

Thursday 29/09/16

ESIF 2014-20

**SCOTTISH FUNDING COUNCIL/UNIVERSITY OF THE HIGHLANDS AND ISLANDS
DEVELOPING SCOTLAND'S WORKFORCE IN THE HIGHLANDS & ISLANDS**

Proposal for the Transition Region, in response to Brexit

1. Proposal for continuing activity post 2018

This proposal seeks approval by Scottish Government for the remainder of the integrated Scottish Funding Council's 'Developing Scotland's Workforce' programme in the Transition Region of the Highlands and Islands, delivered by the University of the Highlands. This would extend the lifetime of the programme from its current ESF approval (to the end of Academic Year 17-18) to the original proposed end date (end of Academic Year 21-22).

Additional ESF requirement for these 4 years is £9,947,812 – totalling £19,895,625 with co-finance included.

This proposal is essential for the Transition region because it will:

- *Secure the realisation of the integrated 7-year programme, specifically tailored to target ESIF intervention on Skills through 5 inter-dependent, sequenced work-streams, all operating in conjunction to achieve optimum added value for the region's industrial strategy*
- *Safeguard a critical additional 110 student places at ISCED level 3 and 664 student places at ISCED levels 6-8 in key sectors necessary for economic growth, as identified in the Regional Skills Investment Plan and Smart Specialisation planning – essential for the transformation of the regional labour market and fundamental to the current ESIF Operational Programme*
- *Provide a substantial boost to the economic development of the Transition Region through securing these higher level qualifications – increasing GVA/GDP, which has been an objective for internal cohesion since 1994*
- *Act as a catalyst for, and synergise with, many other related investments – including the vital Inverness and Highland City Deal, joint planning with Highlands & Islands Enterprise, local authorities across the region and NHS Highland for remote delivery and commercialisation of the Health & Life Sciences sector*
- *Provide the necessary link in the chain with other ESIF and EU initiatives – from lower level qualifications in Employability Strategic Initiatives (SIs) to apprenticeships in Skills Development Scotland's SI, as well as high level R&D in Highlands & Islands Enterprise's and SFC's Innovation SIs, INTERREG VA Cross Border and Horizon 2020 projects – individually, these projects deliver good outputs, but together they enable economies of scale that are genuinely transformational for the Transition Region*
- *Achieve logical progression for students and employers, through connected provision and long-term planning, involving Academic Partners from across the entire region*
- *Stabilise and help grow the population, addressing the demographic shortfall of 18-30 year olds in the region, creating a stronger culture for learning and research & development*

- *Attract students, and potential workforce, from beyond the region, thus providing longer-term security for employers*
- *Avoid undermining previous investments, further embedding the university within the local economy and raising the institution to the next level in its development, bringing significant benefits to communities and businesses across the Highlands and Islands*
- *Ensure maximum absorption of ESF investment in the Transition Region, as it continues critically needed provision which has a successful history of positive delivery*
- ***In summary - have a transformational effect on the scale and delivery of further and higher education (ISCED levels 3-8) and research by extending the range of products on offer, including to more remote communities through blended learning provision – the ultimate aim of structural funds investment since the Objective One programme and the contribution of the new university to ESIF programmes ever since***

2. Context

The University of the Highlands and Islands (UHI) is the UK's leading integrated university, encompassing both further and higher education. The distinctive partnership of 13 colleges and research institutes is locally based and rooted in communities, but with national and international reach as part of a regional university structure. As the first university based in the region, it has played a significant role in the region's economic development.

Over the last twenty years, European Structural Funds have been fundamental to the development of the new institution and its unique model, with significant investment in physical estates and IT infrastructure, research capacity and facilities, as well as course development and delivery, offering employment and economic development opportunities where these did not hitherto exist. The area includes some of the most fragile communities of the EU, many on islands.

Structural Funds investment in UHI has been a key factor in improvements in the region's GVA/GDP over the past 3 programming periods – but there is further work to be done and the region's inherent challenges of remoteness, geography and sparsity of population remain.

Along with the roll out of superfast broadband, UHI remains the region's highest priority in pursuit of a sustainable economic model.

3. Developing Scotland's Workforce in the Highlands and Islands

Although several Strategic Initiatives in the new ESIF programmes for 2014-20 are relevant to higher education in the Transition Region, it is in the Scottish Funding Council's (SFC) Developing Scotland's Workforce (DSW) that there is the greatest potential for transformational change - and where the most progress has been made to date.

UHI has been working on the development of DSW in the Highlands & Islands with SFC for more than 3 years, as part of the introduction of the 2014-20 programmes. SFC is the Lead Partner – UHI is the sole Delivery Agent in the Highlands & Islands, a Transition Region.

In summary, a funding package of £29.2m was allocated to the Highlands & Islands for SFC DSW activities for 2014-20. This includes match funding at 50% intervention rate, provided by SFC.

It should be noted that all UHI Academic Partners apart from Perth College UHI are fully located within the Transition Region. DSW activities at Perth College UHI are funded through LUPS ESF, with additional outputs contributing towards LUPS targets. However, these activities are planned and delivered together with those in the Highlands & Islands, leading to increased value added and economies of scale.

Although formal approvals are processed through Operations Applications, covering one or two years at a time, an integrated plan for the entire programming period was agreed in principle by SFC and UHI at the start, specifically designed to build on previous structural funds investment, dating back to the Objective One Programme of 1994-99 and most recently ERDF and ESF delivery through UHI's role as a Strategic Delivery Body in the 2007-14 programming period. The current 7-year integrated proposal comprises integrated and sequenced work-streams, including:

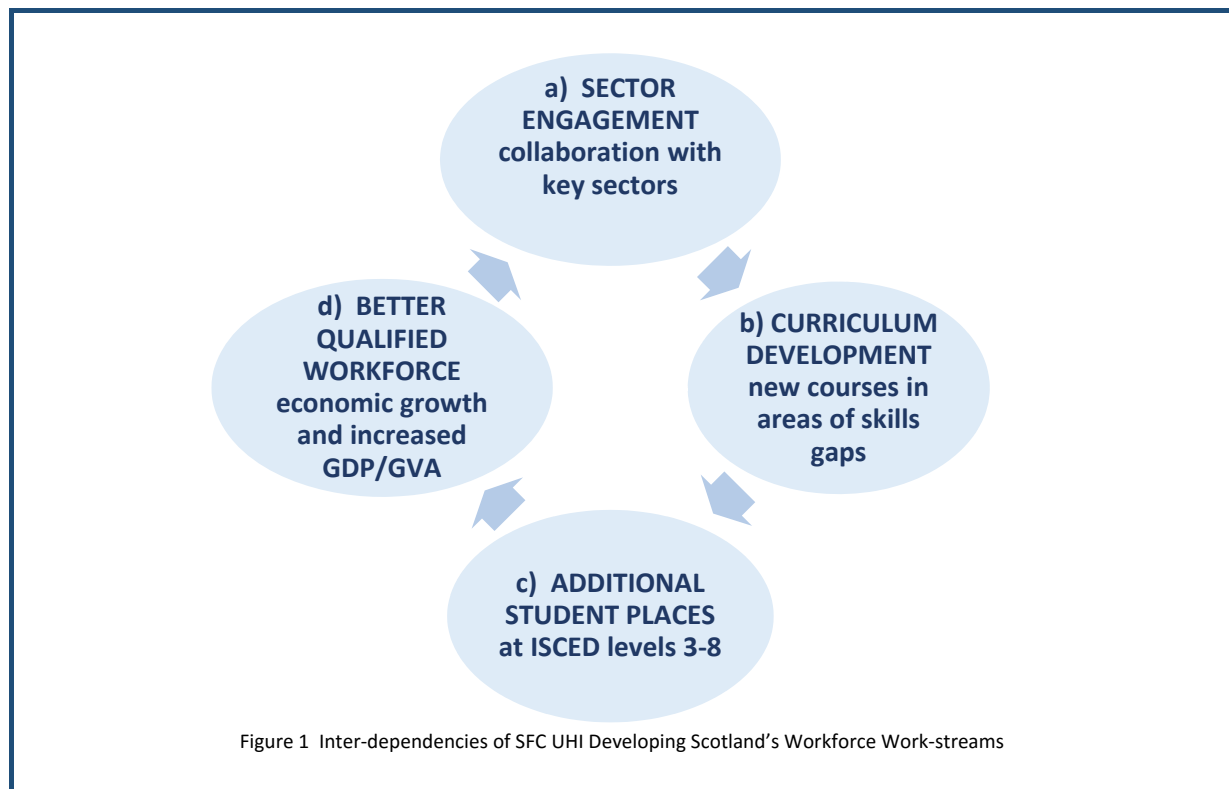
- Further and Higher Education growth – additional student numbers
- Postgraduate growth, research and taught – additional student numbers
- Underpinning development to enable and facilitate the above– new 2-3 year posts, working on curriculum development and sector engagement, focussing on key sectors

Further details are outlined in Annex 1.

To date, delivery in DSW has been restricted to Further Education growth, which comprises additional student places in 1-year courses at ISCED level 3; activities in all other work-streams have been delayed pending confirmation of longer-term approval, as they involve commitments lasting more than a single academic year – without sufficient underwriting of funding for additional places, it would not be acceptable practice to start students on such courses. Without such confirmation, the number of ISCED levels 6, 7 and 8 outputs will be severely restricted, as most of these require funding for courses of 3.5 and 4 years' duration.

We are now, therefore, at a critical point for the programme.

The work-streams have been specifically designed as an integrated, sequenced package, consequentially leading to the key aims in the ESF Operational Programme as follows:



The labour market in the Highlands and Islands is changing, with new opportunities and challenges emerging in key sectors such as health & life sciences, renewable energy and the creative industries. However, there are significant skills gaps in higher level qualifications in these sectors; greater engagement with employers and professionals is required to identify specific gaps (a, in figure 1 above), then to inform new curriculum development, tailored to meet job requirements (b), which will attract additional student places (c), ultimately leading to a better qualified workforce in the Transition Region and improved economic performance (d).

Given the fragile economy of the Highlands and Islands, if one element is taken away, it jeopardises delivery in another.

Further work-stream activity has now been approved for Academic Years 16-17 and 17-18; however, without certainty of funding for the remainder of the programme, it will not be possible to start any activities beyond the annually delivered FE provision (ISCED level 3) and perhaps some limited, 1-year duration taught postgraduate provision (ISCED level 7).

The programme is a strategic response to regional development opportunities identified in the Regional Skills Investment Plan and regional Smart Specialisation priorities for the Highlands and Islands, recognising the significant increase in economic growth within the region with more people now in employment, but with a GVA per employee that still lags behind that of the rest of Scotland. This suggests a response that is designed to both retain and attract working age people across all communities by supporting and enhancing those traditional areas of activity that currently sustain high levels of employment in the very diverse local economies

and raising their value, alongside focussing on and nurturing new and emerging areas of activity - Smart Specialisation Highlands & Islands style.

Through the DSW programme, it was anticipated that ESIF would ensure that additional activity aligns with local labour market requirements as highlighted in the Regional Skills Investment Plan, delivering the range of skills needed to grow the economy and take advantage of developing activity and demand in new higher value sectors, including life sciences, specialist rural healthcare, renewable energy, engineering, creative industries, computing and digital technologies. However, traditional industries, such tourism, food & drink and forestry & timber technologies still play a key underpinning role at local level. Together they employ 60,000 people out of a total of only 448,000 in the region.

In summary, this plan would directly address new opportunities at regional level, whilst recognising the need to add value to traditional jobs that are crucial at more local level.

A key factor in this proposed programme is the integration of activities across all work-streams – detailed in Annex 1, which compares deliverables with and without the additional support requested in this proposal.

The ultimate target, as identified in the ESF Operational Programme, is to have a workforce with higher level qualifications in key sectors (to be delivered through work-streams 1-3); this can best be achieved throughout the region with new, high quality online learning materials (developed through work-stream 5) which are directly in line with industry requirements (secured through work-stream 5).

Given sparsity of population and issues of rurality and remoteness in the Highlands & Islands, it is not possible to grow student numbers – the future workforce – without this integrated approach, building on the successful strategy and outcomes of previous ESF and ERDF investment.

4. Response to Brexit

The implications of the UK Referendum in June 2016 to cease membership of the EU are immense, leading to uncertainty for all organisations involved in EU project delivery. UHI is doubly affected, due to the impact on the FE/HE sector *and* the impact on the Highlands and Islands, as a Transition Region.

Implications for UHI's DSW delivery as outlined above are particularly severe. Activities in the proposed programme for Academic Years (AYs) 15-16 up to 21-22 were designed as an holistic and coherent package. The current SFC DSW Operations Application covers the period up to AY17-18 only – so even if it is approved in time for the Treasury Autumn Statement, with no indication of funding thereafter, this will cause a cliff-edge for funding and severely affect deliverability (see impact on deliverables in Annex 1), the feasibility of the entire package and the future sustainability of the university.

Following a meeting with the Head of Scottish Government Structural Funds & State Aids on Tuesday 16 August with the Highlands & Islands European Partnership (HIEP – a locally based consortium of UHI, Highlands & Islands Enterprise and the 7 local authorities in the region) to discuss the implications of the Treasury Statement on EU funding beyond the date the UK leaves the EU, issued on 13 August, partners were asked to submit proposals for consideration as *'specific structural and investment fund projects [transformational] that might be signed after the Autumn Statement, but while we remain a member of the EU.'*¹

This proposal is a response to that call, attempting to secure the long-term goals of both current ESIF investment and previous structural funds initiatives.

The key justifications are set out in Section 1 above, however it should be noted in particular that this proposal is a critical element of a much larger co-investment matrix.

For example, recent developments with Highlands & Islands Enterprise and The Highland Council through the Inverness and Highland City Deal aim to develop the region's Health & Life Sciences research and commercialisation base. This has led to intense economic development planning with all regional stakeholders, including local businesses in the sector and a Memorandum of Understanding with NHS Highland.

UHI is also taking over the Nursing Degree in the Highlands & Islands from Stirling University, adding to the critical mass of activity in this area.²

Research and development projects in the INTERREG VA Cross Border Programme with Universities of Queens and Ulster will fund further high level health and life sciences innovation activities, with Horizon 2020 applications also under preparation.

¹ Statement from HM Treasury, 13 August 2016 –

<https://www.gov.uk/government/news/chancellor-philip-hammond-guarantees-eu-funding-beyond-date-uk-leaves-the-eu>

² https://www.uhi.ac.uk/en/media/news/university-of-the-highlands-and-islands-gains-approval-to-take-over-nurse-education?utm_source=InHouse&utm_medium=Twitter&utm_campaign=NursingRelease16

Without ESIF investment in the underpinning work of DSW (engaging with businesses in the sector, new specifically designed curriculum provision and additional student places from ISCED level 3 up to postgraduate) the ability to participate and progress in the City Deal, INTERREG, Horizon 2020 and other projects will be severely undermined.

The DSW programme includes support for all key sectors in the Transition Region and involves work with relevant stakeholders. Although Health & Life Sciences is a priority, similar examples of synergy and inter-dependency can be found in all of these sectors; without the DSW investment, we will see a domino effect of losing support from various sources, with the end result of the region being unable to respond to the opportunities and challenges of a changing labour market and economy post-Brexit and a risk of increasing fragility.

For these reasons, and many more, there is a clear rationale for securing funding for the remainder of the programming period for DSW. Continued support for this initiative will ensure the successful completion of a truly transformational project, with game-changing impact on the industrial strategy of the Highlands & Islands – a fitting end to the Structural Funds investment made in UHI dating back to the Objective One Programme in the 1990s.

5. Finance

The 7-year proposed programme has been worked up and approved in principle with SFC, as well as by internal UHI governance.

The total cost of the integrated programme is £29.2m, derived from the Transition Region allocation within the overall allocation for this Strategic Intervention.

The total budget includes co-finance from SFC (50% intervention rate) which is subject to approval.

To date, SFC has supported a limited amount of FE Credit Growth activity in AY 15-16, equivalent to a total of 210 FTEs (including Perth College UHI) whilst the current Operations Application for 16-17 and 17-18 will support initial investments in the remaining work-streams. This brings the total spend in the Transition Region for the first 3 academic years (including co-finance at 50% intervention rate) to £9.28m, with additional activity at Perth College UHI funded through the Lowland & Upland Scotland Programme.

£24.4m (84%) of the budget will go directly to supporting greater student numbers, while the remaining £4.8m (16%) will go to necessary underpinning activities (curriculum development and sector engagement).

In order to ensure that all outputs are delivered beyond 2018, further investment support of £19.89m (including co-finance) is still required.

Full details of the agreed SFC/UHI proposed budget as included in the original SI approval and the current AY 16-17 and 17-18 Operations Application are attached in Annex 2.

ANNEX 1 DSW in the Highlands & Islands Work-stream activities and outputs

The table below summarises activities and outputs in the 5 main work-streams (work-stream 6 covers administration and compliance in support of the programme). To date, DSW funding has supported additional FE credits in work-stream 1 during Academic Year (AY) 15-16. the Operations Application for AYs 16-17 and 17-18 has just been formally approved and will fund further work-streams.

If the programme is delivered as a whole, it will achieve maximum return on the £29.2m investment – as identified in column A. If funding ceases at the end of AY 17-18, outputs will be limited, as shown in column B. Column C identifies the additional outputs which will be secured if the additional 4 years sought in this proposal are approved. – demonstrating the significant difference that the additional investment will make, particularly in the context of the average annual student intakes, as shown.

	Work-stream	A ORIGINAL TOTAL Outputs AYs 15-16 to 21-22	B Outputs AYs 15-16 to 17-18 only	C Outputs secured by funding for AYs 18-19 to 20-21
1	FE Growth <ul style="list-style-type: none"> Credits at ISCED level 3 Outputs – FTE student places Courses - 1 AY duration (5 cohorts) Started in AY 15-16 and will conclude in AY 19-20 (Further outputs from Perth College UHI in the LUPS Programme, delivered alongside above) Average UHI annual intake of FE students, including PT at all levels – 23,500 	520 FTE student places	410 FTE student places	110 FTE student places
2	Postgraduate Research Growth <ul style="list-style-type: none"> ISCED level 8 Outputs – additional PhD student places (4 in collaboration with other Scottish universities) 3.5 years' duration each (2 cohorts – 17 & 22) Starting in AY 16-17 and finishing in AY 20-21 Average UHI annual intake of PhD students - 20 	39 PhD students	0 PhD students	39 PhD students
3	a) HE Postgraduate Taught <ul style="list-style-type: none"> ISCED level 7 Outputs - additional Masters level places Courses - 1 AY duration (3 cohorts, 20 places p/a) Starting in AY 16-17 and finishing in AY 19-20 Average UHI annual intake of PGT students - 9 	60 Masters level places	20 Masters level places	40 Masters level places
	b) Undergraduate Taught <ul style="list-style-type: none"> ISCED level 6 Outputs - additional undergraduate places 4 years' duration each (2 cohorts, 250 and 335) Starting in AY 17-18 and finishing in AY 21-22 Average UHI annual intake of UGT students - 494 	585 undergraduate places	0 undergraduate places	585 undergraduate places
4	Sector Engagement <ul style="list-style-type: none"> New 2-3 year posts working with employers on skills gaps and labour market needs Outputs - contacts with employers Starting in AY 16-17 and finishing in AY 18-19 	400 employer contacts	200 employer contacts	200 employer contacts
5	Curriculum Development <ul style="list-style-type: none"> New 2-3 year posts to develop online blended learning materials in key sectors Outputs – new, fully accessible courses Starting in AY 16-17 and finishing in AY 18-19 	21 courses	4 courses	17 courses

Annex 2 - Proposed budget for SFC DSW in the Transition Region, 2014-22

Summary of the SFC/UHI DSW ESIF Transition Region programme												
£29.12m total programme				Academic years								
Workstream		fte		2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22		
1	FE credit growth	Credits per annum		3195	3200	1000	1000	1000				
		Teaching costs at £244 tariff		£793,702	£794,944	£248,420	£248,420	£248,420	£0		£2,333,906	
		Student support numbers as credits	credits	3195	3200	1000	1000	1000	0			
		Student support budget inc childcare		£511,200	£512,000	£160,000	£160,000	£160,000	£0		£1,503,200	£3,837,106
2	PGR growth	PGRs fte. 2 cohorts, 14 and 21, for 3.5 yrs	14		14.0	35.0	35.0	24.5	10.5			
					£511,938	£1,279,845	£1,279,845	£895,892	£383,954		£4,351,473	
		PGRs - collab, non UHI, 1 cohort, 3.5yrs	4			£146,268	£146,268	£146,268	£73,134		£511,938	£4,863,411
3	HE growth		16..17	17..18								
3A		PGT < 10 pa @ average price group	0	20		£165,480	£165,480	£165,480			£496,440	
3B		UGT - ftes pa				250	585	585	585	335		
3B		UGT budget @ £7483/fte sfc rate				£1,613,500	£3,775,590	£3,775,590	£3,775,590	£2,162,090	£15,102,360	£15,598,800
4	Sector engagement	Sector / employer engagement			258,031	928,093	919,799	£709,191			£2,815,113	£2,815,113
5	Curriculum growth											
		HE			£62,618	£845,615	£402,612				£1,310,844	
		FE curriculum regional, new			£115,000	£236,900	£122,004				£473,904	£1,784,747
		Totals for the above activities			£1,304,902	£2,254,531	£5,624,120	£7,220,017	£6,100,840	£4,232,678	£2,162,090	£28,899,177
6	Compliance & administration											
		SFC post in the Transition region			£40,000	£60,000	£60,000	£60,000	£60,000		£280,000	£280,000
SFC DSW totals					£1,304,902	£2,294,531	£5,684,120	£7,280,017	£6,160,840	£4,292,678	£2,162,090	£29,179,177

Date
30.8.2016

Parameters for costing		
Regional Price/Credit		£248.42
Student support per Credit		£160.00
PGR costs per annum		£36,567.00
HE UG Places (excludes fees)		£6,454
HE PGT Places (inc PGT fee at Price Group 3 as an average)		£8,274 for 16/17