

## Update Report for UHI North, West and Hebrides Board of Management on Strategic Risk

This report provides an update to the Board on

- 1) changes made to the strategic risk register endorsed by the Audit and Risk Committee in February 2025
- 2) changes made to the college's strategic risk on failure to achieve financial sustainability in February 2025, and subsequent changes in the college's external environment and operating context requiring a revised risk assessment
- 3) recommendations for the Board, including timeline for development of detailed mitigation plans to improve the strategic risk on financial sustainability

### 1. Strategic Risks Report endorsed by the Audit and Risk Committee in February 2025

The college's Audit and Risk Committee endorsed the college's strategic risk register at its last meeting on 26 February 2025, with an updated mitigation report for December 2024 to February 2025. This included the following changes:

- a) Risks related to merger integration have now been mainstreamed into the strategic risk register, with merger integration risks being managed at departmental level by members of the SMT (ELT plus Directors and Heads of Departments).
- b) Two new risks have been added to reflect the college's need to develop a sustainability plan to respond to carbon reduction/net zero targets (Risk No 012) and to engage with UHI's Transformation agenda to ensure future college sustainability (Risk No 013).
- c) To aid accessibility of the risk register currently contained in Excel and sitting on SharePoint [UHI NWH Risk-Register 22 March 2025.xlsm](#), a simplified risk synopsis has been created, listing risk, description, gross and residual risks and risk trend. (see below)

### 2. Changes to College Strategic Risks since the report to ARM in February 2025

- a) **Change to UHI NWH Risk No 001 – Failure to achieve financial sustainability.** In February 2025, the risk was downgraded in light of progress made with the college's financial sustainability plan with annualised savings achieved of over £3M in 2023-24, and key financial milestones reached in the first half of the financial plan for 2024-25. In the light of this, the risk trend was reported to ARM as downward.
- b) However, within days of this report, **SFC announced previously unseen plans for a sector-wide reform of the FE funding system** commencing from 2025-26 in three phases, with a potential change in core funding impacting individual colleges in the range of -6% and +4% compared to 2024-25 funding allocations.

The proposed reform also proposes a return to FE credits delivered being funded based on original national funding groups, and a new treatment of college premia (including rurality funding) and national bargaining harmonisation funding. In addition, it proposes to group colleges in a new set of 6 college funding 'families'. It is not yet known what those 'families' are and how the revised approach to premia - which are crucial to the financial sustainability of UHI North, West and Hebrides - will impact UHI and its assigned colleges, or when such change may be implemented.

The proposed reform also indicated that the £4.5M additional funding ringfenced for the sector in 2025-26 to part-fund the previously negotiated fourth year of the lecturer national bargaining salary increase would be included to support the proposed funding reform and revised allocations to individual colleges, rather than ringfenced pro rata for all colleges. This, including uncertainty of funding for support staff cost of living salary claim for 2025-26, causes further uncertainty of ability to meet staff related costs.

Whilst SFC met with college principals collectively on 28 February, there was no further detail available on the issues outlined above. SFC have not yet met with UHI and assigned colleges as requested by UHI at the beginning of March, and it is not clear what the potentially significant impact on 2025-26 core FE funding will bring for either UHI collectively or UHI North, West and Hebrides specifically.

- c) **Scottish Parliament approved the Scottish Budget for 2025-26.** Whilst there is an increase in cash allocations, this is a below inflation real term reduction for both the college and university sectors of both revenue and capital funding allocations (college sector reduction only of capital) for the fourth successive year since 2021/22 of more than 17% (See [Further Education \(FE\) and Higher Education \(HE\) Budget 2025-26 – SPICe Spotlight | Solas air SPICe](#)). Whilst a late additional £3.5M (one off) budget allocation was made to the college sector to fund skills in offshore wind and health and social care, it is as yet unclear how this will be distributed and how UHI North, West and Hebrides may benefit.

There are a number of other significant as yet unresolved aspects of the college sector budget allocation which could negatively impact on both the 2024-25 budget from 1 April 2025 as well as AY2025-26, including funding of additional NI employers' contributions, additional costs of teacher pension scheme and treatment of CDEL/RDEL for capital funding.

- d) **The college's in-year financial performance report for 2024-25 was presented to the Finance and General Purposes Committee on the 5 March 2025,** indicating projected variance against budget costs for 2024-25. This variance is based on a mix of unforeseen external financial events impacting on the college incurring additional costs; but it also highlights additional staff related costs as a result of delays in implementing the full college structure due to the local dispute with both recognised trade unions in 2024-25, with the dispute with EIS FELA still unresolved to date.

Detailed financial analysis and proposed high level options how to address this variance are discussed elsewhere in the agenda for the Board on 26 March 2025.

A detailed mitigation plan which includes the as yet unknown impact of changes SFC are planning to make to college sector funding allocations for next year (2025-26) and the subsequent two years will have to be developed following the Board meeting on 26 March in April and May and agreed by the Board's committees and Board in the next cycle.

- e) Based on the above three factors, **the college now needs to revise the strategic risk assessment for UHI NWH Risk No 001 presented to the ARM Committee on 26 February 2025,** increasing the residual risk calculation (from  $4 \times 3 = 12$  AMBER to  $5 \times 4 = 20$  RED) and changing the risk trend upwards.

### **3. Recommendations for the Board**

The Board is asked to note the

- Updates made to the college's strategic risk register presented to the last AMR committee
- New risks introduced to reflect the college's legal duties in the context of carbon reduction and UHI transformation
- Introduction of a new risk synopsis dashboard (see below)
- Events after the last ARM Committee which now require a revised risk calculation and new mitigation for the college's risk no 001 – failure to achieve financial sustainability.

Given the options for mitigation of risk 001 are subject of other board papers for discussion for the meeting of the Board on the 26 March 2025, the Board is asked to only note these changes in the context of this paper.

A full mitigation plan will be developed in the next eight weeks and fully incorporated into the revised strategic risk register once approved by the Board later in AY 2024-5.

Lydia Rohmer, 22 March 2025

UHI NWH Risk No	Risk Category	Risk Description	Gross Risk	Residual Risk	Risk Trend
001	financial	Failure to achieve financial sustainability	25	20	↑
002	financial	Failure to secure market demand for curriculum offer	12	9	↔
003	governance	Failure to maintain legal compliance with the full range of legal and public sector obligations	10	8	↔
004	financial	The estate does not match the needs of our curriculum, skills and research requirements	16	9	↔
005	financial	Failure to create an environment in which research and KE can flourish	12	9	↔
006	organisational	Effective employee relations through local and national channels are not secure taking account of NRPA	20	12	↔
007	financial	Failure to create effective business continuity plan	20	12	↔
008	organisational	Failure to prevent major internal or external IT Security breaches	20	12	↔
009	financial	the merged college fails to meet student expectations for an enhanced and more equitable student experience	16	9	↔
010	financial	failure to realise the economic development, commercial and income generating opportunities outlined in the merger business case, leading to loss of planned strategic development and growth	16	12	↔
011	organisational	failure to attract, retain or develop key personnel, impacting organizational knowledge and capabilities to deliver the merged college's ambition	15	12	↔
012 (NEW)	financial	failure to meet public sector carbon reduction/net zero targets and associated deadlines	16	12	↔
013 (NEW)	governance	Failure to engage with UHI's Transformation Programme	25	16	↑

