



BOARD MEETING – TUESDAY 21 JUNE, AN LÒCHRAN, INVERNESS

DRAFT MINUTE

PRESENT: Lorne Crerar (Chairman)
Alex Paterson (Chief Executive)
Amanda Bryan
Paddy Crerar
Alistair Dodds
Ailsa Gray
Donald MacDonald
Robert McIntosh
Donald MacRae
Belinda Oldfield
Sheila Campbell-Lloyd (Shadow Board member)

IN ATTENDANCE:

Forbes Duthie	Director of Finance and Corporate Services
Carroll Buxton	Director of Regional Development
Douglas Cowan	Director of Strengthening Communities
Charlotte Wright	Director of Business and Sector Development
Sandra Dunbar	Head of Business Improvement and Internal Audit
Chris Roberts	Head of Corporate and Media Relations
Karen Moncrieff	Head of Human Resources
Tim Hurst	Director, Wave Energy Scotland, item 2.2
Zahir Fazal	Chair of Trustees, HIE Superannuation Fund, item 3.6
Martin Johnson	Head of International Trade and Investment, item 4.1
Graeme Harrison	Area Manager, Orkney, item 4.2
Paul Lewis	Managing Director, Scottish Development International, item 5.1
Shona Austin	Bank of Scotland secondee, item 5.3

1. STANDING ITEMS

1.1 Welcome and apologies

The Chairman welcomed Board members to their first meeting in An Lòchran, new premises on Inverness Campus which HIE is sharing with teams from the University of the Highlands and Islands and Scotland's Rural College. Professor Crerar also noted that this would be Sheila Campbell-Lloyd's final meeting as Shadow Board Member, and thanked her for her contributions over the past year.

Apologies were received from Iseabail MacTaggart and William Swann.

1.2 Declarations of interest

There were no declarations of interest.

1.3 Minute of meeting: Tuesday 15th March 2016

HIE 2004/02226

The minute of the meeting held on Tuesday 15 March 2016 was approved.

1.4 Minute of meeting: Tuesday 26th April 2016

HIE 2004/02226

The minute of the meeting held on Tuesday 26 April 2016 was approved, with some additions to items 6.5, Inverness City Region Deal, and 6.7, Write-off cases.

1.5 Matters arising

There were no matters arising that were not included elsewhere on the agenda.

2. UPDATES

2.1 Chairman's and Chief Executive's update

HIE 2004/02226

The Chief Executive joined the Chairman in welcoming the Board to An Lòchran, new shared premises into which HIE teams previously based in Inverness and Dingwall had relocated at the start of May. The new building was providing to be an excellent collaborative environment for HIE and its partners in UHI and SRUC, as well as providing accommodation for Scotland's first digital demonstration centre and the regional science skills academy.

SSE's announcement that it had given the green light to the Beatrice Offshore Windfarm Ltd project (BOWL), following achievement of financial close, was welcomed as good news for the Highlands and Islands. Mr Paterson noted that HIE investments in renewable energy infrastructure over many years meant that several locations in the region were well placed to benefit from this £2.6bn development.

A £9m investment in research and development at LifeScan Scotland in Inverness, including £1.85m from HIE, was expected to be announced by the Scottish Government during the summer. The investment would increase local employment and strengthen Inverness's position as the multinational company's global hub for diabetes R & D.

The successful attainment of State Aid approval for broadband would mean that Community Broadband Scotland projects led by HIE throughout the country would now be able to move forward, and that planning could proceed to prepare a further stage of mainstream fibre rollout across the Highlands and Islands to deliver the Scottish Government's commitment to full coverage.

HIE was playing an important part in supporting Scottish Government representations to the UK Government with the aim of influencing UK policy on marine energy, a major driver of the Orkney economy in particular.

[Paragraph removed as disclosure at this time could have a detrimental effect on commercial interests.]

Turning to the Inverness City Region Deal, the Chief Executive reported that project initiation documents had been developed for three key themes in which HIE would take a leading role - the Regional Science Skills Academy, Innovation Hub, and Digital Connectivity.

Following the Scottish Government election in May and subsequent cabinet appointments, meetings were being arranged with new Cabinet Secretaries, Ministers and senior civil servants.

Audit Scotland's review of the role of the Scottish Government and its enterprise agencies in delivering economic development was due to be issued on 14 July and would be sent to Board members following publication

It was noted that the Scottish Government had announced a review of support for enterprise and skills, including the roles of HIE, Scottish Enterprise, Skills Development Scotland and the Scottish Funding Council. HIE would play an active role in the review, including gathering and submitting evidence on past and present achievements, and putting forward new ideas designed to strengthen the region's performance in future.

The Chairman reported that he had held several meetings to engage with key partners in government and other organisations including UHI, and had attended the All Energy conference in Glasgow and the SCDI's annual Highland Business Dinner.

Professor Crerar had accompanied the Chief Executive on a two-day visit to Shetland to see the impact of HIE investments in the islands' economy, including Fair Isle.

Lastly, the Chairman noted that Alex Paterson had announced he would be leaving HIE at the end of August to take up the position of Chief Executive with a new agency, Historic Environment Scotland. There would be opportunities for the Board to join the Chairman in recording their appreciation at the August meeting. Professor Crerar noted that arrangements had already been put in place for Director of Business and Sector Development Charlotte Wright to become Acting Chief Executive following Mr Paterson's departure.

2.2 Wave Energy Scotland - June update

HIE 2016/00084

Tim Hurst joined the meeting

The Director of Wave Energy Scotland described progress made by the HIE subsidiary over the past four months. Activities had included: completing the recruitment of a core team of 12 staff based in Inverness, Edinburgh and the Outer Hebrides; developing a detailed strategy; designing competitive innovation calls to stimulate development activity; dismantling the Pelamis P2 wave device in Orkney, and managing the first 'stage gate transition' to advance the most promising projects arising from WES's first innovation call. *[Sentence removed as disclosure at this time could have a detrimental effect on commercial interests.]*

WES had successfully established the world's largest innovation programme in wave energy, and was becoming recognised as an international authority on the development of innovative technology at the wave device, sub-system and component levels. There were currently 26 research and development projects in this programme, involving around 80 organisations based in Europe, with the majority from Scotland. WES planned to increase the size of the programme to around 40 projects with two further innovation calls in July and September 2016. With input from the WES Advisory Group, it had been decided that these calls should focus on control systems and structural materials.

Industry engagement had included hosting a two-day conference for WES programme participants, and taking part in the Ocean Energy and All Energy conferences. An aquaculture project in Ardnamurchan, with Marine Harvest and wave developer Albatern, was awaiting a decision on

consent from Marine Scotland. The first phase of a knowledge capture and dissemination project to benefit the sector in Scotland had been completed and a second phase was under way.

Board members welcomed the update and discussed a range of issues arising. In particular, members stressed the need to do everything possible to ensure that development is anchored in Scotland so that the full range of benefits arising from new wave energy technologies may be captured. Mr Hurst confirmed that, while WES's focus was on funding early stage development, it would be critical to establish a pathway to enable projects to be taken from initial idea through testing to full scale deployment. As part of this, a range of options would be pursued to improve access to testing facilities in Scotland.

Tim Hurst left the meeting

2.3 ScotGrad Highlands and Islands: HMS 9346957 Knowledge Exchange Placement Programme strand project amendment

The Director of Business and Sector Development presented a paper seeking the Board's approval to amend part of the ScotGrad Highlands and Islands graduate placement programme, which had received Board approval in February 2015. In particular, it was noted that one of the programme's five strands, the Knowledge Exchange Placement Programme (KEPP), had not been fully developed at the time of the original approval, owing to the need to explore certain issues in detail, including contributions from academic partners, compliance with state aid and employee funding regulations, and support from the Scottish Funding Council (SFC).

It had since been confirmed that SFC would contribute £528,000 to KEPP, and that the total budget for ScotGrad Highlands and Islands would rise by £294,614, from £3,068,454 to £3,363,068. HIE's input (a combination of grant-in-aid and ERDF funding) would decrease by £233,386. In terms of outputs, KEPP was now expected to deliver 12 projects, each lasting 24 months, rather than 25 projects of variable length as previously envisaged.

The Board approved the project amendment.

2.4 Arnish update ING 2016/00008

The Director of Strengthening Communities presented an update on discussions between HIE and Scottish Hydro Electric Transmissions (SHET), part of energy firm SSE, which wishes to acquire 6 hectares of developed land (Plots 3.1 and 3.2) from HIE at Arnish, Stornoway, to locate an electricity interconnector and convertor station. *[Sentence removed as disclosure at this time could have be detrimental to the effective conduct of public affairs.]*

The Board reaffirmed its strong support for the islands interconnector, recognising that the project offered significant potential to deliver considerable economic and community benefits to the Outer Hebrides. While the plots at Arnish had been developed by HIE in order to attract potential new or expanding businesses with the incentive of sea access, it was recognised that they constituted the only suitable site for the interconnector that would meet the timeframe required by SSE/SHET and electricity regulator Ofgem. A planning application from SSE/SHET had received outline approval from Comhairle nan Eilean Siar (CnES), and had included conditions that addressed HIE's desire to protect access to the remainder of the estate and to the quayside. In particular, it was intended that SSE/SHET and CnES would explore the possibility of establishing land for development by dropping 'made material' from the removal of a rocky outcrop into the sea. It was noted, however, that land created in this way would still require considerable further investment before any future business development could take place on site.

[Paragraph removed as disclosure at this time could be detrimental to commercial interests, and to the effective conduct of public affairs.]

3. RESOURCES AND GOVERNANCE

3.1 Financial Statement to 31st May 2016

HIE 2016/00442

The Director of Finance and Corporate Services presented HIE's Financial Statement for the two months to 31 May 2016. This showed that spend was at a good level for this point in the year (10.1%), given that several top sliced projects were yet to get under way. Expenditure was 2.0% below the same period in 2015-16, but this could be explained primarily by a high level of business support spend at the start of last year. Going forward, it would be important to convert commitment to spend, and ensure any project delays are factored into resource allocation.

3.2 Corporate Performance Report

HIEA 2011/00806

The Director of Regional Development presented the Corporate Performance Report for June 2016. Throughout the course of the year, the report is used to track economic conditions affecting Scotland and the region, and to provide the Board with information on HIE's progress towards delivering Operating Plan priorities, including achieving in-year measures.

Board members highlighted a number of issues emerging from the report. In response to a question on account management, it was agreed that an update on this subject would be presented to a future Board meeting, including an explanation of criteria that HIE would use to inform decisions as to which potential clients would be best suited to an account management relationship. On export performance, the Board expressed interest in seeing more detailed information regarding which sectors were making the strongest contribution. It was agreed that HIE's support for next generation broadband, now available to 71% of premises across the region, was deserving of more positive media coverage, and that an update would be provided to a future Board meeting. The importance of mobile phone coverage was also stressed, particularly in the more remote parts of the region.

3.3 Risk Register – June 2016

HIEA 2016/00314

The Head of Business Improvement and Internal Audit (BIIA) presented the most recent update of the HIE corporate risk register. This showed that, in June 2016, HIE had identified a total of 22 risks (15 strategic and 7 tactical) which were being tracked and treated across the organisation. This compared with a total of 19 risks identified in April, and included new tactical and strategic risks highlighted in previous discussions with the HIE Board. Paddy Crerar suggested that consideration should be given to including a risk on the availability of affordable housing. It was noted that this issue would be addressed in a forthcoming report from the Director of Strengthening Communities on plans to refocus HIE's approach to fragile areas.

3.4 Draft Risk and Assurance Committee minutes

HIEA 2016/00664

Alistair Dodds, as the newly appointed Chair of the Risk and Assurance Committee, presented the minute of the latest committee meeting, which took place on Tuesday 7 June 2016. Risk and Assurance Committee minutes are routinely presented in draft form to the HIE Board for information, so that emerging issues can be brought to the attention of the full Board as swiftly as possible. A final version of the minute will go to the Risk and Assurance Committee in September for approval, prior to online publication on the HIE website. Mr Dodds recorded his thanks to new committee members Ailsa Gray and Donald MacRae, and Professor Crerar thanked all Risk and Assurance Committee members for the important work they undertake on the Board's behalf.

3.5 Draft Risk and Assurance Committee Annual Report

HIEA 2016/00664

The Chair of the Risk and Assurance Committee presented the committee's 2015/16 annual report, describing its role, as defined in the Scottish Government Audit Committee Handbook, and actions undertaken during the year to support the Board in identifying and managing issues of risk, control and governance. Its responsibilities had included reviewing a wide range of reports from HIE's Business Improvement and Internal Audit team and Audit Scotland.

Other relevant areas of HIE's work that had been reviewed included the preparation of annual accounts, HIE's equity portfolio, management of financial commitment, the implementation of account management, and data security arrangements. The committee had been content with the quality of both the internal and external assurance reports received, and had noted areas where ongoing action and monitoring would be required in the coming year. These include: governance and operational arrangements for Wave Energy Scotland; delivery of Regionally Significant Investments, and information systems assurance.

The committee would conduct a review of its effectiveness in 2016/17, and take part in a learning and development programme.

3.6 HIE Pension Plan update

HIE 2016/00440

Zahir Fazal joined the meeting.

The Director of Finance and Corporate Services introduced a presentation from Zahir Fazal of Best Trustees, Chair of the HIE Superannuation Scheme trustees. This focused on the effective actions undertaken through the recovery plan to address the on-going funding deficit as identified in the 2015 Triennial Valuation which was now due to be submitted to the Pension Fund Regulator. The Triennial Valuation, which concluded on 5 April 2015, identified the deficit at £31.7m - £4.6m higher than the previous 2012 deficit.

The Board noted that this increase was consistent with pension fund performance across the UK given the current position on liabilities growth and how these are highly susceptible to any changes to the Bank of England interest rate.

A series of actions has been implemented through HIE's original 2014 recovery plan, following consultation with staff and unions, which had previously been endorsed by both the HIE Board and Scottish Government. These arrangements would be continued as part of the new 2015 recovery plan and would be augmented by the application of RPI to the HIE annual contribution of £500,000, which had already been agreed by Scottish Government.

The Board confirmed its support for the recovery plan.

Zahir Fazal left the meeting.

4. INVESTMENT PROPOSALS

4.1

[Item removed, as disclosure at this time could be detrimental to commercial interests and to the effective conduct of public affairs.]

Graeme Harrison joined the meeting.

The Orkney Area Manager presented a progress report on proposals to develop Orkney Research Campus in Stromness, a property-based project which HIE intends to take forward as a joint venture with Orkney Islands Council. The project was envisaged as a regionally significant investment that would be transformational for Orkney and be expected to require an estimated HIE investment of up to £4m. It was designed to meet the future growth aspirations in Orkney of the European Marine Energy Centre (EMEC) and Heriot-Watt University; provide expansion opportunities for companies located in Orkney's world-leading marine renewable energy cluster, and attract new knowledge-based, commercial and academic activities.

In discussion, the Board examined the principle of establishing a joint venture as the most appropriate means of supporting this potential venture. The Area Manager explained that alternative models had been considered, and a joint venture between HIE and the local authority was judged the most effective means of progressing the project within a reasonable timeframe and fully in line with HIE's aspirations for economic and community development. Board members also enquired about the prospect of involving a greater range of academic partners and disciplines beyond the energy sector, and the Area Manager confirmed that further opportunities were being pursued through HIE's Universities team. The Board thanked Mr Harrison for his presentation and invited him to present an update in due course.

Graeme Harrison left the meeting.

5. DISCUSSION PAPERS

Paul Lewis and Martin Johnson joined the meeting.

5.1 International update

HIEA 2015/00664

The Managing Director of Scottish Development International (SDI) provided an update on delivery of Scottish Development International and HIE's internationalisation priority, including a review of progress in meeting trade and investment objectives during 2011-2015 and in particular, SDI performance during 2015/16. The paper also highlighted opportunities to strengthen HIE's internationalisation ambition in line with Scotland's Trade and Investment Strategy 2016-2021.

In particular it was noted that account managed clients were being supported to accelerate and deepen international sales, and that HIE and SDI also aimed to encourage a wider set of businesses to take their initial steps towards achieving international sales. Both agencies aimed to provide access to international trade advice and information, with a focus on high growth markets, and organise and support attendance at international trade shows and country visits.

Work was under way to develop fresh propositions to attract inward investment to the Highlands and Islands, including new opportunities generated by HIE investment in broadband. Opportunities to stimulate additional investment from the region's existing base of foreign-owned companies were also being pursued, and collaboration developed with government departments and agencies and wider stakeholders such as banks, chambers of commerce, professional bodies, industry sectors and key businesses.

Board members welcomed the update and acknowledged that significant challenges were present, both in encouraging more of the region's businesses to become exporters, and in attracting new investment into the region. Discussion focused on perceived barriers to exporting, and the importance of connectivity and skills as factors that could persuade a company to invest in the

region. Ailsa Gray highlighted a specific opportunity for Scotland relating to the potential value of exporting algae, and it was agreed that this would be explored further.

The Board thanked Mr Lewis for his presentation.

Paul Lewis and Martin Johnson left the meeting.

5.2 Strengthening Communities Policy – Fragile Areas Refocus HIE 2016/00683

Due to time constraints, it was agreed that this item would be held over until the August Board meeting, when time would be allocated for a substantive discussion.

5.3 Shona Austin, Bank of Scotland – Secondment HIEA 2015/01007

Shona Austin joined the meeting.

The Chairman introduced Shona Austin, Area Director, Commercial Banking with the Bank of Scotland, whose one-year secondment to HIE would conclude at the end of July, and invited her to present an update on progress and summary of outputs. This had been the first arrangement of its kind in Scotland, aiming to form productive tripartite relationships between an enterprise agency, its clients, and the banking sector.

It was agreed that the initiative had succeeded in delivering all its goals, notably: to develop an effective collaboration model; review and refresh HIE's approach to investment, share best practice and business intelligence; encourage stakeholder engagement and collaboration; develop business improvement in both organisations, and create a legacy to benefit businesses across the region. In particular, it was noted that the benefits of the project had extended to the full scope of HIE's remit, including work with communities as well as businesses and social enterprises. It was recognised that there would be value in maintaining the relationship following the end of the secondment period, and broadening the scope of the approach to involve the wider banking sector.

The Chairman expressed the Board's gratitude to Shona Austin and to the Bank of Scotland for their role in working alongside HIE to deliver a successful and innovative project that would benefit clients of both organisations.

Shona Austin left the meeting.

6. PAPERS FOR INFORMATION

6.1 Information paper on the Community Empowerment (Scotland) Act and Land Reform (Scotland) Act HIE 2012/00359

Due to time constraints, it was agreed that this item would be held over until the August Board meeting, when time would be allocated for a substantive discussion.

6.2 HIElights

The latest issue of HIE's e-newsletter, HIElights, was presented in draft form, for information.

6.3 Economic Briefing: May 2016 HIEA 2014/01290

The Board noted the latest regional economic briefing, prepared by HIE's Planning and Partnerships team.

6.4 HIE Publication Scheme - Quarterly Approvals lists
a) Oct – Dec 15
b) Jan – Mar 16

HIEA 2015/00584

The latest quarterly approvals lists had been published on the HIE website and were presented to the Board for information.

6.5 AOB

a Audit Scotland review

The Chairman reminded Board members that the Audit Scotland review of the performance of the Scottish Government and its agencies in delivering economic development was expected to be published on 14 July, and would be circulated to all Board members.

b Official opening of An Lòchran

Board members were asked to note that the official opening of An Lòchran by Deputy First Minister John Swinney was provisionally arranged for 25 August 2016. Confirmation would follow as soon as possible.

6.6 Forthcoming Board dates

- a** 23rd August 2016: HIE Board meeting, An Lòchran, Inverness
- b** 13th September 2016: Risk and Assurance Committee, An Lòchran, Inverness

Chris Roberts
21 June 2016