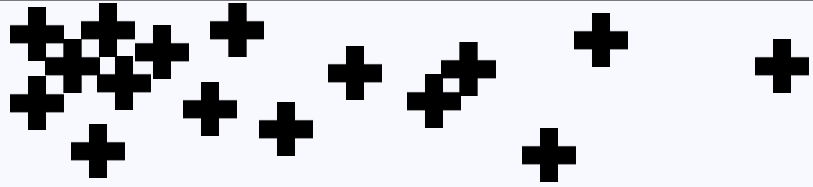
Financial case

- + Establishes the financial baseline for UHI as developed and agreed through the UHI Finance Directors.
 - + Assesses the current balance sheet position across UHI partners.
 - + Provides for a summary of the projected four-year income and expenditure position of the financial baseline.
 - + Includes the agreed financial assumptions for items such as staff and pension increases over the period.
 - + Sets out a range of key financial performance indicators to measure financial effectiveness and sustainability.
- + Detailed financial assessment across the agreed options and how they can contribute to the financial sustainability of the partnership.
 - + Underpinning financial assessment of the programme of work taken forward now.
 - + Review of current financial mechanisms; the University top slice, RAM and Micro RAM.



Management case

- + Sets out the agreed governance arrangements for the oversight of the programme of work.
 - + An outline of the workstreams that will take forward the implementation of the transformation programme.
 - + The separation between those projects and work that can be undertaken now and those that will require to be part of the FBC development.
 - + A description of the route map to achieving the preferred option.
 - + Core project management arrangements such as risk management, communications, benefits realisation, timescales and route map design and implementation, resourcing requirements, quality assurance and the KPIs to underpin the work.
- + Establishment and control of the programme of work we will undertake now.
 - + Delivery of the communications and engagement strategy.
 - + Confirmation of the route map to deliver the transformation programme.



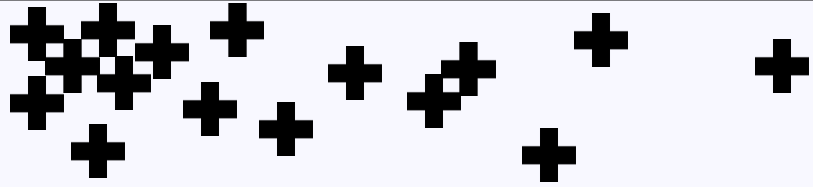
SFC and SG

- + The SFC have committed an initial £500k to support the development of the FBC and are considering a further request for £950k.
- + The SG have indicated that they are willing to provide funding to support the implementation of the FBC, but it must demonstrate a credible path to a sustainable institution.
- + The SFC are extremely unlikely to be able to fund mergers / integration for UHI out with the current business case process.
- + That we must stick to the current timelines for the work as the SFC cannot continue to deficit fund the UHI partnership.
- + That whilst they recognise that there are gaps within the OBC, it provides the necessary outline for the changes that UHI are seeking to make, and they urge UHI to move forward with the detailed work contained within the FBC.
- + That they will not define what they think a sustainable solution may be for UHI, that is for the RSB and partners to determine within the FBC.

Engagement on the OBC

- + Meeting with all boards of management in January to get feedback and views on the work to date.
- + Regional engagement with our Trade Unions (EIS FELA, UNISON, UCU).
- + Phase 1 engagement with wider stakeholders from 10th February for six weeks with a particular focus on:
 - + Students / HISA
 - + Staff
 - + MSPs, MPs, Councillors
 - + Local Authorities and Health Boards
 - + UHI Foundation
 - + HIE / Scottish Enterprise

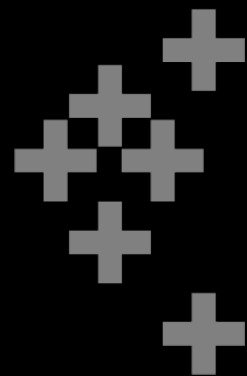




Next steps

- + The initial funding allocation from the SFC has been committed, split between staffing and consultancy to support the development of the FBC. This resource will be in place through February.
- + Phase One engagement will run from Mid-February to Mid-March.
- + Feedback from Governing bodies and phase one engagement will be used to inform the development of the FBC.
- + The target date for FBC completion remains the end of May for dissemination to June governing body meetings.
- + 12-week public consultation on the FBC to begin in August 2025 for presentation to the SFC / SG in November 2025.

Thank you
Tapadh leibh



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BOARD OF MANAGEMENT

Membership

All Independent Members appointed by the Regional Strategic Body;

The Principal & Chief Executive of the College;

One person appointed by being elected by the teaching staff of the College;

One person appointed by being elected by the non- teaching staff of the College;

Two persons appointed by being nominated by HISA Perth from among the matriculated students of the College;

Two persons appointed by being nominated by the recognised Trade Unions of the College

In attendance

Depute Principal (Academic)

Depute Principal (Operations)

Other appropriate staff members of the College by invitation

Quorum

The quorum shall be 50% of the total current membership of the Board

Frequency of Meetings

The Board shall meet no less than four times per year.

Terms of Reference

During Board meetings and other sanctioned Board events, the Board shall:

1. Take note of the overall environment in which the college operates, and provide considered and appropriate strategic guidance to safeguard and enhance the continued operation of the college.
2. Ensure that the College provides the best possible education and learning environment for its students;
3. Ensure that the values and ethos of the College are upheld and promoted;
4. Ensure that its decision-making process is transparent, properly informed, rigorous and timely, and in the best interests of the College as a whole, including taking into account UHI partnership needs;
5. Ensure that the College operates ethically, responsibly and with respect for the environment and for society at large;
6. Ensure that robust risk management and internal control systems are in place, maintained and enhanced;
7. Ensure compliance with all statutes, ordinances and provisions regulating the College and its framework of governance.

Reviewed October 2024