Effective and Sustainable Tertiary Education, Research and Training in Shetland

Full Business Case

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1. EXECUTIVE SUMMARY

1.1 Introduction

This Full Business Case (FBC) for the Effective and Sustainable Tertiary Education, Research and Training in Shetland Project forms the final stage of the process to identify the best value option for future delivery of tertiary education, research and training (TERT) in Shetland, which comprises those services currently delivered by Shetland College UHI (including Train Shetland) and NAFC Marine Centre UHI.

The previous stage of the process, the Strategic Outline Case (SOC), presented a detailed assessment of options and identified a preferred way forward. It is the purpose of the FBC to identify the value for money (VFM) option, to set out the arrangements for realising that option and demonstrate affordability. This has been achieved by reviewing the SOC and earlier decisions related to the project to ensure all assumptions and conclusions remain sound and that the case for change remains.

The FBC is not the plan for the future, it is a business case that demonstrates that the preferred option is achievable. The future plan will be development by the Principal and the Shadow/New Board of the merged college.

1.2 Structure and content of the document

This FBC has been prepared using the agreed standards and format for business cases, as set out in the Green Book Guidance issued by HM Treasury. The approved format is the Five Case Model, which comprises the following key components:

- the **Strategic Case** sets out the strategic context and the case for change, together with the supporting objectives for the project;
- the **Economic Case** demonstrates that the organisation has selected the option which best meets existing and future needs;
- the **Commercial Case** outlines the content and structure of the proposal;
- the **Financial Case** confirms funding arrangements and affordability;
- the **Management Case** demonstrates that the project is achievable and can be delivered successfully.

1.3 Strategic Case

1.3.1 The strategic context

The political priorities of the Council, community planning partners and government are clear in placing tertiary education, research and training (TERT) services at the heart of economic policy, given their vital role in delivering improvements to the economy through skills development, training, research and providing varied and high quality options for school leavers. The sector is crucial to the ambitions of the Shetland Partnership Plan and the 10 Year Plan, not least in the targets of creating new private sector jobs, growing the student population and increasing the number of local apprentices.

The development of a sustainable TERT sector should be clearly seen as an investment in the future of Shetland, and one which should be undertaken in partnership with learners, community planning partners, employers and the local community.

Growing the working age population and developing Shetland as a destination of choice to live, work, study and invest are core aims for community planning partners in Shetland. In order to achieve these aims, it is essential to establish and maintain a TERT sector which is financially sustainable, student-focused, delivers a high quality learning experience and which is properly engaged with learners, businesses and communities.

1.3.2 The case for change

The combined TERT sector is currently financially unsustainable. The total funding gap identified on the basis of approved budgets for 2018/19 is £2.1m. Given the continuing pressures on Council budgets, the requirement of local authorities to act in accordance with best value principles, and the need for continuing investment, it is essential that a delivery model be established which allows the sector to thrive and become financially sustainable.

The last few years have seen considerable efforts undertaken to determine the future of the TERT sector in Shetland, specifically with regard to the future governance and operation of Shetland College UHI (including Train Shetland) and NAFC Marine Centre UHI. Currently, services are financially unsustainable and are encumbered with complex governance arrangements – these are

issues which must be resolved in order to encourage growth in the sector and secure the benefits which the education, research and training needs to deliver for the future.

In order to grow the student population, to increase income and impact from research and development, and to continue to provide positive impacts to the local population through improving skills, it is necessary to develop a financially sustainable model which is customer-focused, outcomes-driven and responsive to local needs, and which can retain and develop the resources required to deliver high quality learning and research services.

1.4 Economic Case

1.4.1 Critical Success Factors

The Critical Success Factors for this project have been developed to ensure that all key considerations are taken into account for the future of the tertiary education, research and training sector in Shetland. These are described below:

1) Develop a financially sustainable model for delivery of tertiary education, research and training in Shetland
    - Establish the most cost effective way to deliver the services in Shetland
    - Reduce the level of annual subsidy from Shetland Islands Council
    - Ensure the ability of the merged college to achieve assigned status to UHI as the Regional Strategic Body

2) Maintain and enhance quality standards in all aspects of service delivery
    - Ensure ability of services to meet quality requirements set by government and service delivery partners

3) Maximise future income
    - Ability to achieve income targets from students, learners, research and business services
    - Ability to respond quickly to income generating activity

4) Commit to a single clear, consistent and effective voice for the tertiary sector in Shetland
    - Develop a targeted business development and marketing strategy for the sector, with clear targets for growth and engagement
    - One clear, strong and focused voice at regional and national tables

5) Maintain local tertiary education, research and training presence, and build strong relationships with resource enablers and strategic partners
    - Maintain physical presence in Shetland
    - Build strong relationships with external organisations vital to the successful delivery of services

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

1.4.2 The long list

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

Table 1.1 Summary of long list options and findings

Options		Definition
1	Do Nothing	No further action is taken to change governance, management and funding arrangements of Shetland College, NAFC Marine Centre and/or Train Shetland.
2	Status Quo	Maintain existing governance, with joint management posts regularised, joint strategic plan adhered to and joint curriculum developed as per interim arrangements. Requirements for operational efficiencies would continue.
3	Create a single tertiary education, research and training centre within the Council ('Host SIC')	NAFC Marine Centre becomes part of the Council. Employment of staff is transferred, and all assets and liabilities are taken on by the Council.
4	Create a single tertiary education, research and training centre within UHI ('Host UHI')	Shetland College, NAFC Marine Centre and Train Shetland transfer from existing arrangement to organisational and operational control of UHI. Staff, governance and management transfer to UHI.
5	Create a single independent tertiary education, research and training	Creation of independent organisation comprised of operations of Shetland College, NAFC Marine

	centre, which is part of the UHI network ('Host NAFC')	Centre and Train Shetland, which is part of the UHI network, with SFTCT as the 'host' organisation.
6	Create a single independent tertiary education, research and training centre, which is part of the UHI network ('New College')	Creation of a new, independent organisation comprised of operations of Shetland College, NAFC Marine Centre and Train Shetland, which is part of the UHI network.
7	Shetland College and Train Shetland remain within SIC as part of Education & Families Committee; NAFC Marine Centre remains as is	Strategic oversight of Shetland College and Train Shetland is more closely aligned with SIC Children's Services. NAFC remains as per status quo.
8	Provide only minimum amount of tertiary education, research and training in Shetland	No further investment from SIC in tertiary education, research and training. UHI and SFC fund only basic services.
9	Provide no tertiary education, research and training in Shetland	Disestablishment of Shetland College and Train Shetland by the Council. Core funding to NAFC Marine Centre discontinued.

1.4.3 The short list

A shortlisting assessment was undertaken which measured the capability of each option of achieving the goals of the previously defined Critical Success Factors. From this assessment, the following short list of options emerged (descriptions shortened for brevity):

- **Option 1** Do Nothing
- **Option 2** Status Quo
- **Option 3** Host SIC
- **Option 4** Host UHI
- **Option 5** Host NAFC
- **Option 6** New College

1.4.4 Options appraisal

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

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

The outcome of the detailed scoring process was as follows:

Table 1.2 Summary of initial scoring process

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

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

- Option 5 – 'Host' NAFC
- Option 6 – New College

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

Revisiting the scoring model for Options 5 and 6 on the basis of the revised CSFs produces the following results[1]:

[1] As another scoring factor has been added under CSF1, the weighting to CSF2 applied in the initial scoring process has been removed.

Table 1.3 Summary of revised scoring process

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

1.4.5 The preferred option

Conclusion: the preferred option is **Option 6 – New College**, because it has been evaluated as providing the highest chance of achieving the objectives specified by the Critical Success Factors.

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

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

1.5 Commercial Case

1.5.1 Required services

The required service to be delivered as part of the proposed deal is a model for delivery of tertiary education, research and training in Shetland which:

- is financially sustainable;
- incorporates a model of governance and management which is appropriate to local conditions and is fit-for-purpose;
- delivers a high quality learning and training experience, maintaining and enhancing current quality standards;
- delivers high quality research services to the benefit of local industry;
- is responsive to local needs and delivers against strategic targets as identified in the Strategic Case;

- is physically located in Shetland;
- consists of a single consistent identity for the tertiary sector in Shetland;
- is capable of delivering a clear business development and marketing strategy emphasising engagement and growth.

The Commercial Case considers arrangements for and delivery of the above services in terms of:

- Governance, Management and Legal
- Academic Benefits
- Student Issues
- Assets and Property
- Marketing, Research and Commercialisation

1.6 Financial Case

1.6.1 Key messages

The financial model demonstrates that the merged college can achieve and maintain a financially sustainable position. This means that not only will it be able to meet its costs in any given year, but that it will be able to plan and invest for the future.

The preferred option is substantially more sustainable than the status quo. Over the five year period assessed the preferred option nets savings of £12.2m compared with the status quo, excluding tax. This saving can be achieved through streamlining and maximising the efficiency of the college structure and curriculum, whilst improving outcomes delivered for students and staff.

1.6.2 Merged College – Projected Income and Expenditure Account

Proposed New Entity - Income and Expenditure Summary (exc VAT)	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Employee Costs	4,559	4,632	4,771	4,915	5,062
Premises Costs	521	532	542	553	564
Operating Costs	1,015	1,036	1,056	1,078	1,099
Grants to Individuals/Organisations	3	3	3	3	3
Marketing	33	34	35	35	36
Professional and Financial Fees	208	214	221	227	234
Travel/Vehicle Expenses	149	152	155	158	161
TOTAL EXPENDITURE	**6,489**	**6,603**	**6,784**	**6,969**	**7,160**
Scottish Funding Council	- 2,567	- 2,727	- 2,891	- 2,977	- 3,065
Tuition Fees, Contracts & Grants	- 1,770	- 1,838	- 1,909	- 1,955	- 2,002
Research Grants and Contracts	- 1,063	- 1,107	- 1,177	- 1,290	- 1,383
Sale of Meals	- 96	- 98	- 100	- 102	- 104
Consultancy	- 153	- 166	- 190	- 210	- 216
Management & Service Fees	- 385	- 405	- 433	- 459	- 472
Other Income	- 296	- 301	- 307	- 314	- 320
Bank Interest	- 2	- 2	- 2	- 2	- 2
TOTAL INCOME	**- 6,331**	**- 6,645**	**- 7,009**	**- 7,307**	**- 7,564**
(Favourable) / Adverse	**158**	**(41)**	**(225)**	**(338)**	**(403)**

1.6.3 Overall Sustainability

The proposed merged college is a more prudent use of resources by Shetland Islands Council compared with the status quo, and it demonstrates sustainability moving forward. It reduces the financial commitment required by the Council by £1.8m.

1.7 Management Case

1.7.1 Project management arrangements

The project will be managed in line with PRINCE2 methodology. As such, the Shadow Board will take on the role of the Project Board in the PRINCE2 management structure, with the co-chairs acting as the Senior Executive.

The Shadow Board will be responsible for appointing the Project Manager. An external Project Advisor resource with experience in college merger will also be appointed to take on the role of Project Assurance.

1.7.2 Benefits realisation and risk management

Proposed arrangements for benefits realisation and risk management are attached.

1.8 Recommendation

This Full Business Case recommends **Option 6 – New College** as the preferred option for the Effective and Sustainable Tertiary Education and Training in Shetland Project.

Signed:

Date:

Senior Responsible Owner Project
Project Team

2. THE STRATEGIC CASE

2.1 Introduction

The purpose of the Strategic Case is to explain how the scope of the proposed project or scheme fits within existing business strategies, and to identify the preferred way forward by providing a compelling case for change, in terms of existing and future operational needs.

2.2 Part A: The strategic context

2.2.1 Organisational overview

Shetland

The 2017 Mid-Year Population Estimates for Scotland estimated Shetland's population at 23,080, spread across 16 inhabited islands, with the main population centre of Lerwick home to roughly 7,000 inhabitants.

Employment in Shetland is dominated by public administration, which accounts for 21.2% of full-time equivalent (FTE) employment. The next largest sectors in terms of employment are wholesale/retail (12.5%) and construction (8.1%)[2].

The most recent economic survey conducted in Shetland found the overall output value of the local economy (based on combined output from all sectors) to be £1,091.4m, of which around £198m can be attributed to public services and £310.5m can be attributed to combined fisheries operations (fish catching, aquaculture and fish processing)[3].

Shetland Islands Council

Shetland Islands Council is the local authority for Shetland, established by the Local Government (Scotland) Act 1973. The Council delivers services including, but not limited to, education, environmental health, roads and ferries, port

[2] Shetland Employment Survey 2017, Shetland Islands Council

[3] Dyer, G. and Roberts, D. *An Analysis of the Shetland Economy Based on Regional Accounts 2010-11,* p.6

services, planning, community development, economic development and social care.

The Council is structured around five Directorates:

- Children's Services;
- Community Health and Social Care Services;
- Corporate and Executive Services;
- Development Services;
- Infrastructure Services.

The above Directorates encompass the various services the Council operates to deliver on its statutory responsibilities and priorities.

Shetland Fisheries Training Centre Trust

Shetland Fisheries Training Centre Trust (SFTCT) promotes the development of the Shetland fisheries and maritime sectors, including fish catching, fish processing, fish farming, marine engineering, navigation, seamanship, research and all related ancillary activities. It does this through advice, support, training and research.

SFTCT is a registered charity governed by a Board of Trustees; the Board is comprised of representatives of the local seafood industry and a number of independent appointees, and is responsible for operating NAFC Marine Centre UHI.

Shetland College UHI

Originating in 1970 as the Shetland College of Further Education, Shetland College is an academic partner of the University of the Highlands & Islands (UHI) and a part of Shetland Islands Council's Development Services Directorate.

The College offers a wide range of study options, from national certificates to postgraduate degrees, across a variety of subjects, including creative industries, ICT, business & hospitality, health & social care and construction.

Facilities at the College include an Apple Mac suite, video conferencing facilities and construction workshops, as well as the Textile Facilitation Unit, which hosts three Shima Seiki knitting systems and a range of finishing equipment. The College also hosts the UHI Chair in Rural Creativity, and is one of three key locations (including Orkney and Perth Colleges) from which the Institute for Northern Studies operates. Creative courses, including music and film, are delivered in Mareel through a Service Level Agreement with Shetland Arts Development Agency.

Shetland College also includes the Train Shetland service, which comprises two separate functions:

- Short Courses delivers a range of training courses to employers in Shetland across various disciplines, including first aid, business management, ICT, health & safety and construction. The centre is accredited by a number of compliance bodies including Highfield ABC, REHIS and OCR, and is the local Construction Plant Competency Scheme (CPCS) centre. Short Courses provides business and related training as part of the local Business Gateway service, and also operates as an examination centre for professional bodies and further/higher education institutes outside of Shetland.

- Vocational Training co-ordinates Modern Apprenticeships across a range of industries, including construction, business & administration, health & social care, engineering, vehicle maintenance, agriculture, hospitality and services. This is done through an annual delivery contract with Skills Development Scotland.

Shetland College operations are under the authority of the Shetland College Board, while overall strategic authority remains with the Education & Families Committee. Staffing issues are under the authority of the Policy & Resources Committee.

The College employs 31.7 FTE lecturing staff and 26.6 FTE support staff, plus 5 FTE staff in Train Shetland Short Courses and 4.7 FTE staff in Train Shetland Vocational Training.

Shetland College's main campus is located at the Gremista Industrial Estate in Lerwick, with Train Shetland located in an adjacent building. The College also operates rural learning centres in Yell, Unst, Whalsay, Brae and Lerwick.

NAFC Marine Centre UHI

Originating in 1992 as the North Atlantic Fisheries College, NAFC Marine Centre is an educational and scientific institute which supports training and development in Shetland's maritime industries, including the seafood sector. The Centre is an academic partner of UHI and is operated by SFTCT.

NAFC Marine Centre delivers a range of training and qualifications related to maritime industries – this includes qualifications in the engineering, fish catching and aquaculture sectors (including Modern Apprenticeships), and courses to train and qualify seafarers, including the Merchant Navy Cadet Programme.

NAFC carries out a range of applied research and development projects in subjects relevant to the fishing and aquaculture industries, marine spatial planning and the marine environment in general. These include the assessment of shellfish stocks, analysis of fish catching trends, provision of fisheries management advice in support of policy development, and the preparation of the Shetland Islands Marine Spatial Plan and associated guidance. Research can be provided on a contract or consultancy basis.

Facilities at NAFC include a ship bridge simulator, research/teaching laboratories, a marine hatchery and engineering workshops. The NAFC Marine Centre operates a number of vessels for research, survey, training and other purposes – these include a 12m fishing vessel and a 12.5m survey/training vessel which is equipped to carry out seabed and hydrographic survey work and benthic sampling, as well as for nautical training.

NAFC employs 18.2 FTE staff in Marine Sciences, 16.5 FTE staff in Training and 10.1 staff in Central Services.

The NAFC Marine Centre campus is located at Port Arthur in Scalloway.

Tertiary Education Sector in Shetland: Strategic Plan 2017-2019

A joint strategic plan for the tertiary education services in Shetland, comprising Shetland College, NAFC Marine Centre and Train Shetland, was developed in 2017 as a response to the requirement for a closer integration of services, with a view to integration of management structures in the future. The plan describes the following vision:

> *"NAFC Marine Centre, Shetland College and Train Shetland will work together to help build the future of Shetland through education, training and research".*

The joint strategic plan identifies six strategic goals for the period up to 2019:

- Respond to the needs of Shetland;
- Deliver high quality learning experiences and successful outcomes for all learners;
- Carry out high quality research;
- Provide high quality governance, leadership and management structures;
- Grow our business;
- Build sustainability.

The Tertiary Education in Shetland Operating Plan 2017-2019 identifies a series of key actions scoped to deliver against each strategic goal.

A summary of approved budgets for the combined tertiary education services for 2018/19 is provided below:

Table 2.1 Summary of combined SC, NAFC and TS approved budgets 2018/19

EXPENDITURE	**£,000**
Employee Costs	5,115
Premises Costs	1,373
Operating Costs	1,720
Total Expenditure	**8,208**
INCOME	**£,000**
SFC Funding	-2,407
Curricular Income	-1,652
Research Income	-955
Other Income	-1,102
Total Income	**-6,116**
(Favourable)/Adverse	**2,092**

2.2.2 Business strategies

Local

Shetland Islands Council: Our Plan 2016 to 2020

Ensuring inclusive growth through developing the skills of local people and creating well-paid jobs is a core part of the Council's vision. The Council's Plan states:

> *"A stronger economy which has well-paid jobs available to more people has the potential to produce a more prosperous and fairer society in Shetland.*
>
> *The long-term community plan aim is for Shetland to have good places to live as well as sustainable economic growth with employment opportunities, and for our residents to have the skills they need to benefit from those opportunities."*

The Council's Plan highlights the following as priorities for improving the economy and quality of life in Shetland:

- The tertiary education, research and training project will have created an effective model for providing excellent services to our learners;
- There will be opportunities for people with all levels of skills, and there will be a close match between the skills that businesses need and those that the trained workforce have;
- We will have an economy that promotes enterprise and is based on making full use of local resources, skills and a desire to investigate new commercial ideas.

Shetland's Partnership Plan 2018-2028

The Shetland Partnership, of which the Council is a key member, is the Community Planning Partnership for Shetland. The Shetland Partnership Plan 2018-2028 reflects the shared vision of the local area and the partner organisations:

"Shetland is a place where everyone is able to thrive; living well in strong resilient communities; and where people and communities are able to help plan and deliver solutions to future challenges."

The Shetland Partnership Plan sets out the shared priorities of the Shetland Partnership for 2018-2028, which are as follows:

- People
    - Individuals and families thrive and reach their full potential
- Participation
    - People participate and influence decisions on services and use of resources
- Place
    - Shetland is an attractive place to live, work, study and invest
- Money
    - All households can afford to have a good standard of living.

The following targets will be addressed by maintaining and developing a sustainable TERT sector in Shetland:

- 97% of school leavers will be in positive destinations (education, employment, training, and personal development) in 2021, rising to 98% by 2028 (currently 96.1%);
- No more than 15% of businesses are struggling to fill vacancies due to a lack of local labour in 2021, and no more than 5% in 2028 (currently 20%).

The relevant ten-year outcomes from the Plan are as follows:

- Place
    - People will be accessing employment, education and services in new and innovative ways designed to minimise barriers to involvement for all
    - Shetland will be attracting and retaining the people needed to sustain our economy, communities and services
- Money
    - Everyone will be able to access the support they need to maximise their income potential; including innovative, flexible

and entrepreneurial employment opportunities throughout Shetland

- People
    - The number of disadvantaged people and households in Shetland will be considerably reduced as a result of people being enabled and empowered to address the issues they face and helping others to thrive in the same way.

Securing the future of TERT services in Shetland will contribute to the Shetland Partnership Plan's achievement of the following National Outcomes within Scotland's National Performance Framework:

- We are creative and our vibrant and diverse cultures are expressed and enjoyed widely
- We have a globally competitive, entrepreneurial, inclusive and sustainable economy
- We are well educated, skilled and able to contribute to society
- We have thriving and innovative businesses, with quality jobs and fair work for everyone
- We are open, connected and make a positive contribution nationally.

<u>10 Year Plan to Attract People to Live, Study, Work and Invest in Shetland</u>

A key objective for the Shetland Partnership is to develop and implement a ten-year action plan to attract people to live, work, study and invest in Shetland. This plan is predicated on the link between a healthy demographic balance and the ability to sustain communities and services, and compete economically.

The vision of the 10 Year Plan is:

"In 2028 Shetland will:

- *Be an island of opportunity for young people, businesses and investors;*
- *Be a vibrant and positive student destination;*
- *Have a more balanced demographic profile and a growing population underpinned with more private sector jobs."*

In order to achieve this vision, one of the objectives of the plan is:

- Foster an environment that supports entrepreneurship and sustainable learning and research.

Under this objective, the plan identifies the following key priorities:

- Expansion of Modern Apprenticeship programmes across all disciplines, and access funding from the Apprenticeship Levy;
- Development of FE programmes in developing skills areas, and work with local businesses and community partners to develop a skills investment plan;
- Further develop HE programmes which retain and attract in students e.g. the performing arts programme with Shetland Arts in Mareel;
- Facilitate the provision of student accommodation;
- Provision of short courses for businesses;
- Priority will be given to highly applied, industry specific research that supports sectors of local economic importance;
- A vibrant post-graduate research community will be developed within Shetland.

Regional

University of the Highlands and Islands: Strategic Vision and Plan 2015-2020

The University of the Highlands and Islands (UHI) is an integrated university comprised of 13 academic partners across the Highlands and Islands region of Scotland, which include Shetland College and NAFC Marine Centre.

UHI is the Regional Strategic Body (RSB) for the Highlands and Islands, as established under the Further and Higher Education (Scotland) Act 2005 (amended by the Post-16 Education (Scotland) Act 2013) to support a regional approach to the planning and funding of college provision. As the RSB, UHI is accountable to the Scottish Funding Council (SFC) for the use of public funds which it disburses in the form of grant payments to partner colleges, and must exercise its functions to secure coherent, high quality further and higher education in its colleges, and monitor the performance of these colleges. The relationship between UHI (as the RSB) and the partner colleges is defined by Financial Memoranda, which detail the responsibilities and requirements of each for the stewardship of public funds.

The strategic vision for UHI comprises the following themes:

- The university will act as a force for economic, social and cultural change across the region by connecting and collaborating with businesses, public and third sector partners and communities;
- The university will continue to meet the needs of learners within the region, while targeting growth in our share of young entrants and students from beyond the region;
- The university's research will be recognised internationally, nationally and regionally for its quality and for its contribution to our remit of transforming and enhancing lives, the environment and the economy.

Highlands and Islands Regional Tertiary Outcome Agreement 2017-2020

Through Outcome Agreements, colleges and universities in Scotland set out what they plan to deliver in exchange for funding from SFC. The Highlands and Islands Regional Tertiary Outcome Agreement 2017-2020 details the agreed aims, priorities and outcomes for the delivery of education, research and training through the UHI, and how these will deliver on SFC objectives.

The aims, priorities and outcomes agreed in the Regional Outcome Agreement are:

- Access
    - HE Priority 1: Widening Access – learning that is accessible and diverse attracting and providing more equal opportunities for people of all ages and from all communities and backgrounds;
    - FE Outcome: Access – a more equal society because learning is accessible and diverse attracting and providing more equal opportunities for people of all ages and from all communities and backgrounds.

- High quality learning and teaching
    - HE Priority 2 and FE Priority – an outstanding system of learning that is accessible and diverse where students progress successfully with the ability, ideas and ambition to make a difference;
    - FE Outcome: an outstanding system of learning where all students are progressing successfully and benefitting from a

world-class learning experience in the hands of expert lecturers delivered in modern facilities;
    - Outcome: a more successful economy and society with well prepared and skilled students progressing into jobs with the ability, ideas and ambition to make a difference.

- Research
    - HE Priority 3: World leading research – world-leading universities, nationally and internationally connected with a global reputation for their research.

- Innovation
    - HE Priority 4: Greater innovation in the economy – a national culture of enterprise and innovation leading to a more productive and sustainable economy.

- High performing institutions
    - HE Priority 5: FE Outcome – a coherent system of high-performing, sustainable institutions with modern, transparent and accountable governance arrangements.

Highlands and Islands Skills Investment Plan

In October 2014, Skills Development Scotland (SDS), the Scottish Funding Council (SFC) and Highlands and Islands Enterprise (HIE) launched the *Skills Investment Plan (SIP) for Highlands and Islands*. This was the culmination of discussion, research and consultations on finding the best way to realise the ambitions of the three agencies to position the Highlands and Islands as a region with outstanding skills and the potential for development, in light of emerging economic opportunities.

The Skills Investment Planning approach is intended to bring skills demand and supply closer together, and to contribute to a vibrant economy by supporting individuals to develop the skills needed by industry. The H & I SIP sets out:

- the region's economic performance and sectoral and local assets;
- the performance of the regional labour market and associated demographic challenges;
- skills issues facing employers within the region;

- opportunities and challenges related to future economic and employment growth;
- assessment of current education and training provision.

This extensive and robust evidence base is used as the basis for a framework for future regional action on skills issues. Five key themes were identified as priorities for action with a range of specific interventions and activities identified for each. The themes are:

- Meeting the current skills needs of employers;
- Planning for the future;
- A region for young people;
- People attraction and place attractiveness;
- Strengthening the employer voice in the skills system.

The actions set out in the SIP are intended to have an impact on:

- numbers of young people entering positive destinations on leaving school;
- numbers of young people staying within the Highlands and Islands on leaving school, college and university as a result of good quality education, training and employment opportunities being on offer;
- reducing the number of businesses reporting difficulties accessing skills training;
- increasing the number of businesses reporting growth in their workforce;
- the scale and range of continuing professional development provision available within the Highlands and Islands.

The SIP is helping guide skills planning and investment decision-making within the Highlands and Islands. However, the Highlands and Islands is a large and diverse area, and employment and skills issues are often local in their focus – reflecting the boundaries of local labour markets, and the specifics of local economies.

In response to the above, a local Skills Investment Plan is currently under development.

National

Scotland's Economic Strategy

Scotland's Economic Strategy describes the actions the Scottish Government plan to take to develop the priority of sustainable growth. These include:

> *"Invest in Scotland's people at all stages of life to ensure that we have a well skilled, healthy and resilient population and an innovative, engaged and productive workforce;*
>
> *Support the development of highly innovative businesses across the Scottish economy;*
>
> *Encourage more of Scotland's diverse business base to engage in innovation and research and development as part of their day-to-day activities;*
>
> *Continue to support the high-impact, world-class research of Scotland's Universities and improve levels of commercialisation of academic research."*

Colleges Scotland: Colleges Sector Statement of Ambition (Draft) 2018-2023

The purpose of Colleges Scotland's Statement of Ambition is to set out a vision, mission and set of values for the college sector for the next five years (2018-2023). A set of underpinning ambitions have also been outlined which will support the achievement of the vision by the sector:

> *"Colleges have a critical role supporting individuals and businesses in Scotland as well as providing community leadership in the regional economies in which we are situated.*
>
> *Our sector's three ambitions are outlined below:*
>
> *1. Supporting a successful Scottish economy today and into the future*

2. To be at the heart of Scotland's communities

3. For our people: students, staff and partners"

The future

The development of a sustainable TERT sector should be clearly seen as an investment in the future of Shetland, and one which should be undertaken in partnership with community planning partners, learners, employers and the local community.

Growing the working age population and developing Shetland as a destination of choice to live, work, study and invest are core aims for community planning partners in Shetland. In order to achieve these aims, it is essential to establish and maintain a TERT sector which is financially sustainable, student-focused, delivers a high quality learning experience and which is properly engaged with learners, businesses and communities.

The political priorities of the Council, community planning partners and government are clear in placing TERT services at the heart of economic policy, given their vital role in delivering improvements to the economy through skills development, training, research and providing varied and high quality options for school leavers. This sector is crucial to the ambitions of the Shetland Partnership Plan and the 10 Year Plan, not least in the targets of creating new private sector jobs, growing the student population and increasing the number of local apprentices.

Current services are expensive to maintain, and are operated separately in a manner which is not conducive to implementing a cohesive strategy for the local sector. In order to reduce the draw on public finances which support the separate institutions, and to develop a more sustainable, responsive and learner-friendly sector to grow the student population and take advantage of economic opportunities, restructuring is required.

Demand for a more highly skilled workforce is borne out from the results of the Shetland Employment Survey 2017, which showed that 20% of employers cannot fill vacancies due to a lack of local labour, while 23% said that the basic employability of candidates for vacancies is a problem. Further, of those businesses who stated they had plans to invest in the next three years, 28%

said that they have plans to invest in their workforce, while only 27% of local employers said that they were able to source all their training needs in Shetland.

Following the Shetland Employment Survey 2017, a dedicated skills survey was carried out in order to gather information on recruitment and skills issues, in order to inform local skills planning. As part of this survey, employers were specifically asked about experiences with the local tertiary sector, and the draft report makes the following summarised statement:

> *"It was felt both local training providers and SIC could liaise more with industry, to discuss potential future workload, and required skills and training. It was further felt that local training providers could be more proactive in terms of marketing their services to employers. Long waiting periods for training courses locally, cancellation of courses at short notice, irregular running of courses, and minimum numbers required for training were raised as issues. Increased use of IT, web and cloud based services was raised as a major change in recent years."*

Only 24% of respondents to the skills survey stated that they felt communication and consultation between employers and training providers was good, while 68% felt that employers should be involved in curriculum development, suggesting a need for change in the local sector.

Uncertainty over the future of TERT services in Shetland has ongoing negative impacts for the sector, including loss of key staff, inability to invest for the future, difficulties in cultivating and maintaining strategic relationships and the lack of coherent long-term planning. For those reasons it is essential to identify a suitable option for delivery of these services and provide a clear direction of travel for the future.

Context for the Full Business Case

SFTCT confirmed at a meeting of their Board on 23 November 2017 that they were committed to the process of planned merger and would assist fully with the development of a business plan for the whole sector.

At a joint meeting of representatives from Shetland College, NAFC Marine Centre, SFC and UHI on 16 April 2018, it was agreed that a business case be

prepared examining options for a restructuring of the organisations involved in delivering tertiary education, research and training in Shetland.

A Strategic Outline Case (SOC) was developed which identified a long list of options, and then refined these options to determine a preferred way forward for the sector.

The SOC was presented to Shetland Islands Council on 23 May 2018 [Min Ref: 30/18]. The decision of the Council was:

- To approve the merger of tertiary education, research and training services as the preferred way forward as identified in the SOC;
- To note the preferred way forward contains two options; namely the 'Host' NAFC option and the New College option;
- To delegate authority to the Chief Executive (or her nominee) to take any action and decisions required to develop the Full Business Case for the preferred option, which will be reported to Committees, Board and Council for a decision in October 2018;
- To delegate authority to the Chief Executive (or her nominee) to procure and engage any specialist legal or other services required to develop and finalise the Full Business Case;
- To agree that the delegation of authority granted to the Shetland College Board on 29 June 2016 [Min. Ref. SIC 53/16] to support potential further stages of the Project remains in place until September 2019;
- To delegate authority to the Director of Development (or his nominee), in consultation with the Chair of Shetland Fisheries Training Centre Trust (SFTCT), to extend the Interim and Joint management arrangements up to the end of the 2018/19 academic term (July 2019).

Following the decision, a Project Board was established consisting of the Chief Executive of Shetland Islands Council and the Interim Joint Principal of Shetland College, NAFC Marine Centre and Train Shetland. A Project Initiation Document was drafted and approved, and a Project Manager appointed to establish a team to develop the various workstreams necessary to inform the merger decision.

The workstreams identified were:

- Business Development;
- Curriculum;
- Estates;
- Finance;
- Governance;
- IT;
- Research;
- Staffing and HR;
- Student Engagement, Support and Marketing;
- Vision and Culture.

The Full Business Case is based on the information generated from the workstreams.

2.3 Part B: The case for change

2.3.1 Project objectives

The last few years have seen considerable efforts undertaken to determine the future of the TERT training sector in Shetland, specifically with regard to the future governance and operation of Shetland College UHI (including Train Shetland) and NAFC Marine Centre UHI. Currently, services are financially unsustainable and are encumbered with complex governance arrangements – these are issues which must be resolved in order to encourage growth in the sector and secure the benefits which the sector delivers for the future.

In order to grow the student population, to increase income and impact from research and development, and to continue to provide positive impacts to the local population through improving skills, it is necessary to develop a financially sustainable model which is business-driven and responsive to local needs, and which can retain and develop the resources required to deliver high quality learning and research services.

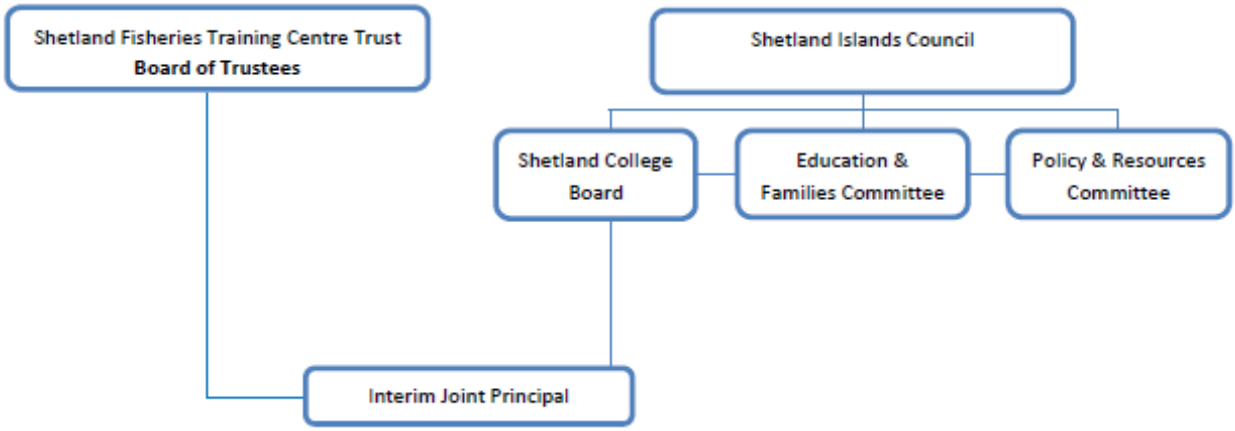
In terms of scale, on the basis of approved budgets the combined cost of operating Shetland College UHI, NAFC Marine Service UHI and Train Shetland for 2018/19 is £8.2m, with a combined income estimated at £6.1m. This results in an estimated funding gap of £2.1m.

2.3.2 Existing arrangements

Shetland College UHI (including Train Shetland) is managed by the Interim Joint Principal and is part of the Council's Development Directorate. The College reports directly to Shetland College Board on operational matters and Education and Families Committee on wider strategic matters. Staffing issues are a matter for the Policy and Resources Committee.

NAFC Marine Centre is also managed by the Interim Joint Principal. SFTCT has overall authority for NAFC Marine Centre.

The Interim Joint Principal reports to both Shetland College Board and SFTCT, as per the following governance structure:



Directly reporting to the Interim Joint Principal are:

- Acting Depute Principal (with responsibility for academic and quality management);
- NAFC Head of Central Services;
- NAFC Joint Heads of Marine Science;
- NAFC Head of Training and Skills (vacant);
- Acting Train Shetland Short Courses Manager;
- Acting Train Shetland Vocational Training Manager (shared post);
- Acting Shetland College Operations Manager (shared post);
- Shetland College Administration Manager.

Finance, legal, human resources and other corporate services for Shetland College are currently managed by the relevant Council departments. These services are managed in-house by NAFC Marine Centre.

2.3.3 Business needs

The combined TERT sector is currently financially unsustainable. The total funding gap identified on the basis of approved budgets for 2018/19 is £2.1m. Given the continuing pressures on Council budgets, and the requirement of local authorities to act in accordance with best value principles, and the need for continuing investment, it is essential that a delivery model be established which allows the sector to become financially sustainable.

Governance arrangements differ across the different services, but the requirements for Shetland College to fit within the Council directorate structure (with authority ultimately coming from Council committees), and the requirement for Council funding to support NAFC Marine Centre, mean that arrangements are complex and not conducive to collaborative strategic planning, timely decision-making or the development of a single 'voice' with which to market and promote the sector. Simplification of governance and management is required to enable a more entrepreneurial, stable and customer-focused environment.

Arrangements at almost all levels of management in the respective services are currently on an interim basis either utilising short term and/or acting up contracts to fill key gaps, or leaving posts unfilled. This must be replaced with a fit-for-purpose management structure with permanent posts.

The ability to deliver on strategic goals for the local sector is hampered by the complexity of current arrangements, the unsustainable financial position, and the overall instability and uncertainty faced by the sector. Delivering the maximum benefit for people and businesses in Shetland, and promoting a high quality, innovative environment to schools, employers and partners with a single voice is essential for the future of the sector and the realisation of economic goals for Shetland. Future strategic planning must include strategies for business development and marketing which emphasise growth and employer engagement.

A single voice is also essential for the maintenance of relationships with key strategic partners and enablers, with particular emphasis on UHI and SFC. UHI

is keen that the instability relating to its affiliated partners in Shetland is resolved to the good of the sector and to learners in Shetland, while the SFC has made it clear that the current situation of funding two institutions in Shetland is undesirable and unsustainable, and will not continue to support it. The resolution of this is vital for the future of skills and training delivery in Shetland, while the maintenance of quality standards set by other delivery partners, including the Scottish Qualifications Authority (SQA), SDS (through whom Modern Apprenticeship contracts are managed), Seafish, CSCS, REHIS and others is essential for the current functioning and future development of the services.

The impacts of not proceeding with merger

Current arrangements, with three separate institutions, are not financially sustainable. Without a decision to merge, the ability of services to operate in the future will be in doubt. A number of key resource gaps limiting the ability of the sector to operate effectively, notably in business development, marketing and student support, have been identified and without resourcing these areas the ability of the institutions to grow business and delivery high quality services will be impacted.

The Council's auditors are required to consider the Council's arrangements in place to secure Best Value and to ensure value for money, and have been aware that a project was underway in order to achieve this with regards to tertiary education in Shetland. While having previously not commented on the provision of deficit funding to the sector, the auditors would be required under auditing standards to consider the compliance of this arrangement (or any subsequent arrangement) with the Council's statutory duty to secure Best Value and the Code on Following the Public Pound if concerns are raised that the arrangement is non-compliant. This will become particularly relevant if a decision not to merge is taken, as there will no longer be a process in place to achieve Best Value in the tertiary sector in Shetland.

Given that this process has gone through various iterations over a number of years, staff morale has suffered considerably as a result of ongoing uncertainty. The failure of yet another attempt to resolve this issue will lead to a loss of confidence, further impact on morale and lead to even more uncertainty.

The requirement to maintain multiple management and governance structures will be a lost opportunity in terms of streamlining the services and achieving integration.

Without a TERT sector which is financially sustainable, appropriately managed and governed, and which is capable of sound strategic and operational planning, it is unlikely that many of the goals of the Shetland Partnership Plan and the 10 Year Plan can be achieved. It is also likely that the loss of key services as a result of financial instability will have a negative impact on businesses and individuals who require local access to training and qualifications.

Issues arising from consultation

Between December 2017 and February 2018, consultations were undertaken with staff and students of Shetland College, NAFC Marine Centre and Train Shetland to examine attitudes to proposals for the future of the services. What follows is a summary of the full report.

Staff Consultations

A variety of investigative techniques were used to determine attitudes to the status quo and to proposals for the future of the services. The first table presents the results of an activity in which staff were presented with a series of positively written statements and asked to indicate the extent with which they agreed or disagreed. The table presents the statements and the net agreement score, calculated by subtracting the percentage of those who disagreed from those who agreed.

Table 2.2 Staff consultation – summary of statements and net agreement score

	Net agreement score (-100 to +100)			
Statement	**NAFC Marine Centre**	**Shetland College**	**Train Shetland**	**All**
My organisation would benefit from closer working with the other post school education organisations in Shetland	+39	+77	+90	+53
The student experience in Shetland could be improved with much stronger joint working amongst NAFC Marine Centre, Train Shetland and Shetland College	+35	+63	+50	+49
There is very good cooperation and collaboration amongst staff within the organisation	+49	+37	+90	+47
There is very good cooperation and collaboration between my organisation and the business community in Shetland	+72	+3	+100	+43
At present I feel very secure about my future employment	-15	-16	0	-14
There is very good cooperation and collaboration amongst NAFC Marine Centre, Train Shetland and Shetland College	-26	-40	+90	-21

Although there is some level of disparity in the responses from the individual organisations, in general responses to this exercise suggest that staff believe that there are benefits to be gained from the tertiary sector working more closely together, and improvements to the student experience could be realised from stronger joint working. There was also general agreement among staff regarding good levels of collaboration and co-operation with the local business community.

However, positive agreement with these statements was offset with disagreement that there is good cooperation and collaboration between NAFC Marine Centre, Shetland College and Train Shetland, and that staff currently feel secure in their employment.

Overall, the responses suggest that staff see potentially significant benefits from closer collaborative working, but that current arrangements have left many staff feeling insecure in terms of future employment.

Staff were also asked to rate the probability of achieving a successful outcome from a number of options under consideration—these were maintaining the status quo, merger of the organisations, or integration with UHI. The table below summarises the responses:

Table 2.3: Staff consultations: outcomes

	Chances of a positive (negative) outcome			
Option	**NAFC Marine Centre**	**Shetland College**	**Train Shetland**	**All**
Status quo	49% (51%)	42% (58%)	66% (34%)	48% (52%)
Merger	61% (39%)	64% (36%)	63% (37%)	63% (37%)
Integration within UHI	46% (54%)	53% (47%)	46% (54%)	49% (51%)

Across all staff respondents, the exercise above reveals that merger was rated as having the highest probability of a positive outcome, and was the only option which was considered to have a probability of success higher than 50%.

Student Views

Discussions in focus group sessions with students suggested broad agreement regarding the merits of merger, and a belief that there is a strong case for merger. Part of the consultation included sessions with student representatives, including class representatives, following which the student body submitted a letter outlining their interests, which included the following key points:

- It can no longer be considered good practice to exclude the student voice from governance arrangements, and students were clear in highlighting legislation that affords students two places on a college board of management;
- There is a consideration that the status quo cannot ensure that students can play a full part in governance arrangements, and that this can only be realised through merger;

- Students value the quality of contact they are afforded by relatively small class sizes;
- Students are keen to see investment in better student accommodation and facilities;
- There is a requirement to ensure much better transport links.

Trades Unions

Discussions were held separately with trade union representatives. A decision to merge will require continued and sustained engagement with trade union representatives on matters pertinent to their members as a consequence of any impacts on staff, HR changes, terms and conditions or other related matters.

2.3.4 Potential business scope and key service requirements

It is essential that the options selected for analysis have been scoped to cover the full extent of the project brief. The long list of options described in the Economic Case capture the most relevant methods of organising tertiary education, research and training provision operation, and include minimum and fully resourced, internal and external methods and maintaining the existing services as is.

The Project Scope includes:

- All existing tertiary education, training and research services operated by the Council as part of Shetland College and Train Shetland;
- All existing tertiary education, training and research services operated by SFTCT as part of NAFC Marine Centre;
- All staffing directly related to the above services;
- All property and assets required for operation of the above services;
- Existing and new contracts with service delivery partners and business customers;
- All academic and vocational accreditations and certifications held by the services in question.

The Project Scope excludes:

- Tertiary education and training operated by the Council as part of SIC Workforce Development or Adult Learning;

- Future plans for development of student accommodation.

2.3.5 Main benefits criteria

The Benefits Criteria are based on the aspects of project delivery which will best achieve the Critical Success Factors, and detailed in the Benefits Realisation Plan, attached as Appendix i.

2.3.6 Main risks

A list of key project risks has been drawn up and profiled using the Council's Risk Management procedure. Risks have been profiled using a scale of Likelihood (1 = Rare; 5 = Almost certain) against Impact (1= Insignificant; 5 = Extreme). Risks with a profile score 12 or higher have been deemed to be 'high' risk. The risks which have been profiled as 'high' are as follows:

Table 2.4 Project risks

Risk
Failure to merge
Failure to transfer existing contracts to merged college
Failure to secure sufficient merger funding from SFC
Failure to establish financial sustainability
Failure to secure favourable response to pensions issue
Failure to secure favourable outcome for estates issues
Failure to agree appropriate governance model
Loss of key staff
Failure to establish an achievable staff transfer plan
Failure to establish harmonisation of staff terms and conditions
Failure to agree on merged College name
Failure to agree on strategic direction
Failure to develop a shared quality culture
Failure to establish merged college identity

Risk management is discussed more fully in the Management Case. A draft risks matrix is attached as Appendix ii.

2.3.7 Constraints

The following have been identified as constraints within which the Project must operate:

- Quality standards of key service delivery partners (e.g. UHI, SFC, SQA);
- Council spending limits;
- Timescales – preferred option required in May 2018 with Full Business Case to be completed in December 2018;
- Provisions of the Further and Higher Education (Scotland) Acts 1992 and 2005;
- Provisions of the Post-16 Education (Scotland) Act 2013.

2.3.8 Dependencies

The main external influence on the project is the requirement to maintain funding from the Scottish Funding Council for tertiary education delivery in Shetland.

The project must remain a strategic and political priority for SIC and SFTCT, and appropriate resources (e.g. staff time) allocated towards this at the direction of the Chief Executive and Interim Joint Principal.

3. THE ECONOMIC CASE

3.1 Introduction

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

3.2 Critical success factors

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

1) Develop a financially sustainable model for delivery of tertiary education, research and training in Shetland
    - Establish the most cost effective way to deliver the services in Shetland
    - Reduce the level of annual subsidy from Shetland Islands Council

2) Maintain and enhance quality standards in all aspects of service delivery
    - Ensure ability of services to meet quality requirements set by government and service delivery partners

3) Maximise future income
    - Ability to achieve income targets from students, learners, research and business services
    - Ability to respond quickly to income generating activity

4) Commit to a single clear, consistent and effective voice for the tertiary sector in Shetland
    - Develop a targeted business development and marketing strategy for the sector, with clear targets for growth and engagement
    - One clear, strong and focused voice at regional and national tables

5) Maintain local tertiary education, research and training presence, and build strong relationships with resource enablers and strategic partners

- Maintain physical presence in Shetland
- Build strong relationships with external organisations vital to the successful delivery of services

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

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

3.3 The long-listed options

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

Table 3.1 Summary of long list options and findings

Options		Definition
1	Do Nothing	No further action is taken to change governance, management and funding arrangements of Shetland College, NAFC Marine Centre and/or Train Shetland.
2	Status Quo	Maintain existing governance, with joint management posts regularised, joint strategic plan adhered to and joint curriculum developed as per interim arrangements. Requirements for operational efficiencies would continue.
3	Create a single tertiary education, research and training centre within the Council ('Host SIC')	NAFC Marine Centre becomes part of the Council. Employment of staff is transferred, and all assets and liabilities are taken on by the Council.
4	Create a single tertiary education, research and training centre within UHI ('Host UHI')	Shetland College, NAFC Marine Centre and Train Shetland transfer from existing arrangement to organisational and operational control of UHI. Staff, governance and management transfer to UHI.
5	Create a single independent tertiary education, research and training centre, which is part of the UHI network ('Host NAFC')	Creation of independent organisation comprised of operations of Shetland College, NAFC Marine Centre and Train Shetland, which is part of the UHI network, with SFTCT as the 'host' organisation.
6	Create a single independent tertiary education, research and training centre, which is part of the UHI network ('New College')	Creation of a new, independent organisation comprised of operations of Shetland College, NAFC Marine Centre and Train Shetland, which is part of the UHI network.

7	Shetland College and Train Shetland remain within SIC as part of Education & Families Committee; NAFC Marine Centre remains as is	Strategic oversight of Shetland College and Train Shetland is more closely aligned with SIC Children's Services. NAFC remains as per status quo.
8	Provide only minimum amount of tertiary education, research and training in Shetland	No further investment from SIC in tertiary education, research and training. UHI and SFC fund only basic services.
9	Provide no tertiary education, research and training in Shetland	Disestablishment of Shetland College and Train Shetland by the Council. Core funding to NAFC Marine Centre discontinued.

3.4 Short-listed options

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

The results of the scoping exercise are as follows:

Table 3.2 Summary of scoping exercise

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

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

As shown above, Options 7, 8 and 9 were considered to be unable to achieve some or all of the Critical Success Factors, and were unable to demonstrate affordability, achievability or a fit with the Strategic Case. For that reason, these

options were discounted at this stage and not subject to the detailed scoring against the Critical Success Factors.

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

3.5 Options appraisal

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

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

The outcome of the detailed scoring process was as follows:

Table 3.3 Summary of initial scoring process

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

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

- Option 5 – 'Host' NAFC
- Option 6 – New College

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

In line with Green Book guidance on using the Five Case Model, development of the Full Business Case requires that options appraisals be revisited, and "*the FBC must demonstrate that the conclusions of the economic appraisal…remain valid*." This must take into account where "*new information affecting the ranking of the options may have become available*."[4] For this reason, further information and recommendations arising from legal advice and diligence reports have been considered and factored into the revised options appraisal.

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

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

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

1) Develop a financially sustainable model for delivery of tertiary education, research and training in Shetland
    - Establish the most cost effective way to deliver the services in Shetland
    - Reduce the level of annual subsidy from Shetland Islands Council

[4] *Public Sector Business Cases – Using the Five Case Model; Green Book Supplementary Guidance,* p.107

- *Ensure the ability of the merged college to achieve assigned status to UHI as the Regional Strategic Body*

2) Maintain and enhance quality standards in all aspects of service delivery
    - Ensure ability of services to meet quality requirements set by government and service delivery partners

3) Maximise future income
    - Ability to achieve income targets from students, learners, research and business services
    - Ability to respond quickly to income generating activity

4) Commit to a single clear, consistent and effective voice for the tertiary sector in Shetland
    - Develop a targeted business development and marketing strategy for the sector, with clear targets for growth and engagement
    - One clear, strong and focused voice at regional and national tables

5) Maintain local tertiary education, research and training presence, and build strong relationships with resource enablers and strategic partners
    - Maintain physical presence in Shetland
    - Build strong relationships with external organisations vital to the successful delivery of services

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

It is essential that the merged college will be an 'assigned college' – this means that the college will be assigned to a Regional Strategic Body (RSB) for the purposes of delivering further education outcomes. It is through the RSB that assigned colleges receive grant funding from the Scottish Funding Council – the RSB for the Highlands and Islands is the University of the Highlands and Islands. All assigned colleges must comply with a number of requirements, including a Financial Memorandum between themselves and the RSB (which,

among other things, requires that colleges must operate on a financially sustainable basis), the 2014 ministerial guidelines on college board membership, and Colleges Scotland's Code of Good Governance. There are a number of factors within each if the elements above which raise questions over the ability of Option 5 to meet the requirements for assigned status, including:

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

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

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

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

Charity Regulator (OSCR), these would be required regardless of the Host or New College model being chosen.

On the basis of the foregoing consideration and the revised Critical Success Factors, the two options identified in the preferred way forward have been revisited and the scoring updated, as follows[5]:

Table 3.4 Summary of revised scoring process

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

3.6 The preferred option

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

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

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

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

4. THE COMMERCIAL CASE

4.1 Introduction

The purpose of the Commercial Case is to describe the proposed deal in relation to the preferred option outlined in the Economic Case.

4.2 Required services

The required service to be delivered as part of the proposed deal is a model for delivery of tertiary education, research and training in Shetland which:

- is financially sustainable;
- incorporates a model of governance and management which is appropriate to local conditions and is fit-for-purpose;
- delivers a high quality learning and training experience, maintaining and enhancing current quality standards;
- delivers high quality research services to the benefit of local industry;
- is responsive to local needs and delivers against strategic targets as identified in the Strategic Case;
- is physically located in Shetland;
- consists of a single consistent identity for the tertiary sector in Shetland;
- is capable of delivering a clear business development and marketing strategy emphasising engagement and growth.

The details of the required service, and the actions required to deliver this, are described more fully below:

4.2.1 Governance, Management and Legal

<u>Legal Structure</u>

The new college will be established as a non-incorporated college. This means that the college will not be incorporated under the Further and Higher Education (Scotland) Act 1992. Colleges which are incorporated under this Act are now classified as public bodies following reclassification by the Office for National Statistics in 2014.

SFC and UHI have confirmed that non-incorporation is acceptable for the new college. The process of establishing a non-incorporated college is a much streamlined process in comparison to establishing an incorporated college.

The new college will be an assigned college to UHI, as the Regional Strategic Body (RSB) for the Highlands and Islands. The formal relationship between the UHI (as the RSB) and the new college (as the Assigned College) is established by a Financial Memorandum (FM). The governing body of the new college is responsible for ensuring compliance with the FM, which sets out:

- The relationship between the RSB and the new college, and the responsibilities of each for the proper stewardship of public funds;
- General requirements that apply to the new college, including internal and external audit requirements, student activity and support, tuition fee policy and governance;
- Additional requirements for non-incorporated colleges, including capital finance and contingent commitments.

This will require Scottish Ministers to promote an order to assign the new entity to UHI as regional strategic body (s 7C(1) of the 2005 Act) and potentially a further order to remove Shetland College (as per SIC) s.7(1) (a) of the 2005 Act.

There are currently two independent non-incorporated colleges within UHI, which are Argyll College and West Highland College. The FM for the new college will reflect the agreements with these colleges.

A summary of the legal requirements of merger models identifies that a new company limited by guarantee or Scottish Charitable Incorporated Organisation (SCIO) will require to be established. Staff, assets, liabilities etc. would be transferred by way of a transfer agreement from SIC and NAFC to the new entity on the vesting date.

The new organisation must have charitable status in order for SFTCT to transfer all or part of their assets for no financial consideration (as would normally be the case in a merger). There is a presumption that charitable assets will remain within the charity sector, unless sold at a market rate – if transferred to a non-charitable organisation, the sale of NAFC Marine Centre and associated assets at full market value would be acceptable, but a transfer at a nil or nominal value would not be.

Setting up an unincorporated college will require an application to OSCR seeking consent to enter the new college onto the Scottish charity register and become a recognised charity with a Scottish charity number. This process usually takes 2-3 months to complete, so this would require to be done before vesting date.

Governance

The new college must be governed in accordance with the Code of Good Governance for Scotland's Colleges, which sets out requirements for compliance with the following principles under the Code:

- Leadership and Strategy;
- Quality of the Student Experience;
- Accountability;
- Effectiveness;
- Relationships and Collaboration.

While the new college will be non-incorporated, it will be expected to follow the 2014 ministerial guidance on college sector board appointments as this relates to assigned incorporated college boards. This provides that the college board must:

- Comprise between 13 and 18 members;
- Comprise the following:
    - A chair;
    - The principal of the college;
    - Two elected staff members (one teaching and one non-teaching);
    - Two nominated student members;
    - Non-executive board members[6].

The chair and non-executive members must:

[6] An assigned college board must therefore have between 7 and 12 non-executive board members.

- Adhere to the Nine Principles of Public Life[7] and act at all times in good faith and in the best interests of learners;
- Have significant experience or knowledge of:
    - Further, higher and secondary education or the college student experience; or
    - Industry, commerce, finance, the Third Sector, public service or trade unions; or
    - The region (or a relevant part of it) and its relevant needs.

The college must conduct a fair, open and merit-based recruitment process for appointment of board members, adhering at all times to the 2014 guidance. Taking into account the anticipated opportunities and challenges facing the college, current and future needs of the college board should be identified, including, for example, finance, human resources, legal, estates, etc. A role description for non-executive Board Members is attached as Appendix iii.

In respect of student members of the college board, it is expected that local elected officers of the Highlands and Islands Students Association will be appointed to these positions.

The first step in forming the new board of management will be the establishment of a Shadow Board which will take forward the merger. It is proposed that the Shadow Board is created as soon as possible to ensure that there is clear leadership of the merger process, and that the decisions required for the implementation of merger can be made in a timely manner.

The composition of the Board must ensure that the required skills and experience necessary for the Shadow Board to carry out its duties are represented. Duties and responsibilities of the Shadow Board are described more fully in the Management Case.

The following considerations will apply:

- The role of the Shadow Board will be to take forward the merger process;
- The Shadow Board will be a formal sub-committee of each Board;
- Members of the Shadow Board will remain as full members of their existing Boards until vesting day for the new college;

[7] Selflessness, integrity, objectivity, accountability, openness, honesty, leadership, public service and respect.

- When appointed, the Principal Designate will become a member of the Shadow Board;
- The Shadow Board will keep its composition under review, including the skillset of the overall group, and recruit additional or co-opt new members as required;
- On vesting day, the Board of Management for the new college will be constituted with the members of the Shadow Board.

Management

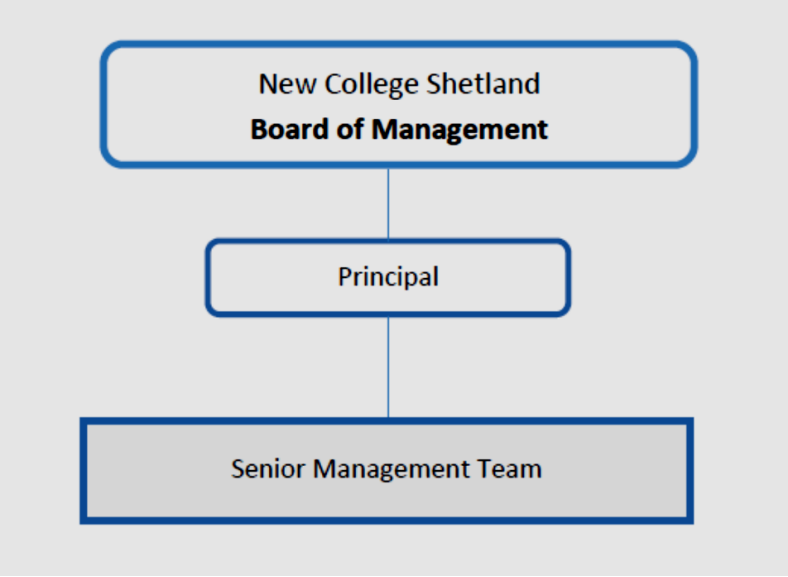
The first appointment which will take place during the merger process will be the Principal Designate, who will take on the role of Principal and Chief Executive of the merged college following vesting date, and will have responsibility for leading the restructure at the direction of the Shadow Board.

The appointment of the Principal will be subject to an open and transparent recruitment process, which will be undertaken by a specially appointed recruitment panel. The recruitment panel will comprise, at a minimum:

- Chair, SFTCT;
- Chair, Shetland College Board;
- UHI Principal (or nominated depute);
- Senior recruitment consultant.

The Scottish Funding Council advise that a new Principal should be appointed at the earliest possible date, while recommendations from Audit Scotland state that the chief executive for a merged organisation should be in post “not less than six months before the start of the new organisation” to ensure sufficient time for operational changes to be implemented and for the new Principal to lead the culture change and strategic planning for the new entity.” It is recommended that the recruitment panel membership be finalised and the panel be convened as soon as possible following a decision to merge.

The appointment of a single, independent Board of Management and a Principal and Chief Executive as key officer will create a much simplified governance and management structure:



The key responsibilities of the Principal prior to vesting day will be:

- to provide robust leadership prior to and during the college merger;
- to plan the integration of the new college;
- to lead the culture change required to create the new college;
- develop detailed plans for consultation and regular communication with staff, students and external stakeholders. This will include seeking input from individual staff, staff teams, trades unions and staff representatives regarding the new structure.

Upon appointment, the Principal Designate will be a member of, and be accountable to, the Shadow Board.

At vesting day, the Principal will take over full responsibility for the new college, including line management of the senior management team. In line with good practice it is intended that the first phase of the restructure will provide a senior management team model which will deliver robust strategic leadership and clear operational management.

The composition of the senior management team will be subject to the views of the Principal and consultation with staff. Financial assumptions relating to senior management arrangements for the new college have been informed by benchmarking with comparator colleges within the UHI network.

Pensions

Employees of the Council, and therefore Shetland College and Train Shetland, may be members of one of two separate pension schemes:

- Lecturers may be members of the Teachers' Pension Scheme, administered by the Scottish Government (Scottish Public Pensions Agency); or
- Other staff may be members of the Shetland Islands Pension Fund (SIPF).

Employees of SFTCT are eligible for membership of the SIPF, as SFTCT is an Admitted Body to the Scheme.

It is intended that the new college will be an Admitted Body to the SIPF. Due to the nature of the changes that are expected then a new SIPF Admission Agreement will be required by the new college at the vesting date.

In determining the basis of transfer from the funding perspective, three alternatives have been considered by the Actuary:

- Fully funded – 'clean slate' option which leaves no liability with SFTCT;
- Share of deficit (of funding level of ceding employer) - at the calculation date - on an ongoing basis.
- Share of deficit (of funding level of active members of the ceding employer) - pensioner and deferred members of ceding employer fully funded at the calculation date - on an ongoing basis.

Given the circumstances of transfer, it is considered that the most beneficial option will be to proceed on the basis of the fully funded option. This will leave no deficit remaining with SFTCT or with the new college upon commencement.

There are two major financial considerations resulting from the fully funded scenario:

- This scenario creates a cessation cost trigger to the estimated value of £2.5-3m[8] for SFTCT from the liabilities left, which should be paid at point of cessation;
- All new Admission Bodies (new Admission Agreements) will be required to provide some form of security, such as a guarantee, an indemnity or a bond, as set out in the SIPF Regulations. The security is required to cover some or all of the following:
    - the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
    - allowance for the risk of adverse market experience;
    - allowance for the possible non-payment of employer and member contributions to the Fund; and/or
    - the current deficit.

The provisions of the Further and Higher Education (Scotland) Act 2005 specifically prohibit SFC or UHI from acting as a guarantor in this manner. Therefore, it is recommended that the Council act as guarantor for the pension liabilities of the new college. This will involve the provision of a guarantee to the value of £4.3m, which will be reviewed periodically through triannual valuations.

Legal Due Diligence

A legal due diligence exercise was carried out by Anderson Strathern on behalf of the Project. The diligence exercise reviewed matters relating to:

- Governance issues, legal constitution, powers of governing bodies, partnership board and charity issues;
- Material contracts;
- Property;
- Intellectual property issues;
- Borrowing and funding issues;
- Employment and pensions;
- Litigation and disputes;
- Compliance.

[8] Calculated as at 31 October 2018

The conclusion of the report is that no material issues have been identified which would legally prevent merger.

4.2.2 Academic Benefits

The creation of the new merged college will allow for the enhancement and development of the distinctive, high quality specialisms offered by the partner organisations. The new college will be committed to a comprehensive and varied portfolio with distinct specialist provision across FE and HE.

The Board, management and staff of the new college will ensure that the needs of students will continue to be met and that the portfolio will be under continuous review, in preparation for and after merger, to ensure the curriculum offered is well co-ordinated, relevant and suited to meet the continuing needs of Shetland, the wider Highlands and Islands and Scotland, and upcoming challenges and opportunities.

In doing so, strategies and plans must take into account the priorities for Shetland laid out in the Shetland Partnership Plan, and the 10 Year Plan, and the identification of issues within the local economy, particularly expansions in economic activity (such as decommissioning) and difficulties experienced by local employers in recruiting suitably skilled staff.

As the northernmost partner of the University of the Highlands and Islands, the new college will broaden and strengthen the local connection to the aims of the University, and utilise the resources available through the network to benefit educational opportunities in Shetland, particularly through local access to higher education opportunities.

There is an anticipated growth in continuous professional development activity and part-time learning, and an expectation of modest growth and/or consolidation of high volume activity—such as social care and engineering—as demand for workers in those areas increases. There will be a continued emphasis on those areas which are highly vocational and with clear evidence of employability or study progression routes.

The merged college will ensure the curriculum facilitates synergies in learning, encourages creativity in students and staff, and promotes a flexible approach to the curriculum offer.

The merger proposal anticipates the creation of ‘Schools’ within the merged college, which will focus on the distinctive requirements of particular areas, some of which, such as marine studies and creative industries, are already acknowledged as high quality specialisms with regional, national and international reach.

The new merged college will prioritise inclusivity and diversity. A priority will be ensuring that access to courses and clear progression routes through study areas of choice will be available to all, and new approaches to delivery will be developed in an innovative and flexible manner in order to provide access to as wide a range of learners as possible.

The new college’s curriculum areas will make a vital contribution to the economic and social well-being of Shetland and the wider region. Through merger, the intention is to pool resources, expertise and experience to ensure that the curriculum meets the needs of students and employers, and further meets to strategic priorities of the Shetland Partnership, the University of the Highlands and Islands and the Scottish Government.

The academic strategies for the new college will underpin the ambition to deliver excellence in learning and teaching and to develop a curriculum portfolio which is dynamic and responsive to local, regional and national needs.

Ultimately, the core reason for creating a new college is to ensure that every learner has access to the right programme at the right place and time and is given options and choices to meet their individual needs, and match their motivation, talents and ability to progress to work or further study.

One single point of contact will ensure easier access and enable more coherent developments and links with employers, so that the curriculum portfolio better meets their current and future needs and in turn offers additional opportunities and benefits to students.

Learning and Teaching Strategy

The development of a single learning and teaching strategy for the tertiary sector in Shetland is key to delivering education and training of the highest

standard, within an educational environment that is fully inclusive and supportive.

While the component parts of the college will continue to deliver their specialisms, they will do so in an environment of innovation and development, with standardised practice where possible creating a single learning environment under which different disciplines can thrive and grow.

A proposed Learning and Teaching Strategy for the new college has been produced, the primary purpose of which is to ensure that everything that can be done to bring about high quality learning and teaching for all of the college's learners is undertaken and that sufficient and sustained effort is made to maximise the success of learners and their future prospects. The Strategy describes a number of strategic objectives under the following headings:

- Curriculum Design and Assessment;
- Achieving Excellence in Learning and Teaching;
- Achieve High Levels of Learner Success and Progression into Positive Destinations;
- Learner Pathways and Opportunities for Progression;
- Developing Skills for Learning, Work and Life;
- Hearing and Listening to the Learner Voice;
- Developing Creative, Enterprising and Digitally Literate Learners;
- Support for Learning.

Curriculum Development Plan

Insightful and rigorous curriculum development planning is fundamental to the success of the new college, to ensure the portfolio meets community and industry needs. It is essential that the curriculum is evaluated against economic and skills needs and local, regional and national policy drivers.

Through curriculum development planning the new college will seek to provide a relevant and dynamic curriculum at as many levels as possible, delivering programmes from introductory level through to HND, degree and professional workforce development qualifications.

The Board, Senior Management Team and Curriculum Teams must have in place the means which provide for regular and efficient consideration to be given to the existing and prospective curriculum.

The proposed Curriculum Development Plan for the new college contains the following aims:

- to develop a curriculum that is demand-led, of the highest quality, and which makes a significant contribution to Shetland's society and economy;
- to ensure that the curriculum is inclusive and aligned to meet the needs of employers, communities and individuals in Shetland, but also one that reflects regional and national priorities;
- to ensure that curriculum planning is closely aligned to the planning arrangements and mechanisms of Shetland Partnership and of the University of the Highlands and Islands.

Quality Assurance and Enhancement Policy

It is the ambition of the new college to be renowned as an organisation where the highest standards of quality are achieved and are integral to everything we do.

Considerations relating to quality permeate other policies, including Learning and Teaching, Curriculum Development, Research and Student Engagement.

However, in an environment where there is an increasing expectation on colleges to self-evaluate, it is essential to establish a policy which ensures the college takes a wide-ranging and coherent view of its approach to managing quality.

The proposed Quality Assurance and Enhancement Policy details the following requirements:

- To have in place a set of arrangements that are aimed at enhancing the quality of all aspects of the college's operations;
- To ensure that self-evaluative and reflective activity, and the gauging of the college's quality performance, is well-informed by current and comprehensive data and that the analysis is routinely acted upon;

- To have in place effective internal verification and audit processes;
- To have in place a course and unit approval process that assures the quality and sustainability of the college curriculum and which is aligned to the University of the Highlands and Islands processes in respect of higher education qualifications.

4.2.3 Student Issues

Student Support Services

A review of current student support services across the sector was carried out in order to identify gaps in current provision, explore best practice, develop a student support plan for merged college and to identify resources required. The scope of this work package included support for learning, student health and wellbeing, front line student support; guidance and employability, and student funding and finance. Issues reports arising from reviews of student support and wider support requirements identified key issues which are summarised below:

- Increased health and wellbeing support staff hours are required to ensure identified gaps in service are resourced adequately;
- To avoid confusion amongst students, PAT (Personal Academic Tutor) could be the term used for all students (FE and HE). Meanwhile, academic staff should have confidence in student support provision and be able to refer timely and efficiently so that their PAT and academic role is focussed on what it should be;
- PAT roles could be more effectively shared amongst team members within departments to avoid reliance on one individual;
- Student support services should be accessible, student friendly and outcome focussed with a 'Triage' model of delivery adopted. This would ensure front line staff are equipped with the right information and skills;
- Student support services are there to support the individual;
- Student support service information must be clearly communicated. Forms and support should be readily available to all on our website. The intranet or network drives should be avoided for student support guidelines, forms, etc. to make it accessible to all;
- UHI Single Policy Environment Project noted with relevant policies and procedures adopted to date. There will be a requirement to update and refresh applicable policies and procedures. Our support policies and

procedures should be published on our website rather than the Intranet to help improve communication and accessibility;

- No changes to Support for Learning Services suggested. However, 'Triage' delivery approach could result in improved administrative support for that existing role;
- Students should be able to access support anytime the college is open. Clear emergency signposting should be in place for times when the college is not open;
- Need to improve transition support in all areas including care leavers as well as school transition for learners with additional support needs;
- The Access and Inclusion Strategy highlights the need for further work to be done. This is seen as a priority area to focus on;
- Changes to bursary and student funding arrangements may be necessary for new college;
- Student support services should be accessible for all learners, ensuring the tertiary nature of our business is reflected in how we meet learner support needs;
- UHI Single Policy Environment Project noted;
- No changes to Library Services suggested, with current arrangements highlighted as being effective;
- No changes to facilities services arrangements apart from centralising room bookings;
- Need to ensure Student Registry service delivery is adequately resourced within support staff structure;
- GDPR, data handling as well as contract compliance could be combined;
- SITS to be integrated into all applications/enrolments to avoid manual data entry practices;
- Finance and course bookings systems should integrate with SITS;
- Current Train Shetland CRM procedures recommended for adoption for all admin/front line staff to ensure consistent approach.

There is an acknowledgement in assumptions that skills and experiences of existing staff must be utilised effectively in delivering student support services in the future, and that student support services have been under resourced and must be addressed. Financial assumptions have therefore been based on ensuring that student support services are open during college opening hours with necessary additional hours of staff time factored into costings, and ensuring that the following areas of responsibilities within services are adequately resourced:

- Engagement and international learning;
- Mental health and wellbeing;
- Student health;
- Schools liaison and transitions support;
- Guidance, careers and employability;
- Opportunities (e.g. internships, volunteering);
- Support for learning (non-academic – e.g. admin, support with completing PLSPs);
- Student funding.

Student Engagement

In February 2017, students from NAFC Marine Centre UHI and Shetland College UHI agreed to unite the local student voice for the benefit of all students, whilst maintaining their unique respective identities. The Local Student Partnership Agreement for 2018/19 was signed by Highlands and Islands Student Association (HISA), the Chair of Shetland Fisheries Training Centre Trust and the Chair of the Shetland College Board in August 2018.

A review of student engagement provision was undertaken to highlight relevant issues that may arise through merger. An issues report on student engagement identified the following as key issues for future developments, to ensure meaningful on-going engagement and dialogue with students:

- re-organise student representation and ensure fair representation for all students
- re-structure local HISA Officer positions;
- ensure student representation on College Board and College committees;
- review College feedback mechanisms;
- continue to develop our international educational opportunities programme;
- encourage initiatives and support students in improving ‘Student Community’.

4.2.4 Assets and Property

Estates

In order to inform future usage of estates and assets, a review was initiated to investigate estates issues which may impact on the proposed merger. The review generated an Asset Management Statement, which illustrates the challenges and opportunities that the proposed merger of estates may present for the current entities and a newly invested entity. It sets out the criteria for the required estates strategy that needs to be implemented post review on incorporation of a new entity.

It is vital that an Estates Strategy for a merged entity is produced. This must ensure that the existing estate and its facilities are utilised to their maximum potential and meet the college's strategic objectives while promoting:

- Sustainability;
- Accessibility;
- Environmental stewardship; and
- Safety.

Strategic objectives identified as part of the review are:

- ensure robust management of the college estate and its facilities across the multiple campuses and delivery points;
- ensure that the facilities are utilised efficiently and deliver value for money;
- create an environment for students and communities that inspires learning and prepares students for real work environments;
- be flexible and adapt to the changing requirements of curriculum delivery;
- create an inclusive, accessible environment that promotes equality and facilitates progression and achievement;
- support technological innovation;
- ensure that facilities are safe, healthy environments that are fit for purpose;
- appropriate investment which enhances the financial and physical sustainability of the College;

- ensure the college meets its responsibility for the stewardship of its public assets; and
- enable the delivery of sustainable, effective and relevant courses and activities that contribute to our quality of life.

The colleges utilise an extensive and diverse property estate spread over two geographically distinct areas in Lerwick and Scalloway. Most of the property portfolio involves direct and indirect provision of teaching, learning and research. However, the portfolio also contains office, catering, student accommodation and maritime infrastructure.

The financial projections for the business case are achievable if the property assets are made available to the new college at minimal cost. It is proposed that leasing costs in relation to buildings previously owned by Shetland Leasing and Property Ltd. (SLAP) are removed, and that the Council commit to an alternative arrangement which will result in a minimal value transaction. This arrangement will be established in the next phase.

It is assumed within the financial projections that the building currently occupied by Train Shetland will not form part of the new college estate.

ICT

In order to inform future integration systems and processes, a review was initiated to investigate ICT issues which may arise during the proposed merger.

The purpose of the review was to investigate issues relating to the transfer of ICT services from existing arrangements to merged college, including:

- Issues relating to existing corporate services functions;
- ICT resource requirements for merged college;
- Transfer of Train Shetland staff from existing (SIC) network to new (UHI) network;
- Continuing functionality of CRM and management systems (e.g. Learnsmarter, FIPS).

The scope of the review included: staff; service delivery and support; operating costs; capital costs; ICT hardware, systems and software; web presence; corporate systems; printing; telephony; virtual server environment; backup and

replication; local network provision. UHI top sliced costs associated with certain services have been excluded from scope.

It is assumed that the merged college will be using the UHI network and Wide Area Network (WAN) links as its primary backbone, and that core services such as Active Directory, Domain Name System, etc. will be provided through the UHI.

The review established that:

- There are no major issues relating to the transfer of Train Shetland staff to the UHI network;
- There are no major issues relating to the continued use of CRM and management systems currently used by Train Shetland after the merger, however there may some minor issues relating to branding, and further investigation is required to determine whether the existing systems will meet the requirements of the merged college;
- Issues relating to corporate service functions such as finance, payroll and HR will have to be addressed prior to the merger. It is recommended that a separate project or work stream is initiated to fully research and procure suitable systems should the merger go ahead;
- Integration of the two existing Active Directory UHI partner sites into the merged college site will require an ICT led project to deliver the desired outcome;
- Integration of the two existing number plans on the UHI telephony system will require an ICT led project to deliver the desired outcome. This can be combined with the Active Directory project using the same ICT teams.

There will be many strategic, operational and technical requirements relating to ICT that need to be considered prior to, and after the merger. These include, but are not limited to:

- Developing an ICT strategy for the new college;
- Developing a single website for the new college;
- Rolling equipment upgrade programme;
- Existing software licensing and subscriptions to new organisation.

4.2.5 Research, Marketing and Commercialisation

Business Development

In order to achieve the goals, aims, themes, priorities and targets it is essential to establish and maintain a business development function within the TERT sector in Shetland which is co-ordinated, effective, responsive, proactive, inclusive, well-informed and operated and forward looking, with the ability to foster an entrepreneurial environment and seek financially sustainability. It must also focus on the development of the merged college and be properly engaged, both internally within the college, and with strategic partners, learners, and businesses. A Business Development Plan was produced which articulates the proposed approach to these issues.

Both a proactive approach and the ability to react quickly to potential business development opportunities are required. This may be at an individual staff member, sectional, cross-sectional or overall organisational level. It is therefore suggested that an open door policy in relation to business development is adopted, and that in addition an annual consultation be held with all staff, to gather suggested business development ideas or proposals. These changes will have to be driven from the top down, both at Principal and Board level.

With regard to implementing change in relation to business development the College will:

- Implement cultural change to facilitate business development;
- Establish a business orientated philosophy from both Principal and Board level down.

With regard to internal communication and engagement in relation to business development the College will:

- Ensure that communication flow across the college both to and from the business development function is effective, appropriate, clear, concise and timeous;
- Establish a business development forum involving all areas of the college operation;
- Establish a regular meeting schedule between BDS and other sections of the college;

- Establish an open door policy in relation to business development proposals;
- Consult with staff annually about potential business development proposals;
- Develop a proactive approach to business development, with the ability to react quickly to business development opportunities where required;
- Support and encourage cross-sectional and team working within and across the College to ensure delivery of its business development vision, goals and objectives.

With regard to implementing effective external communication and engagement the new college will:

- Engage with current and potential funders, partners and clients, in terms of market intelligence, networking and partnerships, funding and business development opportunities, feedback on services and service improvement.

It is envisaged that service provision by the BDS, in addition to the internal and external engagement detailed above, in pursuit of the strategic goals relating to business development within a merged college i.e. to respond to the needs of Shetland; carry out high quality research; grow our business, and build sustainability, will include but may not be limited to:

- Market intelligence, monitoring and information services including the pursuit of business development opportunities, both within and outwith the college;
- Securing business development opportunities, preparing bids for funding and tenders, lobbying and project monitoring;
- Screening of business development proposals particularly in terms of viability and realism;
- Marketing the business development aspects of the college;
- Obtaining feedback, collation, analysis and distribution of this information to relevant areas of the college.

<u>Research and Knowledge Exchange Strategy</u>

The new college will undertake high quality research and knowledge exchange which develops and enhances Shetland and its environment, history, culture

and industry. There is considerable potential for development of Shetland's niche specialisms, particularly in the area of marine research but also in the creative sector. The proposed Research and Knowledge Exchange Strategy states that vision of the new college is:

- Undertake high quality, impactful academic and commercial research relevant to Shetland, including its environment, history, culture and industries;
- Reach out to collaborate with the University of the Highlands and Islands, and other universities at national and international level, in pursuit of excellence in research;
- Increase activity in knowledge exchange for the benefit of Shetland's economy and communities, maintaining clear links between knowledge exchange and research activities;

In pursuit of the aforementioned vision, the new college will aim to:

- Sustain the level of research activity in Shetland and maintain the knowledge, expertise and capacity in research that exists within the current organisations;
- Continue to meet local research needs, but not be constrained to only meeting those needs;
- Develop and expand research activity in Shetland by building on existing knowledge, expertise and capacity, and by taking full advantage of the opportunities offered by Shetland's location, characteristics, expertise and facilities;
- Promote Shetland to researchers from other universities and organisations as a place to conduct research.

Marketing

A paper on marketing issues was produced to inform the Full Business Case. This purpose of this paper was to:

- Review marketing requirements for merged college;
- Identify resource requirements for marketing plan.

The following issues were identified:

- There is an urgent need for dedicated and professionally skilled marketing resources in support of branding, positioning and marketing requirements, from decision to merge through to vesting date and beyond;
- There is a requirement to ensure that web presence and public booking systems are compatible with UHI website and systems;
- All courses for FE and HE must be set-up for online applications in order to be fully compliant with GDPR;
- Branding will adhere to UHI Branding guidelines and will take account of ongoing UHI Branding and Positioning project;
- The Communications Strategy must be updated to ensure students, staff and stakeholders are informed throughout next phase;
- The merged college must implement one virtual front door, and rationalise social media presences to dedicated pages/groups managed by the marketing team, with editorial rights granted where applicable.

The following goals have been identified for marketing activity, from decision to merge onwards:

Financial goals

- Establish a dedicated marketing development budget (including staff) which includes provision allowance for branding and additional work in year to vesting date;
- Work towards generating a minimum of 20% additional income against the annual marketing salary costs;
- Identify new funding streams and reduce reliance on public funding.

Non-Financial goals

- Create a strong identity and brand for the new College, in line with UHI branding;
- Launch one virtual front door, with all activity and delivery available to book online with full integration to UHI systems (including SITS);
- Establish programme of market research activities and establish clear CRM procedures;
- Develop a programme of events and campaigns which inspire interest and engagement in learning opportunities available in Shetland;
- Adopt a more targeted approach to marketing delivery;
- Improve industry and schools links.

A Marketing Development Plan for the colleges sector was developed in 2018.

Communications Strategy

Clear, relevant and timely communications are an essential component of any change process, and must be delivered in combination with the vision, direction and rationale for change.

The purpose of the Communications Strategy is to co-ordinate consistent communications about the merger process to staff, students and all stakeholders, including the general public. The following communications objectives apply:

- Devise and deliver a programme of public relations to support the aims and objectives of the merger process through existing and new communications channels, internally and externally;
- Identify, analyse and monitor stakeholder engagement;
- Develop and review key messages.

To ensure the success of this strategy, it is suggested that the following policies for communication are adopted by the Shadow Board:

- We are committed to open and timely two-way communication with all staff and learners;
- We will take time and effort to deliver high-quality, proactive communication that ensures stakeholders are informed about board activity, aims and objectives, and know how they impact upon our collective success;
- We will use a combination of traditional methods and innovative technologies to reach a culturally and geographically diverse audience and will put stakeholder need at the core of all communication;
- We will value feedback, listen to and involve people in our activity and we will recognise the link between strong, effective communication and organisational success, adhering at all times to the principles of openness, transparency and accessibility.

4.3 Personnel implications (including TUPE)

Integrating staff from two disparate organisations—one a charitable trust, one a

local authority—is a challenging process, but one which will be undertaken in an open and transparent manner at all stages.

The success of the new institution will rely on the development of a new culture, and a curriculum which reflects the strengths and specialisms of the partners, and the current and future needs of the local, regional and national economy.

A new staffing structure for the merged college will be developed by the Principal Designate in a spirit of co-operation and consultation, and will adhere to the following principles:

- The structure must support a diverse, vibrant and flexible curriculum which is coherent and offers progression;
- The new staffing structure will address areas of support service delivery which are currently under resourced, such as student support, marketing and business development;
- The structure must be efficient, effective and sustainable, and incorporate opportunities for individual and professional career development and progression;
- The volume and level of provision of FE Education will be designed to deliver on the Regional Outcome Agreement and the UHI Strategic Plan, as well as local strategies and priorities;
- The appropriate restructure policies and procedures will be used during any staff restructure;
- Consultation with trades unions and staff will take place during the restructure process in line with restructuring procedures including SIC's Organisational Restructure and NAFC's Redundancy policies and procedures;
- Significant change can only be delivered successfully with the commitment and engagement of staff. Support for staff will be provided through a range of workforce development and well-being strategies. Human Resources will work with the trades unions and managers to provide advice on the restructure process to all employees affected by the restructure.
- The new college must be sustainable in its own right;
- All staff transferring to the new college will have their terms and conditions of employment protected in line with TUPE regulations.

4.4 Implementation timescales

Draft implementation milestones for the project are detailed in the draft Project Plan described in the Management Case.

5. THE FINANCIAL CASE

5.1 Introduction

The purpose of this section is to set out the forecast financial implications of the preferred option (as set out in the Economic Case) and the proposed deal (as described in the Commercial Case).

5.2 Key messages

The financial model demonstrates that the merged college can achieve and maintain a financially sustainable position. This means that not only will it be able to meet all of its costs in any given year, but that it will be able to plan and invest for the future.

The ability to demonstrate sustainability is a key requirement for assigned status to the Regional Strategic Body, and therefore to secure income from the Scottish Funding Council.

The preferred option is substantially more sustainable than the status quo. Over the five year period assessed the preferred option nets savings of £12.2m compared with the status quo, excluding tax. This saving can be achieved through streamlining and maximising the efficiency of the college structure and curriculum, whilst improving outcomes delivered for students and staff.

Achieving a financially sustainable position for the tertiary sector allows Shetland Islands Council to meet its corporate vision to “work[s] well with our partners to deliver sustainable services for the people of Shetland”. Delivering this change for the community in Shetland is in line with the Council’s statutory duty to achieve Best Value, which requires the Council’s to commit to improvement across services and the to ensure that such improvement is appropriately prioritised and progressed.

The Council’s Medium Term Financial Plan 2018/19 – 2023/24 requires recurring savings of £15.6 million per annum by 2023/24, to allow the Council to live within its means, as previously approved by the Council. This proposal can provide approximately 15% of that ongoing revenue saving requirement. Failure to progress with the proposed merger will result in these savings being required elsewhere – amounting to in excess of £2.4m per annum. The Council

has to date been unable to identify which services would be able to provide this level of saving.

5.3 Key assumptions (Revenue)

The financial model is based on key assumptions which were developed within the various project work-streams. The main assumptions are detailed below:

5.3.1 Pensions

- A negotiated position will be found to address cessation costs, and no liability will remain;
- Shetland Islands Council will provide the pension guarantee for the new entity; and
- Pensioners and deferred members will transfer into the Shetland Islands Pension Fund.

5.3.2 Employee Costs

- Employee numbers reduce from 113 to 99 FTE;
- NRPA has been applied to all lecturing posts;
- TUPE will apply to all staff transferring to the merged college;
- Single Status has been applied to all support posts;
- Staffing levels and remuneration and structure of Senior Management have been informed by external specialists;
- Curriculum costs have similarly been informed by external specialists and current teaching staff; and
- Instructors will be used to deliver some non-certificated activity.

5.3.3 Premises

- Train Shetland building will no longer be used;
- Alternative use for Port Arthur House has not been established and quantified, as such upkeep costs only have been built into the model; and
- Leasing costs are removed and the Council will commit to an alternative arrangement, resulting in a nominal value transaction.

5.3.4 Operating Costs

- Estimated VAT provision is not included in the financial model, but we will be in a position to advise at the meeting; and
- Additional provision for Marketing and Events Development is included.

5.3.5 SFC Income

- No SFC funding will be applied to commercial courses; and
- HE funding is applied according to the UHI RAM.

5.3.6 Curricular Income

- Detailed curriculum modelling was carried out through consultation with lecturing staff and a relevant external specialist;
- Minimum numbers will be applied to classes (8 for exclusively taught and equivalent for shared classes);
- Growth in commercial course income – with increases in per head spend and total number of local employers accessing training locally – has been assumed in line with the Shetland Employment Survey carried out by the Council; and
- National course fee charges will be applied where appropriate.

5.3.7 Research Income

- Niche specialisms – e.g. marine spatial planning – will be prioritised for development;
- Collaboration and partnerships within UHI will improve;
- Community focused research will be further developed; and
- Projected income is based on historical levels of research income achieved by the existing colleges, adjusted to align with comparable organisations (SAMS and Aberdeen University) based on staffing levels.

5.4 Summary of Model Achievements

The table below shows the value of changes to the Income and Expenditure between the status quo and the proposed model, once full implementation has been achieved.

Table 5.1 Income and Expenditure Modelling Impacts

Income & Expenditure Modelling Impacts (exc VAT)	Status Quo £000	New College £000	(Favourable) / Adverse £000
Employee Costs	5,115	4,468	(647)
Premises Costs	1,373	521	(851)
Operating Costs	1,102	1,015	(86)
Grants to Individuals/Organisations	4	3	(1)
Marketing	18	33	16
Professional and Financial Fees	447	208	(239)
Travel/Vehicle Expenses	149	149	
TOTAL EXPENDITURE	**8,208**	**6,398**	**-1,809**
Scottish Funding Council	-2,407	-2,728	(322)
Tuition Fees, Contracts & Grants	-1,652	-1,820	(169)
Research Grants and Contracts	-955	-1,169	(213)
Sale of Meals	-96	-96	
Consultancy	-148	-193	(45)
Management & Service Fees	-452	-421	31
Other Income	-404	-296	109
Bank Interest	-2	-2	
TOTAL INCOME	**-6,116**	**-6,724**	**-609**
(Favourable) / Adverse	**2,092**	**(326)**	**(2,418)**

It should be noted that £1.97 million of the above saving relates to the implementation of merger, and the remaining £0.45 million can be achieved regardless.

5.5 Financial Due Diligence (Financial Model)

The Council's external audit is wider in scope than a financial statements audit. As part of their 2018/19 audit and requirement to consider the Council's arrangements for achieving Best Value and demonstrating value for money, Deloitte have reviewed the finance work-stream, and their scope includes:

1. Reviewing the methodology and modelling used to produce the financial forecasts;
2. Providing a first and final check on the completed financial projections, with specific reference to the assumptions used in their production; and
3. Providing assurance to decision makers, through the preparation of a report that the plans are robust and based on a sound methodology.

While this work has been carried out as part of the wider scope audit for Shetland Islands Council and the report and assurance is addressed to them, written agreement of the scope was obtained from the Interim Joint Principal on behalf of the Chair of SFTCT prior to any work being undertaken.

The auditors commented that:

"The Effective and Sustainable Tertiary Education, Research and Training in Shetland Project, is an example of where Shetland Islands Council is looking to identify best value options ..."

Deloitte's financial assurance report concludes that:

- The methodology and modelling used to produce the financial forecasts for the proposed merged college are reasonable and appropriate, as they:
    - consider all the work-streams which would be anticipated to be considered based on current budgets and comparable colleges;
    - have been developed by relevant specialists and sense-checked by appropriately qualified finance staff;
    - include appropriate assumptions; and
    - have been appropriately reflected in the financial model.
- The assumptions used in the financial modelling – whilst including an inherent element of uncertainty and being subject to decisions made by the Principal and Board of the new college – are supportable, reasonable and appropriate.
- Following adjustments to the financial modelling and additional work carried out arising from this review, which identified amendments of £0.22m, the auditors are satisfied that the financial projections and associated financial model is robust.

5.6 Taxation

The main issues in relation to tax are:

- The status of the charitable entity;
- Consideration needs to be given as to whether or not it would be prudent to establish a trading subsidiary to carry out any non-primary purpose trading activities;
- The transfer of activities should fall out-with the scope of UK VAT (transferred as a going concern), however there will be a need to demonstrate that all conditions can be met;
- A non-statutory clearance from HMRC is recommended; and
- A new VAT Registration number is recommended to ensure that no liabilities transfer from the SFTCT.

The taxation implications of the proposed merger were reviewed by Deloitte taxation specialists, independent of the audit team.

5.7 Merged College - Projected income and expenditure account

The following table summarises the combined income and expenditure of the merged college, per the financial model, over a period of 5 years

. **Table 5.2 Proposed New Entity – Income and Expenditure Summary**

Proposed New Entity - Income and Expenditure Summary (exc VAT)	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
Employee Costs	4,559	4,632	4,771	4,915	5,062
Premises Costs	521	532	542	553	564
Operating Costs	1,015	1,036	1,056	1,078	1,099
Grants to Individuals/Organisations	3	3	3	3	3
Marketing	33	34	35	35	36
Professional and Financial Fees	208	214	221	227	234
Travel/Vehicle Expenses	149	152	155	158	161
TOTAL EXPENDITURE	**6,489**	**6,603**	**6,784**	**6,969**	**7,160**
Scottish Funding Council	- 2,567	- 2,727	- 2,891	- 2,977	- 3,065
Tuition Fees, Contracts & Grants	- 1,770	- 1,838	- 1,909	- 1,955	- 2,002
Research Grants and Contracts	- 1,063	- 1,107	- 1,177	- 1,290	- 1,383
Sale of Meals	- 96	- 98	- 100	- 102	- 104
Consultancy	- 153	- 166	- 190	- 210	- 216
Management & Service Fees	- 385	- 405	- 433	- 459	- 472
Other Income	- 296	- 301	- 307	- 314	- 320
Bank Interest	- 2	- 2	- 2	- 2	- 2
TOTAL INCOME	**- 6,331**	**- 6,645**	**- 7,009**	**- 7,307**	**- 7,564**
(Favourable) / Adverse	**158**	**(41)**	**(225)**	**(338)**	**(403)**

Deloitte advised that detailed sensitivity analysis on the financial model is not necessary, as the assumptions upon which it is based are considered supportable, reasonable and appropriate. However, to provide additional assurance, it was recommended that a high-level sensitivity analysis was carried out.

Income: The table below shows the impact of 2.5% and 5% adverse changes in income. This excludes SFC funding as there is the potential for the merged college to receive additional rurality funding, and the Scottish Government in their Medium Term Financial Strategy confirmed that education is a key priority for the coming five years and is therefore likely to be protected from significant cuts in funding.

Expenditure: The table below also shows the impact of 2.5% and 5% adverse changes in expenditure. This excludes employee costs as pay increases have

been factored in in line with Scottish Government proposals for public sector staff. It also excludes premises costs as the Council is assumed to commit to a nominal value rental and it is not anticipated that this position will change in the medium term.

It is important to note that these adverse changes from Year 2 – Year 5 are *in addition to* the inflationary impacts already factored into the financial model.

Table 5.3 Summary of revised scoring process

Sensitivity Analysis- Impact on Outcome	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Year 5 £000
5% Increase in Costs (exc Employee & Premises)	229	31	(151)	(262)	(327)
5% Decrease in Income (exc SFC)	346	154	(19)	(121)	(178)
2.5% Increase in Costs (exc Employee & Premises)	193	(5)	(188)	(300)	(365)
2.5% Decrease in Income (exc SFC)	252	57	(122)	(229)	(291)

The sensitivity analysis demonstrates that reductions in income have a greater impact than increases in cost on the sustainability of the entity. However, where income is affected, it is likely that associated costs would reduce to mitigate the impact. Given the improved starting position, even where adverse conditions present themselves, the merged college will be better able to respond.

5.8 Status Quo – Projected income and expenditure

The status quo position is approximately £2.4 million more expensive than the proposed new entity per annum (Table 1.4). The following table shows the income and expenditure position for NAFC Marine Centre UHI, Shetland College UHI and Train Shetland, on the basis of the status quo position.

Table 5.4 Status Quo – Income and Expenditure Summary

Status Quo - Income and Expenditure Summary	Approved Budget for 2018/19					
	Shetland College	Train Shetland	NAFC (inc PAH)	NAFC (SIC)	STERT	Total for Sector
	£000	£000	£000	£000	£000	£000
Employee Costs	2,471	355	2,288			5,115
Premises Costs	439	71	461	401		1,373
Operating Costs	450	335	317			1,102
Grants to Individuals/Organisations	4					4
Marketing	7		11			18
Professional and Financial Fees	191	35	198	6	18	447
Travel/Vehicle Expenses	31	65	53			149
TOTAL EXPENDITURE	**3,593**	**861**	**3,328**	**408**	**18**	**8,208**
Scottish Funding Council	-1,644		-763			-2,407
Tuition Fees, Contracts & Grants	-605	-282	-765			-1,652
Research Grants and Contracts			-955			-955
Sale of Meals	-96					-96
Consultancy			-148			-148
Management & Service Fees	-18	-340	-94			-452
Other Income	-91		-242			-404
Bank Interest			-2			-2
TOTAL INCOME	**-2,453**	**-622**	**-3,041**			**-6,116**
(Favourable) / Adverse	**1,140**	**240**	**287**	**408**	**18**	**2,092**

A five year model has also been developed for the status quo to show the anticipated impact of inflation on the annual outturn position. Inflation has been taken per the Bank of England forecast, except for employee costs which are assumed to rise 3% per annum in line with recent Scottish Government guidance. The funding gap between the status quo and the proposed new entity at year five grows from £2.4 million to £2.9 million (21% increase).

Table 5.5 Status Quo – Future Years Income and Expenditure Summary

Status Quo - Future Years Income and Expenditure Summary	Approved Budget for 2018/19					
	Shetland College	Train Shetland	NAFC (inc PAH)	NAFC (SIC)	STERT	Total for Sector
	£000	£000	£000	£000	£000	£000
Year 2	1,187	248	316	416	18	**2,185**
Year 3	1,236	257	346	424	19	**2,281**
Year 4	1,287	265	377	433	19	**2,381**
Year 5	1,340	275	409	441	19	**2,485**

The above table demonstrates that the status quo is unsustainable. This is demonstrated for NAFC Marine Centre within their Annual Accounts as at 31 March 2018, which makes the following statement:

"A material uncertainty exists that may cast significant doubt on the charity's ability to continue as a going concern".

The risks associated with this include a lack of ability of the sector to invest in the future, respond to customer requirements, and to ensure that outcomes delivered for students and the wider community improve.

5.9 Investment in the Future

The status quo position allows for no planned investment in capital, though each organisation has a list of requirements, ranging from high priority health and safety items, including Port Arthur House in Scalloway (currently closed), to 'nice to haves', and low priority items.

The proposed new entity will be in a position to utilise anticipated surpluses as shown in the financial model to fund capital and improvement works. It is also assumed that being in a more financially sustainable position and existing outwith the Council structure will enable the merged college to apply for additional loan or grant funding.

5.10 Balance Sheet

5.10.1 Status Quo

The NAFC Marine Centre's Balance Sheet as at 31 March 2018 shows that it had net liabilities of £0.82 million (including a pension liability of £3.1 million). It had a cash position of £1.08 million.

Shetland College and Train Shetland are included within Shetland Islands Council's Balance Sheet.

5.10.2 Merged College

It is assumed that all items contained within the NAFC Marine Centre Balance Sheet will be completed or transferred into the new entity, with the exception of the pension liability (assumed to be cleared on cessation). There will be no pension liability at initiation, as it is assumed a negotiated position will have been reached to address cessation costs (£3.1 million on the Balance Sheet).

Shetland Islands Council will maintain ownership of its land and buildings. Equipment with a net book value as at 31 March 2018 of £0.095m in the Council's Balance Sheet will transfer at nil cost, as these items were funded by European or SFC grant, for Shetland College, and will continue to be utilised for their original purpose.

5.11 Overall Sustainability

The proposed merged college is a more prudent use of resources by Shetland Islands Council compared with the status quo, and it demonstrates sustainability moving forward. It reduces the financial commitment required by the Council by £1.8m per annum.

The Scottish Funding Council have provided strategic funding to meet one off costs associated with transition in previous college mergers, and are currently in negotiation with the Council in regard to funding the pension liability at NAFC Marine Centre.

A detailed bid for further support cannot be completed until a commitment to merger has been made. It is intended that a bid will be prepared early in the

next stage to cover other one off costs associated with merger, such as external advice and early retirement/voluntary redundancy support.

Shetland Islands Council will be required to provide cash support in the short to medium term to allow the new entity to operate and meet its commitments on a daily basis.

6. THE MANAGEMENT CASE

6.1 Introduction

This section addresses the 'achievability' of the project; it sets out in more detail the actions that will be required to ensure the successful delivery of the project in accordance with best practice.

6.2 Project management arrangements

Shadow Board

In line with best practice for college mergers, a joint committee will be established consisting of representatives from each of the partner organisations, to work towards realising the merger proposal. This is known as the Shadow Board.

The Shadow Board will be established in line with, and will reflect, the 2014 ministerial guidance on college board governance and in line with the Post-16 Education (Scotland) Act 2013.

Establishment of the Shadow Board is a transitional step towards the creation of a Board of Management which will be the governance mechanism from vesting day. Membership of the Shadow Board will consist of the following representatives:

- Chair, Shetland Fisheries Training Centre Trust;
- Chair, Shetland College Board;
- Chair, Education and Families Committee
- Staff representative – teaching;
- Staff representative – non-teaching;
- Trustee, Shetland Fisheries Training Centre Trust;
- Student representative;
- UHI representative;
- Independent board members to be recruited[9].

[9] In line with para 4.2, there would require to be 7 to 12 independent members.

The project will be managed in line with PRINCE2 methodology. As such, the Shadow Board will take on the role of the Project Board in the PRINCE2 management structure, with the chair (when selected) as the Senior Executive.

A Project Manager will be appointed and will be responsible for the day-to-day management of the Project, including responsibility for identifying the project tasks. The Project Manager will assemble and co-ordinate the Project Team, who will carry out the project tasks.

An external Project Advisor resource with experience in college merger will also be appointed to take on the role of Project Assurance.

6.2.1 Project roles and responsibilities

The Chair of the Shadow Board (when selected) will act as the Senior Executive for the Project. The Senior Executive is the single point of accountability for the Project.

The Shadow Board are responsible for ensuring that the needs of key stakeholders are represented and that their needs and requirements are met by the Project. The Board consists of political, trust, staff and student stakeholders. The prime responsibility of the Shadow Board is to ensure that all requirements for the merged college, in relation to the governance of the institution, are in place, such as the committee structure, standing orders, scheme of delegated authority and principal office holders. The Shadow Board should also be in a position to endorse and implement the new college's strategic plan from vesting date. The Shadow Board must have delegated authority to:

- provide strategic direction on the merger process prior to vesting day;
- provide an overview of the Principal Designate's activities in relation to the merger process;
- approve the staffing structure for new college;
- approve arrangements for voluntary severance taking account of the approved staffing structure of the new college. The Shadow Board will liaise with the partner Boards with regard to any subsequent voluntary severance requests which arise as a consequence of the implementation of the approved staffing structure;
- approve the draft budget for new college;
- approve policies and procedures for new college;

- approve the name for the new college;
- provide strategic direction on the development of a Communications and Staff Engagement strategy to the Principal Designate.

The Project Manager runs the Project on a day-to-day basis and will be responsible for the Project on behalf of the Shadow Board. The Project Manager will be responsible for communication and reporting, procuring services, planning and monitoring and other key project tasks.

The Project Manager's responsibilities will include:

- Support to the Shadow Board;
- Support to the Governing Bodies and corporate/executive teams of the merger partners as required;
- Development of an overall plan and high level timetable for implementation of the merger;
- Communication of the plan to the Governing Bodies, Scottish Funding Council, University of the Highlands and Islands, and the Scottish Government as appropriate;
- Establishment of internal workstreams and/or development of existing workstreams required for delivery of merger, including development of initial terms of reference and agendas, reporting and communications;
- Provision of information to all required stakeholders;
- Formation of a Project Team and merger support groups to deliver the internal workstreams;
- Definition of activities and outputs required for workstreams, including identification of staff resources required for delivery;
- Programme management to enable development of workstream plans, agreement of initial budgets and delivery of milestones;
- Delivery of status reports and troubleshooting in problem areas;
- Cultivation of business relationships vital to the merger success.

Project Assurance will provide an independent and objective oversight of project functions, and will specifically ensure that the project management is delivering the required information and outputs as specified by the Project Board.

6.2.2 Project plan

The Outline Project Plan below provides a broad outline of the milestones for the merger process:

Table 6.1 Outline Project Plan

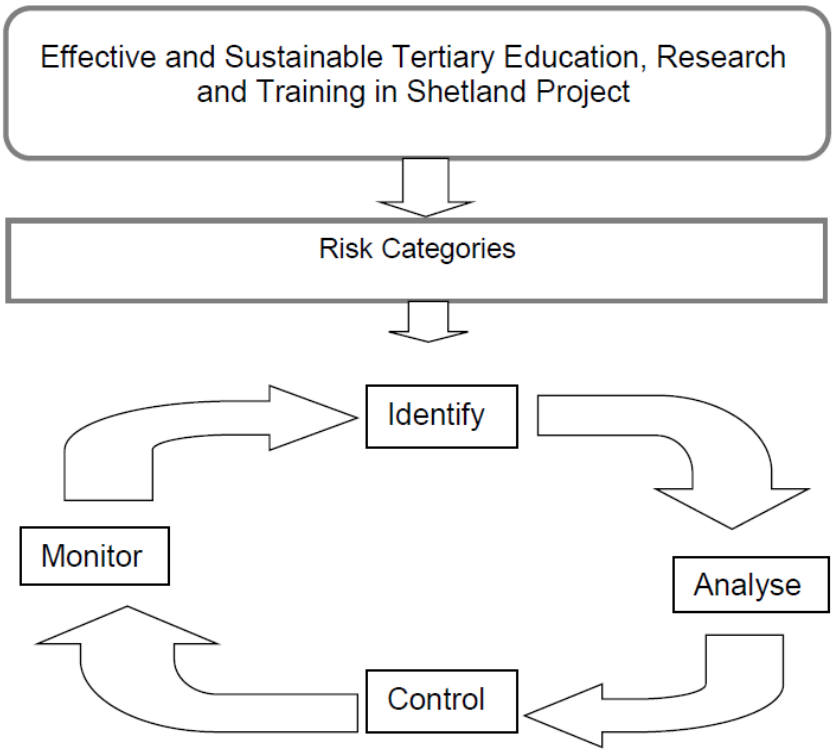
Milestone Activity	Timescale
Full Business Case	
Shetland College Board	Week beginning 10 Dec 2018
SIC Education & Families Committee	
SIC Policy and Resources Committee	
Shetland Fisheries Training Centre Trust	
Shetland Islands Council	
Approval of Full Business Case	
Merger Initiation	
Establishment of Shadow Board	Jan 2019
Appoint Project Manager	Jan 2019
Appoint Project Assurance	Jan 2019
Develop Project Plan	Jan 2019
Establish workstreams and project team	Jan 2019
Submit bid to SFC for strategic funding	Jan/Feb 2019
Consultation and Due Diligence	
Formal consultation – staff, students, UHI, external stakeholders	Mar-May 2019
Due diligence	TBC
SFC evaluation visit	Jun 2019
Application to OSCR	TBC
Recruitment	
Establish recruitment panel	Jan 2019
Recruitment panel training	Jan/Feb 2019
Undertake recruitment for Principal Designate	Feb-Apr 2019
Appoint Principal Designate	May-Jun 2019
Restructure and appointment of senior management team	TBC
Approval of restructuring plan by Shadow Board	TBC
Parliamentary and Ministerial Approval	
SFC advice to Scottish Government and Cabinet Secretary	TBC
Scottish Government consultation process	TBC
Analysis of consultation responses	TBC
Submission to Ministers	TBC
Ministerial approval	TBC
Public announcement	TBC
Parliamentary Process to approval	TBC
Vesting Date	**Aug 2020**

6.3 Outline arrangements for benefits realisation

The Benefits Realisation Plan is attached as Appendix i.

6.4 Outline arrangements for risk management

The Project will follow Shetland Islands Council's Risk Management Strategy, utilising the following risk management process:



Shetland Island's Council's Risk Management Policy sets out the risk tools, processes and methodologies and defines the Council's risk appetite. These tools and processes will be applied as per standard practice for the Project.

A Risk Register has been set up on the RiskWEB system, with the likelihood and severity estimated using the risk matrix.

A draft risk register for the merger has been attached as Appendix ii. Risks have been grouped by workstream, or assigned to the project as a whole, and graded for likelihood and severity.

6.5 Outline arrangements for post project evaluation

The outline arrangements for post implementation review (PIR) and project evaluation review (PER) have been established in accordance with best practice and are as follows.

6.5.1 Post implementation review (PIR)

The review will ascertain whether the anticipated tangible and intangible benefits have been delivered. The review will be conducted 12 months following merger.

The following Key Performance Indicators have been proposed to determine the success or otherwise of aspects of the merger:

Table 6.2 Proposed Key Performance Indicators

KPI	Measurement
Improved quality of teaching and learning	Post-merger Education Scotland report
	Academic Quality Assurance protocol in place
	Curriculum Development and Planning process in place
	Student satisfaction survey
New governance arrangements	Agreed by milestone date
New SMT structure	Agreed by milestone date
New staffing structure	Agreed by milestone date
Merged college – culture change	Staff viewpoint survey – buy-in established
Harmonisation of terms and conditions (including TUPE)	Majority achieved within first year of vesting date
Improved staff confidence and morale	Staff viewpoint survey – views on new direction
Increased income	Outturn figures in first full trading year following merger
College branding	New college brand established
	Business development strategy established and resourced

Business development, research and marketing strategies	Research strategy established and resourced
	Marketing strategy established and resourced

6.5.2 Project evaluation reviews (PERs)

PERs appraise how well the project was managed and delivered compared with expectations and are timed to take place 6 months following full implementation of the preferred option.

The PER will be undertaken by a small team of staff from the Council and the merged college, and will:

- Review project management and documentation
- Note any lessons learned for future projects
- Identify areas of good practice or areas of improvement
- Provide the Project Board with a report assessing project management performance.

Signed:

Date:

Senior Responsible Owner

Project Team

Appendix i - Benefits Realisation Plan

Purpose

The purpose of this document is to propose arrangements for the identification of potential benefits, their planning, modelling and tracking. It includes a framework that assigns responsibilities for the actual realisation of those benefits.

The importance of clear objectives and measurable benefits

The core of any business case is the identification of specific objectives. The preferred option, which becomes the scheme to be delivered, is selected on the basis that it meets the project's objectives in a way that represents the best value for money and is both affordable and deliverable.

The need to have clear objectives from the outset of a project, along with robust arrangements to ensure that they are delivered, is self-evident. However it is important to note that weaknesses in these areas are commonplace. For example the National Audit Office and the Office of Government Commerce have identified the first cause of project failure as "lack of clear links between the project and the organisations strategic priorities, including agreed measures of success."

Types of benefits

Benefits typically fall into four main categories, and are analysed in this way in 5-case model business cases:

- Cash releasing benefits (CRB): These benefits reduce the costs of organisations in such a way that resources can be re-allocated elsewhere. This typically means that an entire resource is no longer needed for the task for which it was previously used. This can be staff or materials/assets.
- Financial but non-cash releasing benefits (non-CRB): This usually involves reducing the time that a particular resource takes to do a particular task; but not sufficiently to re-allocate that resource to a totally different area of work.
- Quantifiable benefits (QB): These benefits can be quantified, but not always easily. The extent to which QBs are measured will depend on their significance. However as a general rule every effort should be made to quantify benefits financially wherever possible and proportionate to do so.
- Non-quantifiable benefits (non-QB): these are qualitative benefits, which are of value to the public sector that cannot be quantified.

Benefits Register

The Benefits Register sets out the defined benefits of the project, the category of each benefit (in economic terms), how they will be measured and quantified, who benefits and who is responsible for their realisation. The benefits are as outlined in the relevant sections of the business case. This document focuses on the key benefits which the project is intended to deliver, rather than providing a comprehensive list of all benefits.

This register is a management tool which addresses specific benefits achieved as a result of the merger of Shetland College, NAFC Marine Centre and Train Shetland.

As outlined in the Management Case, an evaluation will be undertaken to review and assess the success of the project against its original objectives and success criteria. The achievement of these benefits will form the basis of that review. The initial review will be undertaken within two years of the merger vesting date.

	Specific Measurables	Timescale	Source of data	Lead responsibility	Beneficiaries	Type of benefit
1	**Financial**					
1.1	Financial sustainability	Tbc	College financial reporting	Principal	College Wider community and industry	CRB
2	**Organisational**					
2.1	Simplified governance for tertiary sector	Vesting date	College constitution	Board	College	Non-QB
2.2	More efficient management structure	Vesting date-6 months following merger	College operational plan	Board Principal	College Staff Students Wider community and industry	CRB
3	**Operational**					
3.1	Improved responsiveness and decision-making for customer queries	12-24 months following merger	College operational Plan Customer surveys	Senior Management Team	Students Service users	QB
3.2	Improved and enhanced student support arrangements	12-24 months following merger	College operational Plan Student satisfaction survey	Senior Management Team	Students	Non-CRB

3.3	Improved marketing reach through single brand identity and marketing strategy for whole tertiary education, research and training sector	Vesting date	College Marketing Plan Customer surveys	Student Engagement and Marketing Function	College Students Service users	CRB
3.4	Improved Curriculum Development and Planning approach	Vesting date-12 months following merger	HMI Inspection Reports	Senior Management Team Academic Lead	Students Service users	QB
3.5	Improved access and progression routes	Vesting date-12 months following merger	College operational plan Cross-college committees HMI Inspection Reports	Senior Management Team Academic Lead	Students Service users Wider community and industry	Non-CRB
4	**Strategic**					
4.1	Enhanced ability to deliver on local (Shetland Partnership Plan) and regional (UHI Strategic Plan, H & I Skills Investment Plan) strategic aims and objectives	Vesting date	College Strategic Plan Strategic partnerships	Board Principal	Wider community and industry Community Planning Partners	QB

Appendix ii – Proposed Risk Register

Workstream	Risk	Risk Profile
Finance	Failure to transfer existing contracts to merged college	High
Finance	Failure to secure sufficient merger funding from SFC	High
Finance	Failure to establish financial sustainability	High
Finance	Failure to secure favourable response to pensions issue	High
Finance	Failure to secure favourable outcome for estates issues	High
Governance	Failure to agree appropriate governance model	High
Project	Failure to merge	High
Staffing Structure and HR	Loss of key staff	High
Staffing Structure and HR	Failure to establish an achieveable staff transfer plan	High
Staffing Structure and HR	Failure to establish harmonisation of staff terms and conditions	High
Vision and Culture	Failure to agree on merged College name	High
Vision and Culture	Failure to agree on on strategic direction	High
Vision and Culture	Failure to develop a shared quality culture	High
Vision and Culture	Failure to establish merged college identity	High
Staffing Structure and HR	Negative impacts on staff morale from merger	High
Staffing Structure and HR	Failure to maintain effective communications with staff and trades unions	High
Business Development	Failure to establish clear strategic direction for commercialisation and business development	Medium
Curriculum	Failure to establish clear curriculum planning process	Medium
Curriculum	Failure to establish learning and teaching strategy	Medium
Finance	Failure to resource corporate services (HR, legal, finance)	Medium
Governance	Failure to ensure suitably qualified governing body	Medium
Project	Failure to maintain current standard of service	Medium
Project	Failure to establish and implement suitable merger timetable	Medium
Staffing Structure and HR	Failure to meet TUPE obligations	Medium
Staffing Structure and HR	Failure to establish clear staffing structure	Medium
Staffing Structure and HR	Failure to undertake staff and student consultations during merger process	Medium
Student Engagement, Support and Marketing	Failure to maintain effective communications with students	Medium
Student Engagement, Support and Marketing	Failure to maintain effective communications with external stakeholders	Medium
Student Engagement, Support and Marketing	Poor public/media relations leading to negative public profile	Medium
Student Engagement, Support and Marketing	Negative impact on the quality of the student experience	Medium
Vision and Culture	Failure to establish clear brand identity for merged college	Medium
Finance	Failure to establish resourcing plan for services arising from new strategies (e.g. business develop	Low
ICT	Failure to ensure proper and timely transfer of ICT services	Low
Project	Failure to reach agreement with accrediting and/or funding bodies	Low
Project	Failure to undertake appropriate legal and financial due diligence	Low
Project	Negative or adverse reporting during due diligence	Low
Research	Failure to establish strategic direction for research	Low
Student Engagement, Support and Marketing	Failure in safeguarding (e.g. PVG, Corporate Parenting)	Low
Student Engagement, Support and Marketing	Failure to establish access and inclusion plan	Low
Student Engagement, Support and Marketing	Impacts on ability of the college to promote equalities	Low
Student Engagement, Support and Marketing	Failure to establish effective student representation	Low

Appendix iii - Board of Management – Independent Member Role Description

The Independent members of the College Board of Management are appointed by the Regional Strategic Body. An independent member is responsible for:

- Contributing to the business of Board meetings, following established and agreed procedures
- Contributing to one or more of the Board committees by membership or chairmanship
- Engaging effectively at board meetings and working collaboratively with other members
- Observing the *Nine Principles of Public Life (*selflessness, integrity, objectivity, accountability, openness, honesty, leadership, public service and respect) in all Board business.

The Independent members shall contribute to the Board in:

- articulating the vision of the College as an academic partner and assigned college of UHI
- maintaining and developing the ethos of the College
- setting corporate objectives in line with local outcome agreement with UHI
- assessing the performance of the Principal and Chief Executive
- establishing high standards of integrity in the conduct of Board business
- monitoring the financial health and compliance of the College in line with the Local Financial Memorandum agreed with UHI
- Monitoring the college's achievement of its agreed outcome measures
- Working effectively with the FE Regional Board

The Members shall seek to promote the best interests of the College wherever possible, be its ambassador, and if call upon to do so, represent it at meetings, presentations and conferences.

Performance of the Board and individual Board members

Each Member:

- should contribute to establishing performance indicators against which to measure its performance
- should discuss his or her contribution and development needs with the Chair of the Board at least annually
- is expected to contribute to critical self-assessment of Board performance and processes and make an active contribution to the annual performance assessment of the governance of the College

- shall ensure regular attendance at board meetings.