

BOARD MEETING
COINNEAMH BÙIRD

**MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 11 APRIL 2017,
AN LÒCHRAN, INVERNESS**

PRESENT:

Lorne Crerar (Chair)
Charlotte Wright (Interim Chief Executive)
Amanda Bryan
Paddy Crerar
Alistair Dodds
Donald MacDonald
Robert McIntosh
Donald MacRae
Iseabail Mactaggart
Belinda Oldfield
William Swann

IN ATTENDANCE:

Carroll Buxton	Director of Regional Development
David Oxley	Acting Director of Business and Sector Development
Sandra Dunbar	Head of Business Improvement and Internal Audit
Karen Moncrieff	Head of Human Resources
Chris Roberts	Head of Corporate and Media Relations
Andrew Jenkins	Head of Finance, items 3.1, 3.2
James Gibbs	Area Manager, Inner Moray Firth, items 4.2, 5.1
Andrew Johnston	Science Skills Academy Project Director, item 4.4
Keith Bryers	Head of Property and Infrastructure, items 4.5, 4.6, 4.7
Gillian Morrison	Senior Development Manager, Innse Gall, item 5.1
Martin Johnson	Regional Head of International Trade and Investment, item 5.3

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies were noted from Board member Ailsa Gray and Director of Strengthening Communities Douglas Cowan.

1.2 Declarations of interest

There were no declarations of interest relating to any of the matters on the agenda.

1.3 Minute of meeting of Tuesday 7 February 2017

Belinda Oldfield observed that points she had raised during discussion of HIE's risk register (item 3.2) had not been recorded in the draft minute. It was agreed that a note of these points should be added. Subject to that amendment, the minute was approved.

1.4 Minute of meeting of Tuesday 14 March 2017

The minute of the meeting held on Tuesday 14 March 2017 was approved.

1.5 Matters arising

There were no matters arising from either of these minutes that would not be covered elsewhere on the agenda.

2 UPDATES CUNNTASAN AS ÙR

2.1 Chair and Interim Chief Executive update

HIEA 2017/00646

The Interim Chief Executive updated the Board on HIE's ongoing engagement with LifeScan Scotland in Inverness, which will be affected by a strategic review being carried out by parent company Johnson and Johnson. Following completion of due diligence, HIE had released the final payment of a £1.85m funding award that had been approved in 2016 to support a total £8.7m research and development investment in the Highland plant.

The Board welcomed news that business leaders in the Highlands and Islands had been honoured with two out of three national awards from the Institute of Directors Scotland. Jennifer Mackenzie-Hallwood of TEFL Scotland was named Director of the Year for a medium-sized business, and Tom Campbell of North Highland Initiative won the same title for a small business.

HIE was progressing plans to hold a national strengthening communities conference in Aviemore in September, including high level representation from the Scottish Government. Board members would be kept informed as details were confirmed.

Both Charlotte Wright and Alistair Dodds had attended the most recent Convention of the Highlands and Islands in Shetland. Discussion of the Enterprise and Skills Review had featured strongly, with the Deputy First Minister and Cabinet Secretary for the Economy, Jobs and Fair Work acknowledging that significant public support had been expressed for HIE's role in developing the region.

Highly ambitious plans to develop the Lochaber aluminium smelter and associated facilities were being taken forward by new owners GFG Alliance. HIE was continuing to work very closely with the Scottish Government on this project, which promised to be the most significant investment in the west Highlands in decades. A delivery group, chaired by the Cabinet Secretary for Rural Economy and Connectivity, had been established to address the full range of issues raised by a venture of this scale centred on Fort William, from business development to skills and housing. Charlotte Wright informed the Board that she would be meeting the company's chief executive again later in April.

A new Director of Finance and Corporate Services had been appointed. Nick Kenton, who currently occupies an equivalent position with NHS Highland, will join HIE later in the year. In the meantime, the director's responsibilities will be covered by the Director of Regional Development and the Head of Finance.

Turning to the Scottish Government's Enterprise and Skills Review, the Interim Chief Executive noted that HIE was maintaining an active involvement in all workstreams that were currently under

way, with a view to obtaining better outcomes for the region and for Scotland. In response to a question from Amanda Bryan, Charlotte Wright confirmed that there was no dedicated workstream focused on communities and fragile areas. However, HIE's expertise in this field was contributing to other workstreams, including those on customer journey and the planned South of Scotland enterprise and skills vehicle. The upcoming national strengthening communities conference would provide a further opportunity to engage with government on this important topic.

The Chair updated the Board on his role in providing a review of governance arrangements as part of the Enterprise and Skills Review. This had resulted in a set of recommendations that the Cabinet Secretary for the Economy, Jobs and Fair Work had informed the Scottish Parliament would be adopted in full. Of key significance to HIE was that, in addition to a new strategic board being established to improve collaboration between enterprise and skills stakeholders and input to national economic strategy, all agency boards will be maintained, with their current powers intact. Agency chairs will sit on the new strategic board, which will have an independent chair and feature equal representation from each of the four bodies taking part in the Enterprise and Skills Review, along with members from the worlds of business and local government, among others.

The Board expressed gratitude to Professor Crerar for the pivotal role he had played in delivering an excellent outcome on a subject that had generated a great deal of concern and debate across the Highlands and Islands, in parliament and in the media. With the governance issue now settled, it was agreed that HIE should take a proactive role in communicating the positive nature of the outcome.

[Paragraph removed, as disclosure at this time could have a negative effect on the effective conduct of public affairs.]

In discussion, Board members put forward suggestions to improve collaboration between agencies, including Board level engagement, and opportunities for inter-agency secondments.

Professor Crerar reported that the process to recruit a new permanent chief executive was progressing well and generating an encouraging level of interest from potential applicants.

3 RESOURCES AND GOVERNANCE **GOIREASAN IS RIAGHLACHAS**

3.1 Financial Statement for the 12 months to 31 March 2017

HIEA 2016/00442

Andrew Jenkins joined the meeting.

The Head of Finance presented a report prepared by the former Director of Finance and Corporate Services, summarising HIE's financial position for the twelve months to 31 March 2017, subject to final audit by Audit Scotland. This showed that HIE had met all financial targets and achieved a balanced financial position for 2016-17 with a total spend, including broadband and Wave Energy Scotland (WES) of £95.06m. HIE's grant-in-aid budget of £56.96m from the Scottish Government had been drawn down in full, along with a further £8m for WES. Cash in hand at the end of March was effectively nil, and HIE had delivered its Strategic Forum savings target of £3.2m.

Donald MacRae highlighted a reduction that had been made during the year in respect of the target for property sales. The Head of Finance acknowledged that this had become a more challenging activity, and noted that the 2017/18 target was set at a lower level to reflect this position. Paddy Crerar asked a question about the role of external property agents and Mr Jenkins explained that they acted in an advisory capacity, with HIE taking responsibility for setting targets. It was noted that a property strategy would be presented for discussion at a future Board meeting. Alistair Dodds noted that the budget for regionally significant investments also appeared to have reduced by around £6m in the course of the year. In reply, the Director of Regional Development explained that the variance was mostly due to the timing of payments associated with next generation broadband (NGB) infrastructure, and did not represent any actual slippage in the

broadband project, or reduction in HIE investment. It was noted that, while the majority of the NGB budget was channeled through HIE on a 'money-in, money out' basis', the project also included an element of HIE grant-in-aid funding.

Board members expressed gratitude to the recently retired Director of Finance and Corporate Services, Forbes Duthie, for his role in delivering another successful outcome at the year end. The Chair confirmed that he had written to Mr Duthie to thank him for his excellent contribution to HIE over many years.

3.2 Draft HIE budget 2017/18

HIEA 2016/00442

The Head of Finance presented a report prepared by the former Director of Finance and Corporate Services, detailing HIE's proposed budget allocation for 2017/18, along with a summary of key risks and how these would be managed. This showed that HIE anticipated a total income and expenditure of £76.9m during the year, not including funds that had been secured separately and would be managed in relation to broadband infrastructure rollout, Community Broadband Scotland (CBS), WES, Northern Innovation Hub, and Scottish Land Fund. The report outlined how funding had been allocated at the start of the year, stressing that the system was flexible and that budgets would be reviewed and amended through the year to address changing circumstances and meet urgent or emerging challenges and opportunities.

[Paragraph removed, as disclosure at this time could have a negative effect on the effective conduct of public affairs.]

Robert McIntosh suggested that the presentation of budget reports could be reviewed in order to specify spend by HIE priority, while Amanda Bryan also requested a breakdown of spend by geographical area. In subsequent discussion, it was agreed that a strategic planning day would be organised for Board members in September, when the new Director of Finance and Corporate Services will be in post, which would enable these issues to be considered in the context of HIE's overall purpose and priorities, and its role in delivering Scotland's Economic Strategy.

Andrew Jenkins left the meeting.

3.3 Risk management update, including register at April 2017

HIEA 2016/00314

The Head of Business Improvement and Internal Audit (BIIA) presented an update on work in progress to refresh HIE's approach to risk management, as part of a culture of continuous improvement. The report also included the organisation's latest risk register. Key actions being taken through the refreshed approach were to: review and agree top corporate risks and themes; agree risk appetite characteristics and definitions; increase reporting and ensure clear ownership of risk themes; redevelop HIE's resource prioritisation framework, and Leadership Team championing the use of risk management to support effective decision making and delivery. The register of risk themes and corporate risks at April 2017 identified 15 strategic risks and 8 tactical risks that were currently being treated.

The Board welcomed the direction of travel defined in the paper, and endorsed HIE's willingness to articulate its appetite for risk, to optimise its approach to identify and address specific risks and themes, and to alert the Board to those judged to be most significant. Belinda Oldfield advised amending the definition of strategic risk to reflect the fact that these can emerge suddenly and are not always long-term. As the approach is developed, it would also be useful to implement scoring to enable the register clearly to show HIE's assessment of impact and likelihood against each identified risk. *[Sentence removed, as disclosure at this time could have a negative effect on the effective conduct of public affairs.]*

The Chair thanked the Head of BIIA for the work completed to date in developing a fresh approach to risk, and endorsed the complementary roles of the Board, which requires strategic overview, and the Risk and Assurance Committee, which provides a forum for Board members to examine risks, themes and associated issues in greater detail.

3.4 Draft minute of the Risk and Assurance Committee, 7 March 2017 HIEA 2004/02226

Alistair Dodds introduced the draft minute of the Risk and Assurance Committee meeting held in Inverness on 7 March 2017. Items discussed at the meeting had included broadband rollout and the challenge of reaching 100% of the population, Cairngorm, HIE shareholdings and investments, the annual accounts and Audit Scotland's annual plan. Minutes of the Risk and Assurance Committee are routinely presented to the full Board in draft form to enable members to gain early sight of emerging audit issues affecting HIE and the region.

3.5 Year-end review 2016/17 HIEA 2016/00644

The Director of Regional Development presented HIE's 2016/17 year-end review, describing the out-turns achieved by HIE at the end of the financial year against key measures and priorities in the organisation's operating plan 2016/19, with an overview of wider activity. This showed that HIE had approved £41m to support new projects across the region with a total cost of £143m. HIE's investments would accelerate the current growth of client businesses, social enterprises and communities across the region, and generate longer term impacts through developing infrastructure. Direct out-turns had included the creation or safeguarding of 1,688 full time equivalent jobs; the attraction of 12 inward investment projects, and an increase of £79.5m in international sales. Thirteen per cent of HIE's investment had been made in fragile areas.

[Paragraph removed, as disclosure at this time could have a negative effect on the effective conduct of public affairs.]

On the subject of inclusive growth, it was noted that information was now being gathered to identify the proportions of women in leadership roles within HIE account managed clients, although other factors, including age profile, were more challenging to measure accurately. Board members also stressed the need for HIE to continue efforts to collaborate effectively with government and partner agencies to ensure the region was able to provide employers with access to appropriately skilled people.

Amanda Bryan raised a specific question, noting that, although the annual out-turn for turnover in the social economy generated by community owned assets fell within the desired range, HIE's performance under this heading had been less strong when compared with other measures that had been exceeded. In discussion, it was noted that community projects typically delivered benefits over relatively long timescales, and that the out-turns of account managed social enterprises, which were an important part of HIE's role in strengthening communities, were included with business out-turns in the performance measurement system. There would be an opportunity to explore these issues in depth at the June 2017 Board meeting, when a refreshed approach to strengthening communities and fragile areas would be presented and discussed.

4 INVESTMENT PROPOSALS **MOLAI DHEAN AIRGEAD-TASGAIDH**

4.1 Cairngorm Mountain Ltd (CML): masterplan priorities 2017 HIEA 2016/00005

Susan Smith and Keith Bryers joined the meeting.

The Head of Business Development and the Head of Property and Infrastructure presented a paper recommending a change in purpose to a HIE loan of £4m to Cairngorm Mountain Ltd (CML) which the Board had approved on 12 February 2014. As the operating company of the HIE-owned funicular railway and associated visitor attractions at Cairngorm, including snowsports infrastructure, ownership of CML had been transferred through a share purchase agreement from HIE to Natural Assets Investment Ltd (NAIL) which had concluded in June 2014. This had followed an international procurement exercise that HIE had conducted to attract a suitable

operator for the facilities at Cairngorm, in which NAIL's parent company, Natural Retreats UK Ltd, had successfully emerged as the strongest bidder.

The £4m loan, to be repaid over the remainder of the 25-year term of CML's lease at Cairngorm, had originally been intended to support the establishment of a new day lodge on the mountain. Having operated the business for two years, however, CML had informed HIE in June 2016 that it now considered a better option would be to invest in alternative developments to stabilise the business on a year-round basis by attracting more visitors and increasing revenues and profitability. Subsequently, it had prepared a new masterplan that focused on developing an artificial ski slope to offer more skiing, learning and training opportunities throughout the year, and creating a new viewing platform to be enjoyed by visitors to the top station Ptarmigan building.

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

In discussion, the Board noted that the Risk and Assurance Committee had also recently examined CML's performance, including the significant challenges experienced during the current winter season when snowfall had been virtually non-existent at Cairngorm. The importance of ensuring that any new developments at Cairngorm should meet international standards for high quality was also stressed. It was recognised that CML had set out a highly ambitious timescale to deliver the proposed improvements, and that HIE Board approval would enable consultation to get under way as early as possible. The masterplan was welcomed as a sensible way forward that would help address weather dependency, stabilise the business and strengthen the attraction's key role as an important driver of the wider tourism sector in the Aviemore area. The Board approved the change in purpose of HIE's £4m loan.

Susan Smith and Keith Bryers left the meeting.

4.2 *[Item removed, as disclosure at this time could have a negative effect on commercial interests.]*

4.3 Innovation

a HIE support for business innovation in the Highlands and Islands

HIEA 2016/00100

b Northern Innovation Hub (Inverness Highland City Region Deal)

HMS 9360366

As the meeting was running behind schedule, it was decided that an additional Board meeting be arranged for May, when these items relating to the important issue of innovation could be considered in appropriate depth. The Board recognised that certain elements of the Northern Innovation Hub project, including scoping and staffing considerations, needed to be progressed urgently, and agreed that work on these aspects could proceed in order to avoid delay. All other issues, including the request to proceed with procurement, would be considered in May.

4.4 Science Skills Academy (Inverness Highland City Region Deal)

HMS 9360227

Andrew Johnston joined the meeting

The Science Skills Academy Project Director provided an update on progress with this Highlands and Islands-wide project, led by HIE, which aims to encourage more young people to engage and consider careers in science, technology, engineering, mathematics and digital subjects. The paper from the Project Director also requested Board approval for a total project spend of £3.213m on the Science Skills Academy. £3m of this funding would be provided by the Inverness Highland City Region Deal, with HIE contributing the remaining £213,000 to extend the project beyond Highland to benefit young people in all other parts of the region.

The Academy aims to support economic growth and the retention of talented young people within the Highlands and Islands by promoting opportunities in education and employment. In addition to HIE, it was being overseen and supported by partners including the Highland Council, Skills Development Scotland and the University of the Highlands and Islands. A key part of the programme would be the delivery of interdisciplinary 'Newton modules' to all young people aged 11 – 14, adapting and developing a model that had proven highly successful in Scandinavia. Modules would be developed in partnership with employers and academic institutions to reflect local industry or research expertise and needs, and were likely to focus on energy, aquaculture, health science, biotechnology, environmental science and digital creativity.

The Board welcomed the update, and stressed the importance of engaging at senior level with local authorities to obtain maximum impact from collaboration and deliver opportunities for young people across the whole region. It was suggested that the Academy would be a suitable topic for discussion at a future meeting of the Convention of the Highlands and Islands. The possibility of creating a mobile service was discussed and Mr Johnston confirmed that suitable options were being explored. The project spend of £3.213m was approved.

Andrew Johnston left the meeting

4.5 Inverness Campus plot 8 development – phase II

HMS 9360568

Keith Bryers joined the meeting.

The Head of Property and Infrastructure presented a paper recommending HIE investment of £6,693,635 (£5,293,635 HIE and £1.4m European Regional Development Fund) to construct a new building on Inverness Campus that would meet anticipated demand from companies in the life sciences growth sector. An existing, award winning building within the life sciences enterprise area on the Campus, Aurora House, was expected to reach capacity shortly, and the proposed new building would cater for enquiries from companies seeking larger premises than those currently available. It was anticipated that the project, in tandem with other HIE initiatives, would encourage the formation of seven new businesses and the attraction of seven inward investments, supporting up to 140 new, high value careers in the region.

HIE was now seeking Board approval for this investment, and authority to begin Europe-wide procurement through the Official Journal of the European Union to appoint a contractor to construct the building and associated infrastructure at Inverness Campus. Among other recommendations, it was also requested that the approval of funding for further fit-out works be delegated to Leadership Team or Director. Spend would be scheduled over financial years 2017/18 and 2018/19. The Board approved the recommendations in the paper.

4.6 Inverness Campus – North bridge development

HMS 9360617

The Board approved a recommendation for HIE funding totalling £2.25m to construct the North Bridge at Inverness Campus, enabling pedestrian, cyclist and public transport access, above a railway line, to and from the neighbouring Inverness Retail and Business Park. Creation of the North Bridge was a condition of the 2011 planning permission for phase one of Inverness Campus, and this was required to be completed before 50,000 square metres of development at the campus were occupied. It was noted that an application to support construction costs had been made to the cycling charity Sustrans, and a decision was expected shortly, and that further recoveries could be received from the Highland Council, reducing the cost to HIE by up to £1.1m. Sustrans had already contributed to design costs for the bridge. In response to a question from Alistair Dodds, the Head of Property and Infrastructure gave an assurance that the budget included an appropriate level of contingency funding.

The project will now proceed to procurement, with works to be project managed on behalf of HIE by Torrance Partnership.

4.7 Property factoring and consultancy budget

HMS 9360475

This Head of Property and Infrastructure presented a paper recommending HIE cash funding totalling £4,373,906 gross (£1,863,906 net) for property factoring and associated consultancy in 2017/18. HIE's commercial property portfolio currently comprises 76 industrial and 36 office premises, 90 development plots, 12 plots sub-let to businesses on long-term head leases and 15 miscellaneous properties (including the Centre for Health Science, Cairngorm Mountain, Orbst Estate and Inverness Campus). The HIE-occupied portfolio comprises two HIE-owned offices and 14 offices leased from the private sector. A property managing agent provides services ranging from managing letting enquires through to rent reviews, lease renewals, sales, purchases, invoicing and management of service charges. The Asset Valuation of the HIE-owned commercial property portfolio at 31st January 2017 was £39.22m, including £10.4m associated with the Centre for Health Science in Inverness.

The Board approved gross funding of £4,373,906 for property factoring and consultancy in 2017/18, noting that the budget included a recoverable cost line for projected income received from insurance premiums and service charges, while allowing for minimal contingency. It was estimated that the net cost to HIE would be £1,863,906 following recoveries.

Keith Bryers left the meeting.

5 ITEMS FOR DISCUSSION CUSPAIREAN AIRSON BEACHDACHADH

5.1 *[Item removed, as disclosure at this time could have a negative effect on commercial interests.]*

5.2 HIE Operating Plan 2017-18

HIEA 2017/00108

The Interim Chief Executive presented HIE's draft operating plan for 2017/18, which had been discussed in outline at a previous Board meeting and had now been developed, reflecting the content of draft strategic guidance from Scottish Government ministers. In particular, it was highlighted that the plan sought to demonstrate a clear and complementary relationship between HIE's priorities and the national themes of investment, innovation, internationalisation and inclusive growth that were at the heart of Scotland's Economic Strategy. Amanda Bryan requested that consideration be given to reinstating or replacing a performance measure from previous operating plans relating to HIE's role in strengthening communities, and it was agreed that this would be done. As time was limited, Board members agreed to contact the Interim Chief Executive directly following the meeting, concerning any further matters they wished to raise.

5.3 Space opportunities

HIEA 2012/00812

Martin Johnson joined the meeting.

The Board welcomed an update from the Regional Head of International Trade and Investment, describing emerging opportunities to develop one or more launch facilities for the space sector in the Highlands and Islands. Three centres in the region had been identified as having potential: Machrihanish in Argyll for horizontal launches, and Scolpaig in the Outer Hebrides and Moine in Sutherland for vertical launches. It was noted that the UK Space Agency (UKSA) had set a deadline of 27 April for any consortium that wished to apply for funding to establish a launch facility. With this deadline in mind, the Board supported HIE's request to become a partner in the bid process for credible consortia bids, subject to review by the Interim Chief Executive. The Board was also content for HIE to continue to progress due diligence to understand the potential social and economic impacts of space opportunities in the region, and to continue to engage with UKSA.

Martin Johnson left the meeting.

6 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

6.1 Scottish Government Strategic Guidance

The Board noted the contents of draft strategic guidance letters sent to the Chair by the Cabinet Secretary for the Economy, Jobs and Fair Work, and the Cabinet Secretary for the Rural Economy and Connectivity.

6.2 Economic Briefing – April 2017

HIEA 2014/01290

The latest regional economic briefing, prepared by HIE's Planning and Partnerships team, was welcomed.

6.3 HIE's Equality Mainstreaming Report 2017

HIEA 2017/02079

The Board welcomed HIE's Equality Mainstreaming Report 2017, describing the delivery of equality outcomes, reviewing progress in mainstreaming equality across HIE, and analysing HIE employee demographic information over four years, including showing how this has been used.

6.4 Gaelic Plan Launch

HIEA 2014/00982

The Board received advance copies of HIE's latest Gaelic Plan, which had been discussed previously and would be published shortly.

6.5 Business Panel Survey – April 2017

HIEA 2012/00771

As the meeting was drawing to a close, it was agreed that the results of the latest survey of HIE's Highlands and Islands Business Panel would be shared and discussed at a future meeting.

6.6 Digital and broadband – COHI paper

HIEA 2017/00385

The Board noted the contents of a paper that had been presented to the Convention of the Highlands and Islands, describing progress in improving broadband and mobile coverage across the region.

6.7 HIE event feedback

HIEA 2004/02226

The Board noted positive correspondence relating to recent events, including a stakeholder engagement lunch in Ullapool, and the opening of Lews Castle in Stornoway.

6.8 Any other business

a Extra Board meeting to be arranged in May

In recognition of the challenge involved in meeting a very busy agenda for the April meeting, it was agreed that an additional Board meeting would be organised for a date in May. This would include a specific focus on HIE's approach to innovation, including the Northern Innovation Hub, as well as discussion the latest Business Panel report, and any other matters that are ready for Board consideration at that time.

b Isle of Eigg

Amanda Bryan noted that the islanders of Eigg had celebrated the twentieth anniversary of their historic purchase, through which they had established a flagship of community ownership and enterprise that had generated a substantial population increase and demographic spread. The Board welcomed this update.

6.9 Forthcoming Board dates

The following dates were noted:

- 25 April – HIE Board meeting, teleconference for WES approval
- TBC May – Additional HIE Board meeting, with focus on innovation
- 6 June – HIE Board meeting, An Lòchran, Inverness
- 7 June – HIE Risk and Assurance Committee, An Lòchran, Inverness
- 23/24 August – HIE Board meeting and area visit (location TBC)
- TBC September – National Strengthening Communities conference, Aviemore

CLOSE DÙNADH

Chris Roberts
11 April 2017
HIEA 2017/00646