

**BOARD MEETING – TUESDAY 26 APRIL, FRASER HOUSE, INVERNESS**

**DRAFT MINUTE**

**PRESENT:**

Lorne Crerar (Chairman)  
Alex Paterson (Chief Executive)  
Paddy Crerar  
Alistair Dodds  
Ailsa Gray  
Donald MacDonald  
Robert McIntosh  
Donald MacRae  
Iseabail Mactaggart  
Belinda Oldfield  
William Swann  
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
Karen Moncrieff	Head of Human Resources
John Mason	Director of Economic Development, Scottish Government
Chris Roberts	Head of Corporate and Media Relations

**1. STANDING ITEMS**

**1.1 Welcome and apologies**

Apologies were received from Amanda Bryan.

The Chairman welcomed everyone to the meeting, especially new Board members Ailsa Gray, Robert McIntosh and Belinda Oldfield, and John Mason, Director of Business with the Scottish Government.

**1.2. Declarations of interest**

It was noted that Iseabail Mactaggart had registered a related party interest with regard to Wave Energy Scotland (item 6.4), and had not received a copy of this paper. Ailsa Gray had informed the Board of interests in SSE (item 2.2), however the Chairman confirmed he was content that no conflict existed in relation to this specific proposal. Ailsa Gray would therefore be able to remain in the meeting while this item was considered.

**1.3a Minute of the meeting held on 10 February 2016**

**HIE 2004/02226**

The minute of the Board meeting held on 10 February 2016 was approved.

**1.3b Minute of the meeting held on 15 March 2016**

**HIE 2004/02226**

The minute of the Board meeting held on 15 March 2016 will be augmented to include references to points raised and discussed by Board members.

#### **1.4 Matters arising**

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

## **2. UPDATES**

### **2.1 Chairman's and Chief Executive's updates**

**HIE 2004/02226**

The Chief Executive informed the Board that arrangements were progressing well for HIE staff currently based in Inverness and Dingwall to relocate to new shared premises, An Lòchran, on Inverness Campus. An Lòchran has been designed to foster collaboration and will be home to teams from several partner organisations as well as Scotland's first digital demonstration centre, called *#hellodigital*, and the UHI STEM Hub, part of the regional science academy.

Mr Paterson also noted that Inverness Campus had been shortlisted for a national award for planning, environmental quality and socio-economic wellbeing, and that the advance Life Sciences building on the campus, commissioned and owned by HIE, had won a Scottish architecture award from the British Council for Offices.

The volume of account managed businesses experiencing or anticipating significant challenges at present remained relatively high, Mr Paterson reported, reflecting economic conditions across the country. HIE was actively monitoring and assisting a large number of account managed clients in all parts of the Highlands and Islands, and was alert to the prospect of the social enterprise sector facing widespread challenges as local authority budget reductions are implemented.

There was excellent news from Argyll, where HIE and SSE, as joint owners of Wind Towers (Scotland) Ltd, had secured a successful sale of the company to international market leader CS Wind. The South Korean company planned to invest in new international market opportunities that would significantly expand the skilled local workforce and help sustain economic growth around Campbeltown and the Kintyre peninsula.

Positive discussions had continued with SSE over the energy company's plans to site the Outer Hebrides islands interconnector and associated infrastructure on two plots developed by HIE at Arnish Business Park. A planning application from SSE to Comhairle nan Eilean Siar had addressed HIE's concerns over the potential 'sterilisation' of development opportunities, and HIE would be submitting its own comments to the Comhairle, with the aim of securing satisfactory conditions attached to planning consent.

The most recent meeting of the Convention of the Highlands and Islands, held in Stornoway on 7 March, had covered a range of topics relevant to HIE and its partners, including the recognised need to improve mobile connectivity; plans for the future growth of the University of the Highlands and Islands, and tackling fuel poverty in the region.

*[Item removed as disclosure at this time could harm the effective conduct of public affairs.]*

It was noted that HIE had been named one of Scotland's top employers for family friendly working, winning the award for large public sector organisation, and had become accredited as a Living Wage Employer.

Professor Crerar reported that he had been a member of the interview panel to appoint a successor to the present Scottish Government Director General for Enterprise, Environment and Innovation.

The Chairman had visited Machrihanish to join SSE and the new owners of Wind Towers (Scotland) Ltd, South Korean renewable energy company CS Wind Ltd, at a launch ceremony. HIE had already formed an excellent relationship with the new owners, who plan to invest significantly, grow the local workforce and expand further into international markets for both onshore and offshore wind.

The Chairman invited the Director of Business and Sector Development to update the Board on the current strategic review being carried out by Rio Tinto Alcan on its Fort William operations. The Director reported that HIE was working closely with the Scottish Government and Scottish Development International to explore and develop options to maintain operations at the Lochaber plant.

William Swann requested that the Board receive an update at a future meeting on the current situation and prospects for the Cromarty Firth Port Authority and the Nigg Energy Park operated by Global Energy.

## **2.2 Wind Towers (Scotland) Ltd / CS Wind**

The Director of Business and Sector Development presented a paper to inform the Board of the successful conclusion of negotiations to transfer ownership of Wind Towers (Scotland) Ltd from HIE and SSE to CS Wind, a global leader in renewable energy manufacturing.

The resulting deal would: lever in up to £14.5m of private investment from CS Wind and up to £3m from SSE; extend the company's sub-lease from HIE from 2030 to 2051 (with an option to break at 20 years); enable the business to expand into new international onshore and offshore markets; safeguard more than 130 high quality jobs in rural Argyll, and create 70 more. HIE had commissioned an independent third party review from EY to ensure that the agency's approach implemented the market economy investor principle (MEIP) and complied with State Aid regulations.

*[Paragraph removed as disclosure at this time could harm the effective conduct of public affairs.]*

Board members expressed their appreciation to HIE staff for their hard work to achieve an excellent outcome that would deliver significant direct benefits and create further opportunities to drive local economic growth over many years.

## **2.3 Update from Scottish Government**

The Chairman invited John Mason, Director of Economic Development, Scottish Government, to address the Board. Mr Mason, who would be retiring shortly, observed that the Highlands and Islands economy had made significant progress in recent years, and that HIE was widely regarded as an effective and efficient agency which had delivered substantial benefits from a series of successful projects and programmes.

In the present, challenging economic climate, it was vital to continue to pursue the business growth agenda, supporting existing and new companies with growth potential to scale up and achieve economic impacts through investment, innovation, internationalisation and inclusive growth. In a period when public spending would continue to be constrained, HIE's success in identifying and benefiting from alternative sources of income would need to be sustained and developed further. It would continue to be important to nurture strong

relationships with government ministers and officials to ensure strong levels of awareness and understating of the particular challenges and opportunities of the Highlands and Islands among policy makers.

The Chairman thanked Mr Mason and offered the sincere gratitude of all HIE Board members for his support and guidance over several years, including regular attendance at Board meetings.

### **3. RESOURCES AND GOVERNANCE**

#### **3.1 Financial Statement to 31 March 2016**

**HIE 2009/00611**

The Director of Finance and Corporate Services presented the Financial Statement summarising HIE's overall financial position for the twelve months from 1 April 2015 to 31 March 2016, and including a financial statement for Wave Energy Scotland (WES). The report, subject to final audit by Audit Scotland, showed that HIE had achieved a balanced financial position for the year, with a total spend, including WES and BDUK broadband funding, of £113.65m. Grant-in-aid (GIA) of £60.95m had been drawn down in full, as had an additional £7.2m GIA for WES. Management and administration costs (Block B) was within budget at £14.5m, and HIE's minimum capital spend target of £30.1m had been delivered in full. Cash in hand at the year-end was effectively nil and the target of £3.1m Strategic Forum Savings had been achieved.

Alistair Dodds raised a question concerning the budget for European projects for which HIE was the Strategic Delivery Body (SDB), noting that this had reduced from £5m at the start of the year to £2.57m at the end. The Director explained that delays affecting the introduction of new EU programmes had been a factor, and noted that this figure represented match funding and would always vary during the course of the year as draw down was dependent on eligible projects being brought forward.

The Board welcomed the financial statement, and expressed their appreciation to the Director and his team for achieving a balanced result in a challenging year.

#### **3.2 End-year review 2015/16**

**HIEA 2013/00841**

*Alastair Nicolson joined the meeting.*

The Head of Planning and Partnerships presented the end-year review, describing HIE's performance during 2015/16, which had marked the fiftieth anniversary of the founding of HIE's forerunner, the Highlands and Islands Development Board. As context, it was noted that, in 2014, Scotland's economy had returned to 2008 levels and had since grown by 3%. Economic activity and employment levels were high, and claimant count unemployment low, particularly in the Highlands and Islands. Challenges included business productivity levels and start-up rates, the high value of sterling in the early part of the year, and the continuing low international price of oil affecting the energy sector.

All HIE performance measures agreed with the Scottish Government had been met or exceeded. These included creating or retaining 855 full-time equivalent (FTE) jobs, 124 of which were in fragile areas. Businesses supported by HIE in 2015/16 were forecast to increase turnover by £140.2m and international sales by £90.3m over three years. Over the same period, turnover in the social economy was expected to grow by almost £4m due to HIE interventions, with £1.8m generated by community-owned assets. During 2015/16, 42 new or improved services and income generating assets had been delivered by HIE-assisted communities.

Over 200 businesses had been supported to develop international market activity, 127 businesses had benefited from HIE's innovation service, and the ScotGrad programme had made 52 graduate placements. New HIE programmes to develop entrepreneurialism and leadership had been developed. Inverness Campus had been officially opened by Deputy First Minister John Swinney and had become home to the city's college, part of the University of the Highlands and Islands. More than 122,000 premises had gained access to superfast broadband, and the first Community Broadband Scotland aggregated project, GigaPlus in Argyll, had been awarded over £1m to reach 1,400 premises which could not be served by fibre broadband. Six inward investments, including CS Wind at Machrihanish, had been attracted to the region, HIE subsidiary Wave Energy Scotland had awarded £8.5m to 35 research and development projects across the country, and £10m of infrastructure works have been completed for the Lochboisdale Port of Entry project to regenerate the fragile area of South Uist.

Discussion drew out a range of issues, including the challenge of evaluating the wider impact of the fall in the global oil price on communities with large numbers of offshore workers, as well as those that are home to oil and gas businesses. While the Board recognised HIE's success in achieving every performance measure, it was also acknowledged that 2016/17 was expected to prove more difficult. The Chairman said he would send a message of congratulation to HIE staff, and thanked the Head of Planning and Partnerships for his presentation.

*Alastair Nicolson left the meeting.*

### **3.3 Risk Register**

**HIE 2014/00216**

The Head of Business Improvement and Internal Audit presented HIE's Corporate Risk Register, which had been updated in March 2016. This showed that a total of 19 corporate risks (15 strategic and 4 tactical) had been identified and were being treated by HIE staff.

It was noted that a new risk had been added on constitutional and economic uncertainty around the upcoming EU referendum, due to take place on 23 June 2016. Members questioned the removal of a risk concerning the need for strategic leadership to respond challenges in Argyll, and were reassured that, while area challenges undoubtedly remained in place, the specific risk had been addressed through partnership working and the creation of a new senior post in HIE's area team. It was also clarified that, although a specific tactical risk relating to State Aid conditions having the potential to delay mainstream broadband rollout had been removed, a strategic broadband rollout risk remained in place. Following discussion on current concerns regarding both air connectivity and ferry services, it was agreed that a newly defined risk relating to transport issues should be developed for future inclusion in the register.

### **3.4 Draft Risk and Assurance Committee minute: 29 March 2016**

**HIE 2004/02226**

The Board welcomed the draft minute of the most recent meeting of HIE's Risk and Assurance Committee, held on 29 March 2016. These minutes are routinely presented to the Board in draft form in order to raise awareness of any emerging issues, prior to them being submitted to the Risk and Assurance Committee for formal approval.

Alistair Dodds, who has been appointed Committee Chair following the conclusion of Steve Thomson's service as a Board member, introduced the minute, highlighting papers and discussions which had taken place on Wave Energy Scotland governance, election guidance, policies on gifts and fraud, process improvements, and the requirement for the effectiveness of HIE's internal audit function to be independently assessed.

The Head of Business Improvement and Internal Audit also updated members on the progress of Audit Scotland's current review of the role of Scotland's two enterprise agencies in economic growth. HIE was participating actively in assisting Audit Scotland to amass and evaluate evidence on three topics in particular: Inverness Campus, the Energy sector, and Harris Tweed. A draft report was expected to be shared in May, with publication scheduled for the summer.

### **3.5 Budgets 2016/17**

The Director of Finance and Corporate Services presented a paper setting out HIE's proposed allocation of budgets for 2016/17 across the organisation, together with key risks to be managed. Indicative budgets for 2017/18 and 2018/19 were also included, but for illustrative purposes only, as these would be dependent on the outcome of a planned national spending review following the Scottish Parliament election in May.

HIE's anticipated operating budget for 2016/17 would be £81.17m. This included Scottish Government baseline grant-in-aid funding of £56.2m (a reduction of £2.8m from the previous year), as well as non-cash funding, European funds and anticipated capital and revenue income. However, it excluded separate, ring-fenced funding which would be received for fibre broadband rollout, Community Broadband Scotland, Scottish Land Fund and Wave Energy Scotland. Given the reduction in GIA, and strong commitment levels for regionally significant investments and top slice projects, it was judged appropriate to reduce discretionary budgets by 7% across the organisation, although it was noted that the system had been designed to be flexible, enabling internal budgets to be reviewed and amended through the year to reflect changing conditions which might affect planned initiatives, and to address urgent or emerging priority issues. Opportunities to attract further income would continue to be pursued.

The budget allocation for 2016/17 was approved.

### **3.6 Property factoring and consultancy 2016/17**

**HMS 9355479**

The Director of Regional Development presented a paper recommending HIE cash funding totalling £4,272,500 gross (£1,935,157 net following recoveries) to enable the Property and Infrastructure team to commission property factoring and associated consultancy in 2016/17. These costs are part of the HIE business support cost budget. HIE maintains a fairly complex commercial property portfolio, with an asset value of just under £43m. It currently comprises 79 industrial and 41 office premises, 90 development plots, 12 plots that are sub-let, and 15 properties classed as miscellaneous, ranging from Cairngorm mountain and Orbost estate (Skye) to the Centre for Health Science and Inverness Campus. A property managing agent, appointed following competitive tender, would continue to provide an all-encompassing service and be closely managed by the Property and Infrastructure team.

The property factoring and consultancy budget 2016/17 was approved.

### **3.7 Updated delegated authorities**

**HIEA 2016/00307**

The Head of Business Improvement and Internal Audit presented a paper setting out revised delegated levels of authority applicable to funding decisions made by HIE and subsidiary companies. The Board noted that changes had been made to reflect a number of factors, including HIE's new Framework Agreement with the Scottish Government, and that Board approval was requested to extend the list of authorised signatories to include both of HIE's in-house solicitors. In discussion, it was noted that the changes did not significantly affect

funding levels, and that there had been no issues relating to delegated authority levels that had raised concerns in recent years. The update was welcomed, and the request to extend the list of authorised signatories was approved.

#### **4. INVESTMENT PROPOSALS**

##### **4.1 Sale of Plot 7 North, Inverness Campus, to Cityheart HIE 2009/00250**

The Director of Regional Development presented a recommendation to sell Plot 7 North at Inverness Campus, extending to 1.17 acres, to Cityheart Ltd for the market value sum of £350,000 plus VAT. Cityheart is a specialist provider of student accommodation, which was working with UHI and intended to two three-storey residences, providing rooms for 150 students on the plot, to be ready for occupancy by August 2017. Although the university had previously indicated a desire to locate these residences in Inverness city centre, to date it had not proven possible to acquire a suitable site within budget. The sale would leave a 10m wide strip of land along the width of the plot in HIE's ownership, and it was suggested that this could be used to create additional car parking or to extend a proposed cycle track, along with opportunities to install public art. HIE had previously sold the adjacent Plot 7 South to Cityheart for the same purpose and the residential units under construction there were on course to be occupied by August 2016.

The proposed sale would be conditional on factors including Cityheart board approval and confirmation of funding; HIE approval of Cityheart's final design and specification, and detailed planning consent being obtained from The Highland Council. It was also noted that Plot 7 North would require access to the main Campus road network, and that this could be incorporated within plans for the proposed North Bridge, to which HIE was already committed as a planning condition. Further work would be undertaken to explore this option, as well as work to extend stone dyking by 150m or so along the frontage of Plot 7. These elements would be costed and considered for approval by HIE's Leadership Team.

Paddy Crerar asked whether UHI still intended to establish student accommodation in the centre of Inverness, as well as at the Campus, as had been their original intention. The Director confirmed this was the case. The Board approved the sale of Plot 7 North to Cityheart as recommended, and noted the associated additional infrastructure costs.

#### **5. DISCUSSION PAPERS**

##### **5.1 Skills and training needs across the region, including HIE's role**

The Director of Regional Development presented a discussion paper on skills and training needs across the Highlands and Islands which the Board had requested following its meeting in Lochaber in February and discussions with local business leaders. The paper described the skills context at national, regional and local levels and considered priority areas for HIE to take forward in support of operating plan delivery. Both at the agency's own hand and in partnership with others, it recommended: continuing to promote the youth employment agenda to create the conditions for a region for young people; influencing the evidence base for skills supply, demand and provision; producing a regional talent strategy; ensuring alignment and integration of HIE's account management system with skills; engaging with national sector skills investment plans; supporting workplace innovation, and assessing community capacity building needs.

In discussion, questions focused on the respective roles of HIE and other partners, including Skills Development Scotland. It was observed that HIE could achieve significant impact in

gathering evidence on skills gaps and training needs from the business community, particularly account managed companies, and identifying opportunities for these to be addressed. HIE's role in supporting innovation and entrepreneurship was acknowledged, along with the delivery of bespoke workforce development initiatives and a new, expanded range of leadership development programmes.

The Board welcomed the opportunity for discussion and noted that the paper would be developed into a new HIE skills development strategy.

## **6. PAPERS FOR INFORMATION**

### **6.1 HIElights**

The latest issue of HIE's e-newsletter, HIElights, was tabled for Board members, and will be published online and distributed following the Scottish Parliament election in May.

### **6.2 Economic Briefing: April 2016**

The latest economic briefing, summarising the health of the regional economy, was noted.

### **6.3 Operating Plan 2016/19**

The Board welcomed HIE's latest three-year Operating Plan, which had been published online in March and would be distributed in hard copy following the Scottish Parliament election in May.

### **6.4 Wave Energy Scotland strategy**

The Wave Energy Scotland strategy, which had been discussed by the Board in February, had been finalised and was presented for information. Iseabail Mactaggart did not receive this paper, owing to a declared third party interest.

### **6.5 Inverness City Deal**

Board members received a paper providing an update on developing plans to implement the Inverness city region deal, backed by funding from UK, Scottish and local government, which aims to drive population and economic growth over a 10-year period. It was noted that HIE was expected to play a major role in several specific elements of the deal, including the Northern Innovation Hub, the Digital Broadband initiative, and Science Skills Academy, as well as contributing to the development of others including road and air transport initiatives. The Board agreed that it would be important to ensure the benefits of this new funding were realised across the wider Highland region, beyond the Inner Moray Firth.

### **6.6 Implications arising from changes to the calculation of GVA**

The Board welcomed a paper from HIE's Planning and Partnerships team, analysing the regional impact of changes to the calculation of Gross Value Added (GVA) and its implications for HIE and partners. The removal of the 'Highlands and Islands adjustment' meant that the region was no longer the part of Scotland with the lowest GVA per capita, reducing the likelihood of it being eligible for widespread special support from the EU in future (although some areas could still qualify). In discussion the Board suggested that HIE set up a working group to consider how best to respond to this challenge, and Donald MacRae offered to participate in this exercise.

### **6.7 Write-off cases**

Four write-off cases were noted, including two for which HIE had gained consent from the Scottish Government to write off grant obligation. The two cases for which Scottish Government approval had not yet been granted related to Gigha Halibut and New Park Highland Ltd. In discussion, the Board highlighted in particular the ambitious initiative to farm halibut on the island of Gigha, noting that the technical difficulties of raising halibut to

marketable size should not be underestimated, and that it had proven impossible to make the enterprise a commercial success within the timescale available. The Chairman advised that HIE's established practice was to draw lessons learned from write-off cases that could be applied by the agency in future circumstances.

**6.8 Letter from Seong-Gon Gim, Chairman/CEO of CS Wind Corp**

The Board welcomed a letter of thanks for HIE's commitment and support from the Chairman of CS Wind.

**6.9 Any other business**

Alistair Dodds asked whether HIE was aware of any impact on Business Gateway in Highland following the winding up of Highland Opportunities Ltd, which had managed the service. The Chief Executive responded that he understood Business Gateway operations and staff had been taken in house by The Highland Council.

**6.10 Forthcoming Board dates:**

The next meeting of the Risk and Assurance Committee will be on 7 June 2016.

The next meeting of the HIE Board will be on 21 June 2016.

Both meetings will be at An Lòchran, Inverness.

Chris Roberts  
26 April 2016  
HIE 2004/02226