

FOR PUBLICATION

IN CONFIDENCE

HIE 7/05

HIGHLANDS & ISLANDS ENTERPRISE

MINUTES OF THE MEETING OF THE BOARD HELD ON 14 NOVEMBER 2005 AT 1100 HOURS IN THE PENTLAND HOTEL THURSO

PRESENT: William Roe (Chairman)
Sandy Cumming (Chief Executive)
George Campbell
Lyn Forbes
Stewart Graham
Duncan MacInnes
Andy Rogers
Grant Sword
Susan Torrance

IN ATTENDANCE: Sandy Brady (Director - Strategy Group)
Gordon Cox (Director – Network Management System)
Forbes Duthie (Director – Corporate Services)
Susan Myles (Director – Human Resources)
Alex Paterson (Director - Developing Skills)
Bill Sylvester (Director – Partnership Projects)
Jackie Wright (Director - Growing Businesses)
John Watt (Director - Strengthening Communities)
Alastair Nicolson (Strategy)
Charlotte Wright (Lochaber Enterprise) (Item 6(3) only)
David Oxley (Lochaber Enterprise) (Item 6(3) only)
Andrew Ross (Secretary)
Anne Muirden (Executive Office)

1 APOLOGIES

Apologies for absence were intimated on behalf of Wilma Campbell, Angus Mackenzie and Drew Ratter.

2 DECLARATION OF INTEREST

Andy Rogers declared an interest in relation to Items 6(3) – BSW Sawmills Ltd and 7(1) Cairngorm Mountain Ltd. Susan Torrance declared an interest in Item 7(1) - Cairngorm Mountain Ltd and George Campbell declared an interest in Item 6(2) – Eden Court Phase 2. The papers had not been sent to these Members and they took no part in the discussion. Susan Torrance also declared an interest in Item 4 – Chief Executive’s Updates (Advance Offices) and Item 9(5) – Write Off Cases (Braidgrove Ltd) and left the room during the discussion.

3 MINUTES OF THE MEETING HELD ON MONDAY 3 OCTOBER 2005 (HIE 6/05) (HIE 2004/02226)

These Minutes were approved.

4 CHAIRMAN'S AND CHIEF EXECUTIVE'S UPDATES

The Chairman reported on a number of valuable meetings which he had had with Scottish and UK Ministers – Nicol Stephen MSP, Minister for Enterprise and Lifelong Learning, Rt Hon Alistair Darling MP, Secretary of State for Scotland and his Deputy, David Cairns, MP, as well as Malcolm Wicks MP, Secretary of State for Energy.

The Chairman had also been involved in a number of important events. These had included the first meeting of the UK-wide Forum on Trade and Investment; a seminar with the First Minister on Futures issues for Scotland; a presentation about our Strategy to the Scottish Parliament's Enterprise and Culture Committee; a dinner with the Conveners of the local authorities in the Highlands and Islands in Edinburgh; a HIE-hosted dinner in London with Highlands and Islands MPs; and the Convention of the Highlands and Islands. On 8 November HIE had hosted a Reception in the Scottish Parliament to raise awareness among MSPs, consuls and others about HIE's strategy for the future. This had been a very successful event and the Chairman invited Board Members to express any views they had on the occasion so that lessons could be learned for future planning. He wished to record his appreciation to staff who had worked hard to make the event a success.

The Chairman also reported that he had met the Deputy First Minister on 24 October and had discussed his thinking on possible future changes to the HIE Network architecture with a view to simplifying the current arrangements but, at the same time, maximising effectiveness. The Deputy First Minister had welcomed the Chairman's ideas and encouraged him to build local support before bringing a set of proposals to him for comment. He had encouraged HIE to ensure that the voice of business was able to be heard clearly within any new arrangement and to maximise opportunities for greater de-centralisation wherever possible. HIE's continuing commitment to retaining Careers Scotland within the Network and moving towards closer integration was again underlined to the Minister.

The Chief Executive told the Board that Robin Lingard of Kinnairdie Consulting had been commissioned to do a short piece of work looking at possible models for HIE Network architecture for the future. The outcome of this work would be presented to the Board at its December meeting. It was also noted that interviews for the new post of Area Operations Director would take place on Friday 18 November 2005.

At this point Susan Torrance left the room.

The Chief Executive intimated that an opportunity had arisen to make some strategic investments by way of 3 new advanced office developments in Wick, Dingwall and Fort William at a total cost of c.£4.6 million. In view of the tight timescale for the award of contracts, the Chief Executive requested that the Board grant delegated authority to approve these projects, dependent on consideration by the Management Group. Following discussion of issues relating to market demand and labour supply, it was agreed that the papers should be considered by the Chairman, the Chief Executive and George Campbell before submission to the Management Group on 21 November.

At this point Susan Torrance returned to the room.

5 HALF YEAR REVIEW 2005/06 – PRESENTATION BY ALASTAIR NICOLSON (HIE 2005/01379)

Alastair Nicolson gave a presentation summarising progress achieved by the Network at the Half Year stage against the Key Measures of Progress and Primary Measures agreed with the Scottish Executive.

Turning first to Key Measures of Progress, attention was drawn to the high levels of activity being carried out on some strategically important projects, for example, Phases 1, 2 and 3 of the Centre for Health Science project; continued efforts to influence national policy and regulatory issues in the field of renewable energy; the establishment of the Community Energy Company; UHIMI's Decommissioning Environmental Remediation Centre now operating at Janetstown; and Eden Court Theatre redevelopment. He also reported that the unemployment rate continued to fall in the HIE area to below the Scottish and UK average

Second, as far as the Primary Measures were concerned, Strengthening Communities and Developing Skills had both surpassed their targets at the half year stage. On Growing Businesses the number of new starts had reached the excellent level of 67% but the number of business growth projects fell well below target. However, arrangements were being made to address this shortfall Network-wide. In the area of Global Connections, the private sector earnings index was improving and would continue to be closely monitored. With regard to the lower than expected number of businesses engaged in international business development, staff would continue to work with Scottish Development International on a more pro-active approach to reach the Year End target.

A number of other issues under the headings of People, Systems, Intra-Network Efficiency and Effective External Relationships were noted.

The Board were encouraged by progress at the Half Year mark and agreed to raise the target on new business starts from 400 to 500. On a point about the number of businesses and communities having access to broadband, the Chief Executive said that a significant marketing campaign was being mounted at present but he would provide the Board with an update in due course. The Board were satisfied with progress on strategic projects but urged that further efforts be made to increase expenditure to meet Year-End targets.

6 NETWORK ASSISTANCE

(1) ARGYLL AIR SERVICES (FOR HOMOLOGATION) (PCS 28237)

It was noted that approval had been given in 2002 for the Argyll Air Services project to provide capital and revenue support to establish air services between Oban and the islands of Coll, Tiree and Colonsay, and between Oban and central Scotland. Due to delays in the project proceeding however, the current tender amounts were now significantly above the original 2002 estimates and funding partners had been asked to agree an increased contribution to costs. Following consideration by Management Group on 10 October, the papers relating to a proposed increase in funding had been issued to Board Members for comment. Based on the Board's comments, the Chairman and Chief Executive had subsequently approved the paper so that the contract for the new runways and terminals could proceed without further delay. The Board therefore homologated the decision, increasing the Network funding by £386,355 to a total of £2,070,541, to be released as 25% of capital costs of up to £5,971,000 and 73% of revenue costs of up to £577,791 to be debited from Argyll & The Islands Enterprise's budget, £600,000 in 2005/06 and the remainder in 2006/07.

At this point George Campbell left the room.

(2) EDEN COURT PHASE 2 EXTENSION (FOR HOMOLOGATION) (INE 2005/00195)

This paper requested approval for increased Network funding of £250,000 to supplement the £2,250,000 already approved for the development and refurbishment of Eden Court Theatre. It was noted that a funding gap of £2 million had arisen due in part to the decision to increase the sum budgeted for contingency costs. Some funding partners had agreed to increase their contributions but Network funds were vital to complete the funding package. Following

consideration by the Management Group on 24 October, the paper had been issued to Board Members for comment and, based on the Board's comments, the Chairman and Chief Executive had approved the paper. The Board therefore homologated the decision to approve an additional £250,000 towards the Eden Court Phase 2 Expansion, £300,000 in 2005/06, £1,000,200 and in 2006/07 and £1 million in 2007/08, to be debited to Inverness, Nairn, Badenoch & Strathspey Enterprise's budget.

At this point George Campbell returned to the room. Andy Rogers left the room.

(3) *Item removed for reasons of commercial interest.*

At this point Susan Torrance left the room.

7 MAJOR PROJECTS

(1) CAIRNGORM MOUNTAIN LTD: RENTAL SCHEDULE (M00403/08)

This paper provided a brief update on Cairngorm Mountain Ltd and sought endorsement to extend the current modified rent paid by the company until 10 December 2006. The Board was encouraged to note that management of the company had instituted a number of operational improvements, marketing initiatives and other innovations to attract more visitors but, while these were having an effect, the weather was still the most significant factor for skiing and non-skiing visitors alike. It was agreed to extend until 10 December 2006 the current modified rent paid by the company, conditional upon HBOS similarly extending their concessionary interest rate of 1% until 10 December 2006. A full review by HIE, HBOS and Highland Council of the current arrangements would be carried out within 12 months. The Board also recommended that consideration should be given in the longer term to disposal of these assets in accordance with the requirements of the Management Statement.

At this point Andy Rogers and Susan Torrance returned to the room.

(2) NETWORK MANAGEMENT SYSTEM: AMENDMENT (HIE 2005/02481)

Introducing this paper, Gordon Cox drew attention to the reasons set out in the paper for requesting an increased budget. He emphasised that the project was running to time and on budget but there were new and changed functional areas which his team wished to incorporate in the Network Management System to ensure that the system could meet the future requirements of the HIE Network. Having expressed concern regarding the increased budget and subjected the proposals to close scrutiny, the Board approved an increase of £600,000 to the original approval of £4.8 million towards extending the functionality of the NMS project.

8 A SMART SUCCESSFUL HIGHLANDS & ISLANDS – STRATEGY IMPLEMENTATION (HIE 2005/04901)

Sandy Brady introduced this paper which set out a range of proposals for new or extended areas of effort for the HIE Network in line with the new strategy launched in June 2005. The paper was a further development of the ideas and concepts discussed by the Board at its October meeting and had been finalised through discussion at the HIE Directors' and Network Executive Forums. In total, seven specific areas of activity had been highlighted and these were discussed in turn by the Board - client management, population attraction, UHI, international business development, housing solutions, development infrastructure and policy development. In addition to these main proposals, four other issues were seen as having critical importance - gateway attractiveness, sustainable development exemplars, international comparisons and web development.

In discussion, the broad thrust of the paper and the emphases given to the key areas listed above were endorsed by the Board. Specific areas raised by Board Members as possibly needing greater emphasis included sustainability, partnership working, influencing, futures work, public affairs, marketing and relationship management. It was also suggested that there could be merit in presenting a very specific strategic case around Islands and the different issues facing the many island communities of the HIE area, and it was agreed that this idea should be pursued.

The Network Operating Plan for 2006-09, which was now being drafted and which would be presented as a first draft to the December meeting of the Board, would begin to reflect the implications of these revised priorities. Beyond that, work would continue to develop thinking around each of the areas for new or extended effort with the aim of presenting a more detailed plan for each area to the Board in February 2006.

9 MONITORING REPORTS

(1) GENERAL UPDATE (HIE 2004/02226)

This paper was noted. On a question about additional funding for the Community Land Unit, John Watt said that an announcement was expected shortly by Ministers about funding from the Big Lottery Fund. The Network hoped to be represented at a dinner on 21 November with the Big Lottery Fund in Edinburgh and a Board Member would be invited to attend. On a question about Camcal Ltd, Jackie Wright reported that the Scarweather Sands project had been delayed for at least a year, but the company had been successful in bidding for some smaller contracts.

(2) FINANCIAL STATEMENT: 6 MONTHS TO 30 SEPTEMBER (HIE 2005/01305)

This paper was noted. Forbes Duthie reported that, although expenditure levels at the 6-month stage remained low at 41%, other projects were coming into the pipeline which would have an important impact on expenditure. Current forecasts suggested an out-turn in excess of resources. However, expenditure to date and commitment levels did not support this position. The Finance team was working closely with LECs/Groups to develop a more accurate forecast for the year end.

(3) RISK REGISTER: AS AT 30 SEPTEMBER (HIE 2005/0152)

This paper was noted. In relation to the item on the inadequacies of the infrastructure in the Highlands and Islands posing a threat to our capacity to deliver economic development, it was agreed that specific dates for outcomes should be identified and for the issue to be raised with the Minister, Ross Finnie MSP, when the Chief Executive met him on 12 January. John Watt would provide a paper on the subject for the Board's information in the near future. Sandy Brady briefed the Board on the current position with the EC closure audit of the 1994-99 Objective 1 programmes.

(4) DEBT REPORT: AS AT 30 SEPTEMBER (HIE 2005/01305)

This paper was noted. The number of loan arrears cases showed a marked decline but the number of rent arrears cases had increased from 88 to 116 during the period. With the transfer of the property management contract from Rydens to Graham & Sibbald, work would be carried out to categorise rent cases in arrears.

At this point Susan Torrance left the room.

(5) WRITE-OFF CASES (HIE 2005/02371)

This paper was noted. It was agreed to seek SEETLLD consent to write off £624,457 plus any interest accrued to date of authorisation.

At this point Susan Torrance returned to the room.

10 OTHER BUSINESS

(1) DRAFT PROGRAMME FOR DECEMBER MEETING IN COWAN HOUSE (HIE 2004/02226)

The draft programme for the December meeting was agreed.

(2) PREPARATION FOR DINNER WITH ENTERPRISE AND CULTURE COMMITTEE

The Chairman reminded the Board of the important influencing opportunity afforded by the Dinner to be held that evening in North Highland College with Members of the Enterprise and Culture Committee of the Scottish Parliament. This would be followed by a session of the Committee the next day when the Chairman, Chief Executive and Jackie Wright would give evidence to the Committee as part of their Inquiry into Business Growth in Scotland. The Chief Executive updated the Board on the very useful fact-finding visit to Sweden and Finland in which he had participated in October with Members of the Committee as part of that Inquiry.

(3) UHIMI

Jackie Wright informed the Board that SHEFC had approved funding of £3m for UHIMI's Research and Development Programme.

A C Muirden
29 November 2005