# COURT

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**Notes of the Strategy Day held on 10 November 2017**

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In the Chair:     Mr Tony Strachan, Deputy Chair of Court

Others in attendance:     Participants included members of the Court, members of Court committees and executive management colleagues.  All inputs were recorded and reported matters were noted by the Court and by the other participants present.

## SD/17/1    CHAIR

In accordance with the Court Standing Orders, in the absence of the Chair of Court, the meeting was chaired by the Deputy Chair of Court.

## SD/17/2    INTRODUCTION FROM THE PRINCIPAL

2.1     The Principal reminded the Court of recent communications about the University's four key strategic priorities: to achieve savings; to deliver organisational change; to grow new income streams; and to deliver a new Strategic Plan for 2018-25. This Court Strategy day provided the key starting point for planning process for the new Strategic Plan.  Meanwhile, the University had been thinking about its future organisation, as the fully integrated global university which will drive forward future strategy from 2018.

The Principal updated the Court on work under way to develop proposals to create a new academic structure comprising four new Colleges.  These would encompass the existing entities of the Schools of EPS, EGIS, MACS and SoSS.  The School of EBS and Textiles & Design would continue to be known as Schools but will be associated organisationally with Colleges.

2.2     The Principal also provided a briefing on the key features of an important example of a major transformational income generation project currently under development.  Proposals would be presented for further discussion and Court consideration at its meeting in December 2017.  Court members were asked in the meantime to treat the information as strictly confidential.

## SD17/3    WELCOME AND INTRODUCTION

The Deputy Chair of Court welcomed all colleagues to the Court Strategy Day.

The Deputy Chair welcomed Dr Tom Kennie and Dr Alister Wilson from Ranmore Consulting Group, who had been commissioned to guide and support the University in developing its new Strategic Plan over the course of 2017/18.

The Deputy Chair of Court thanked the Principal for his opening introduction, stating that the plans reported by the Principal are in the process of being articulated with University staff.  The Court will want assurance going forward of wide staff engagement in the Strategic Plan development process.

In relation to 2.2, above, the Deputy Chair of Court advised the Court of the time sensitive nature of this particular project, which means that Court approval might need to be attained at short notice.

## SD17/4    KEY PERFORMANCE INDICATORS ANNUAL REPORT: OCTOBER 2017

The Vice-Principal gave a presentation on the Annual Report of Key Performance Indicators 2017. The report confirmed the underlying trend relative position and progress towards target against each of the four KPI themes of: Learning & Teaching and the Student Experience; Research Intensification and Knowledge Exchange; Internationalisation; and Enabling Strategies (Financial).

4.1 **Learning & Teaching and the Student Experience**

The Court noted overall good or fair scores for the measures of 'Entry Scores', 'Widening Access', 'Employment/Further Study' and 'Graduate-Level Employment (although the latter had suffered a small dip last year from a previously strong position). The Court noted that the University's wider access student numbers had more than doubled in the past seven or so years, with the target in this prominent Scottish government/SFC priority area expected to be met.

The Court noted mixed or poorer scores for the measures of 'Retention/ Progression', 'Student Overall Satisfaction', and 'Average NSS Score'. The Court noted that the University had put in place a range of action plans aimed at improving retention/progression figures, and with a focus on each campus. The other two weaker measures were the result of poor performance in the 2017 National Student Survey, with 'Average NSS Score' particularly weak for the year. Plans were in place to address the underlying problems in these areas also, and it was emphasised that changes had the potential to generate substantial movement in the University's position in the NSS UK rankings.

4.2 **Research & Knowledge Exchange**

The Court noted an overall fair position in relation to 'Research Student Numbers' and 'Doctoral Degree Awards'. The University had invested in Studentships which had boosted the former and, in relation to the latter measure, had improved significantly compared to the UK average, although performance remained a good way below the average of pre-92 universities.

A varied picture was shown for 'Grants and Contracts Income' This showed a lack of appreciable progress relative to the competition with planned income in the current and next financial year lower than the KPI target. 'Research Output (Publications)' showed similar profiles with continued trailing of the faster rising pre-92 university average, similar rank position within the UK as the previous year, and with an expectation that the 2018 target will not be met. The target for Research Impact (Citations) was not expected to be met; there had been a significant fall in UK rank position following considerable improvements in previous years and a match with the pre-92 university average achieved last year. The reason for the fall back was not yet properly understood. Progress towards target in recent years for the 'Research Income from Industry' measure had fallen behind the planned trajectory and it was not expected that the 2018 target will be achieved. The figures reflected the extent of the University's dependence on the oil industry; the adverse trend had been stemmed, but not yet reversed for this measure, against which the University had previously performed strongly.

4.3 **Internationalisation**

The Court noted an overall positive position in relation to the 'Non-EU Student Fee Income' measure. The picture was mixed for the 'Transnational' measure where the University's position had been remarkable; however, a reduction in distance learning student numbers and ALPs meant that the target student number was not expected to be met in 2018. With the discontinuation of the West London College campus and underperformance against target in international recruitment at the Scottish campuses, the student number target in 2018 would not be met.

4.4  **Enabling Strategies (Finance)**

The Court noted an overall positive position in relation to the 'Income Scale and Growth' measure. The overall position in relation to the 'Operating Surplus' measure was weak; however, the University's position remained similar to that in the previous year, within a sector which was operating in a challenging environment for all.  The University was more highly geared than the average, with the trend and relative position of the University in the 'Gearing' measure showing the effect of the new planned borrowing.  In the 'Liquidity' measure the trend for the University had improved substantially; looking forward, a lower reliance on internally generated funds (arising from increased credit) will improve liquidity; however, too high a level would signal that perhaps the University is not making best use of its cash.

4.5  **Academic Staff FTE**

The Court noted a report of the University's academic staff numbers (by FTE), comparing 2015/16 numbers with those of ten years earlier. It was noted that, if total income figures are normalised to total staff numbers as a measure of the efficiency of income generation per staff member FTE, the University would rank amongst the top performing HEIs in the UK.

4.6  **Breakout Group Exercise**

Four breakout groups (one for each KPI theme) were asked to consider the following and report back to the whole group:

- *(Having seen the KPI performance report)  What should we do in our new Strategic Plan?*
- *Which KPIs are essential for any University?*
- *And which are distinctive for us?*
- *Identifying the KPI and setting its target value are not the same thing!*
- *Which targets should be relative to our competitors (and who are they?), and which are absolute?*

4.7  **Breakout Group feedback:** Group feedback suggestions for consideration by the planning team included the following:

**Learning & Teaching and the Student Experience**

1) We need the existing KPI for TEF purposes plus a KPI on measuring grade inflation (how many firsts and upper seconds awarded) for TEF
2) We keep talking about League tables and should have an appropriate KPI for the purpose. To do this we need to determine who our competitors are
3) We need some measurement of our engagement with the student experience and in particular devise a measurement for the quality of the learning experience
4) Communication with students needs to be improved. Students are keen to see lectures digitally but this should be for revision purposes. Students need to be encouraged to do their homework and then attend lectures. This would enable lecturers to keep a closer eye on those who might need help whether for study purposes or their mental health
5) We should have a staff satisfaction survey and measure changes over time
6) Better engagement with alumni to showcase what can be achieved with a HWU degree would be useful. Measured by numbers joining Watt Club.

**Research & Knowledge Exchange**

1. KPIs are too blunt an instrument and do not necessarily drive behaviour or long term decision making in research
2. KPIs need to be flexible, especially in a fast changing world - previously too rigid
3. Separate KPIs need to be developed for the 'strategic bets' - these need proper visibility and KPIs need to balance prospective positioning with retrospective analysis - key is to be useful in influencing decision making
4. While research reputation is critical this needs to encompass more than citations/publications. Measures need to be developed around staff performance (a league table of staff performance? / % of research staff performing at or above target levels?)
5. Thought needs to be given to ensuring that KPIs assist research staff in being appropriately focused - they need to be meaningful at different levels within the University
6. KPIs need to accommodate the research contribution/impact of Dubai and Malaysia
7. Should there be two sets of KPIs - one for Court and one for management?
8. KPIs need to be developed around research impact.
9. KPIs need to give Court comfort that HWU will meet the targets for the next REF
10. KPIs need to be developed to measure progress in building integrated funding relationships with industry and funding councils
11. KPIs need to be developed that align with Scottish Government economic growth targets**.**

### International

1) The KPIs are historically UK-focused and are therefore not suitable looking to the future
2) Measures should be established which benchmark performance against global universities (for example, what are the norms for universities in Malaysia?)
3) KPI measures need to cover our USPs (e.g. international, strong on STEM, links relevance to business, employment …)
4) KPIs need to measure not just international student growth (by location) as a key measure, but also international transfer opportunities taken up
5) KPIs should measure customer choice of HWU, to understand how the international dimension impacts on applicants' choices and whether this concurs with their later (student satisfaction) view
6) Need whole University NSS performance measures (proxies used for Malaysia and Dubai)
7) KPIs should reflect the balance between teaching/learning and research
8) Some KPIs will be institution-wide, while others should be locally focused
9) A measure of global impact (incl. global impact of research) should be included. The University should consider how the alumni body can help
10) Measures of integration should be adopted, e.g. staff mobility
11) International partnerships (and co-working) and their impact in terms of economic development and graduate workforce should be measured (country specific and global)
12) Need a better understanding of international students and the challenges they face, with focus especially on issues that impact on retention and progression.

### Enabling/Financial

1) The KPI Surplus and Liquidity measures are essential and absolute measures, while gearing and income were relative measures. The Group supported retention of the current set of KPIs
2) In terms of KPIs which are distinctive to HWU, the group considered whether comparisons should be drawn with Scottish, UK or global peers, and whether commercial and academic income should be differentiated
3) The Group also considered whether performance of the constituent parts of the University, i.e. Scottish and the overseas campuses and the four

new Colleges should be considered separately from whole University performance. This approach could be complicated by matters, such as departmental cross-subsidies or commercial confidentiality (and in the background, expectations about which information should or should not be available in the public domain). The Court noted the requirement set out in the Scottish Code that the high level results of KPI performance should be published. The same arrangements need not be made for detailed management level performance reports

4) The Group recommended that consideration be given to expanding the current set of KPIs to include personnel matters, for example, with further KPIs added to measure recruitment (numbers/quality), staff satisfaction (staff survey) and staff:student ratios.

Two key observations were made by members in conclusion:

- the University should consider what Heriot-Watt will look like in 50 years' time and the spectrum of different paths that might be taken. Until there is a shared understanding of the essence of what kind of institution Heriot-Watt wants to be it is too early to establish a new set of KPIs
- we need to have a clear understanding of who our competitors are: these groups are different for each location and each activity the University engages in.

## SD17/5    STRATEGIC PLAN 2018-2025

The Court received and discussed a presentation by Dr Tom Kennie of Ranmore Consulting, who clarified the aim of the discussion session to gain insight from members' experiences of strategic planning, to explore the developing strategic framework for development of the new Strategic Plan, to outline the forward plan of activities, and to introduce the roles of horizon scanning and scenario thinking.

Members were asked in their groups to: *consider their own past experiences of strategic planning, how they went about it, what they have been most proud of and what advice would they offer colleagues in the executive team and Ranmore.*

5.1    Group feedback for further consideration by the planning team included the following:

1) messages should be kept simple to aid understanding and buy-in
2) define what the transformational change means and what the University wants to achieve from it, to optimise the chance of achieving
3) shared clear understanding of the University's USPs, the problems it wishes to resolve and what it wishes to be better at (a question that has been asked of the Principal is what does the University wish to be number 1 in ?)
4) keep strategy and vision (where engagement needs to happen) separate from management matters
5) real and meaningful engagement, taking time and effort to inform everyone. However, a balance needs to be struck between mass consultation and securing real ownership among key staff groups who need to feel enthused and excited by the change
6) strategy is best generated by engaging staff in new groups/contexts, not in their usual operational groups. There is an important job to be carried through in devising new and cohesive groups for engagement
7) strategies under formulation should be tested with stakeholders
8) horizon scanning should include the perspectives of individuals in different fields outside of the institution, applying structured testing of assumptions

9)   strategy formulation is best formed by a small group to help manage the information generated and determine the best ways to implement ideas

10)  strategic planning needs to be sufficiently flexible so that it can respond to change

11)  (from facilitator) we need to be clear about what we mean by consultation so that expectations are managed appropriately

12)  (from the Secretary of the University) the University will wish to engage where it can in wider and deeper conversations, rather than in a series of 'consultations'

13)  (from facilitator) there will be an opportunity to explore the vision, mission and aspirations of Colleges, framed in an institutional context

14)  contributions should be invited from the IT sector, to help the University to determine where it wants to go, while ensuring that plans will be sufficiently flexible to enable the University to react to events

15)  finance focused contributions should examine potential risks and threats and use these to shock/stress test

16)  a good deal of oil industry focused advanced planning and scenario planning should be used to consider where the University is now, what the larger trends are and where competitive threats lie

17)  need to establish agreed vision (culture, ethics, morals, stance) to help decide how, and with which projects, the University should proceed

18)  organisational change will require a different kind of consultation than that used in the Strategic Plan development process

*19)  the aim should be to adjust the existing strategy. Rather than starting with a blank sheet of paper with no legacy.  Questions could be framed thus: if we were to be more XXX than we are now, what would that look like ?*

5.2   The Court noted the proposed (pyramidal) Strategic Planning Framework which incorporated the following, for exploration through the Strategic Plan development process:

- Mission, Vision and Values (led by changes in ambition and new narratives)
- strategic positioning (distinctiveness and identity)
- how financial and academic performance is determined
- people elements which help create reputation (capabilities, culture of innovation, external collaborators/partners/alumni)
- core enablers for delivering success (governance and leadership, business processes – external/internal, data, digital infrastructure and systems, physical infrastructure)

The approach would be through examination of external trends, future-focused interviews, exploring alternative futures, comparative competitor analyses - building momentum and engagement and stress testing the Strategic Plan as it develops.

5.3   Comments arising in the course of discussion included:

1)   risk appetite should incorporate ambition appetite

2)   need to understand the competitors against whom the University is positioning and measuring itself

3)   people elements should include current students as well as alumni

4)   (facilitator) further consideration will be given to the finer detail of engagement and input from the Malaysia and Dubai campuses

5)   (Secretary of the University) University Leadership Forum (ULF) events will be used as a conduit for some of the staff engagement

6)   (facilitator) Staff engagement will be facilitated by a range of informal and more formal mechanisms, and through bottom-up and a top-down feed in and feedback

7)   communications will be vital to ensuring that wide buy-in to the new strategy is achieved.

**SD17/6    HORIZON SCANNING**

The Court received and discussed a presentation by Dr Alister Wilson of Ranmore Consulting, on horizon scanning and scenario thinking and their roles in the Strategic Plan development process. The Court noted the definition of horizon scanning as a systematic process of searching for emerging issues and trends, understanding the trends likely to impact on delivery of mission and vision, how these trends might develop in the future, and any consequent need to adjust the direction of travel.

The Court noted the strategically important 'PESTLE' (Political, Economic, Societal, Technological, Legislative, Environmental) signals which shape the market place over the short, medium and long term) and how the issues represented can be introduced to provide insight and inform institutional responses in the context of strategic planning.

6.1    Groups were asked to consider their initial thoughts: *what can they see on the horizon, what should the University look out for, what would they like to know more about, and what "taboo" issues might be identified ?*

6.2    Feedback for further consideration by the planning team included the following:

1) the student debt issue and demand for flexible (EBS-style) business models
2) student mobility
3) age demographic
4) migration issues in the context of UKVI
5) student mental health issues and supporting students to look after their psychological/emotional selves
6) truth (in a climate of fake news), and engendering trust
7) healthy use of IT (which can be greatly enabling but can also isolate)
8) future transitions in global energy, water and food needs
9) impacts of war and civil unrest
10) cultural differences
11) changes in approach to university teaching and infrastructure investment (clicks v bricks)
12) the jobs of the future in the new industrial revolution and advances in Artificial Intelligence
13) social engineering via higher education led by the Scottish government
14) post-Brexit funding environment
15) economic downturn
16) connectivity between people across the global university
17) future university mergers
18) views on university automomy v. public opinion of perceived "large faceless organisations"
19) recognising the different market issues which will affect different campuses.

"Taboo" topics suggested included:

1) systems of religious belief and cultural identity
2) politics, nationalism and identity
3) racism and Islamophobia
4) free speech / limits to free speech
5) the four-year Scottish honours degree
6) carbon footprint
7) suggesting that fewer people should go to university (and more to vocational training)
8) IT interconnectivity and prevention of the spread of ideas
9) sexual harassment

Participants were asked to feed any further thoughts through to the core team (via the Secretary of the University).

**SD/17/7    PENSIONS BRIEFING**

The Court received a briefing on the pensions' landscape relevant to the University, which was presented by the Director of Finance with Donald Fleming, Head of Pensions and wider People Service practice in Scotland, and David Spreckley Director of KPMG's public sector pensions team.

The Court noted the five different pension schemes relating to the University's staff, the type of each in terms of benefits, and the respective employer and employee contribution rates.  The annual total cost to the University in contributions was a little over £13m, of which just under £10m related to the Universities Superannuation Scheme (USS).  The USS is the largest pension scheme in the UK, and is currently reporting one of the largest deficits.

As a backdrop to Court's future consideration of pension liabilities, in particular relating to the USS, the background context was set out:

- the position of value of assets and liabilities from 2014 to 2017, including the Trustees proposed approach to address the growing fund deficit;
- the profile of past USS service liabilities (pensioner, deferred and active), which carried a total cash requirement of £140 billion.  Current assets, cash and risk-free returns amounted to £80-85 billion, leaving a £55-60 gap to be filled with cash (i.e. higher level of contributions) or risk carrying returns;
- the proposed USS 2017 approach would reduce the deficit to £5.1 billion with a future service cost of 30.5%;
- example solutions and their impact;
- the national debate involving the employers' representative body (UUK) and UCU, following advice from the Trustees that that a 6% increase in contributions would be required to maintain existing pension benefits at their current level.  The UCU had balloted its members with the turnout confirming that members would be prepared to take industrial action to defend current pension benefits;
- the inherent system of institutional cross-subsidy depending on the staff profile, legacy liabilities and balance-sheets of each institution, creating scheme "winners" and "losers";
- the 30 June 2018 deadline for finalising the 2017 valuation and USS funding decision, with a dual process for the employers (through the vehicle of the Joint Negotiating Committee) to establish the benefits/contributions structure;
- the regulator must be in agreement with USS proposals and is already in dialogue with USS on the funding assumptions.  In November 2017, the USS will decide on a revised funding position with proposals for deficit recovery contributions; and
- during spring 2018 employers will consult with employees on any contribution/benefit changes.  Employers need to be comfortable on a collective basis with the direction of the discussions.

The Court noted the relative competitive disadvantages arising for the USS scheme as a "regulated" scheme; the scheme compared less favourably to other (unregulated) schemes in terms of value of benefits and cost.   The scheme's structure of benefits/contributions also represented a one-size-fits-all approach and was relatively inflexible in terms of accommodating the kind of lifestyle choices that might be considered attractive.

The presenter showed a potential "modernisation" scenario for future pension provision which would bring flexibility to the pension elements of staff pay enabling a proportion to be saved for retirement, or used for lifestyle needs

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depending on the needs of the individual.  The Court noted also scenarios whereby reforms might be brought by de-mutualisation and moves to local control and restructuring.  These were all scenarios which might be considered by employers as they contemplate future scheme changes, affordability and the things that are most important to their staff. However, the financial position of each individual institution would be key in determining whether these alternative scenarios provide the right answer. A "Scottish solution" was another potential scenario which Scottish institutions might consider.

In response to a question about the alternative valuation advice proposed by UCU, the presenter confirmed the expectation that the pension regulator will not accept UCU's proposals.  The regulator had, however, commented on the overly complicated USS model and the need for more clarity in the articulation of the risks which had been presented.

The Deputy Chair of Court highlighted that at present, while the collective voice of universities is involved in the process of dialogue, individual universities are relatively powerless; however, it is important at this stage for each to understand the financial dilemma at the centre of the discussions.


Date …………………………………………

Signature ……………………………………