

BOARD MEETING
COINNEAMH BÙIRD

MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 24 APRIL 2018 AT OLLABERRY HALL, NORTHMAVINE, SHETLAND

PRESENT: Lorne Crerar (Chair)
Charlotte Wright
Amanda Bryan
Paddy Crerar
Alistair Dodds
Ailsa Gray
Robert McIntosh
Donald MacRae
Iseabail Mactaggart
Belinda Oldfield
William Swann

IN ATTENDANCE:

Carroll Buxton	Director of Regional Development
Douglas Cowan	Director of Strengthening Communities
David Oxley	Director of Business and Sector Development
Nick Kenton	Director of Finance and Corporate Services (by phone)
Sandra Dunbar	Head of Business Improvement and Internal Audit
Karen Moncrieff	Head of Human Resources (from item 2.1 onwards)
Chris Roberts	Head of Corporate and Media Relations
James Gibbs	Area Manager, Inner Moray Firth, item 4.1 (telecon)
Martin Johnson	Regional Head of Sectors, Inward Investment and International Trade, item 7.1 (telecon)

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies had been received from Board member Donald MacDonald and Scottish Government Director of Economic Development Mary McAllan.

1.2 Declarations of interest

The Chair noted that Iseabail Mactaggart had declared a standing, third party interest in matters relating to Wave Energy Scotland, and would leave the meeting for item 3.4, *Wave Energy Scotland Business Plan*.

Sentence removed due to commercial sensitivity.

The Chair informed that Board that he could have a potential conflict of interest through his legal business Harper Macleod in item 7.1, *Establishment of UK spaceport infrastructure*. It was agreed that Alistair Dodds would chair the meeting for this item, and that Professor Crerar would leave.

1.3 Minute of Board meeting on 13 February 2018

The minute of the Board meeting held on 13 February 2018 was approved.

1.4 Matters arising

There were no matters arising from the minute that would not be covered in the agenda.

2 UPDATES CUNNTASAN AS ÙR

2.1 Chair and Chief Executive update – April 2018

The Board welcomed the latest high level update on key activities across HIE, including a list of engagements undertaken by the Chair and Chief Executive.

The Chief Executive reported that she and the Chair had attended the official opening by the First Minister of Norbord's new manufacturing premises at Dalcross, near Inverness. HIE had provided significant support to enable the business to invest in a modern factory, securing its future and benefiting the wider forestry sector across the region. An opportunity for Board members to visit will be arranged later in the year.

Sentence removed due to commercial sensitivity.

Canadian company DF Barnes had taken over Burntisland Fabrications (BiFab), which leases manufacturing premises from HIE at Arnish, Stornoway. The new owners had expressed positive views about Arnish, and the Board would be kept informed as their plans develop.

Orkney Research and Innovation Campus (ORIC), a new joint venture between HIE and Orkney Islands Council, was making good progress. The first ORIC board meeting had taken place and, following procurement, construction had begun in Stromness.

HIE was engaging with a new Rural Economy Steering Group that the Scottish Government had established to develop strategy.

In response to a request from members, the Chief Executive agreed that the Board would receive updates at every meeting to track progress with certain specific projects and issues concerning HIE. These updates would focus on high profile activities, and projects currently presenting significant risks and opportunities.

The Director of Regional Development reported that the rollout of broadband infrastructure across the Highlands and Islands was continuing, and that HIE was aligning its activities with the Scottish Government's R100 programme to bring superfast broadband access to 100% of the country's homes and businesses by 2021.

Paragraph removed in the interests of the effective conduct of public affairs.

The Chair reported that he would be meeting members of the Stornoway Trust in May. The trust is a major public landowner on Lewis, with assets including Arnish.

As Co-Chair of the National Council of Rural Advisers (NCRA), Professor Crerar would be meeting the Scottish Cabinet in June. The NCRA had already delivered a report on the impacts that Brexit was expected to have on rural Scotland, and was now looking at strategies for a vibrant rural economy. Discussion highlighted strong levels of interest in rurality at present, with both the RSA and SCDI also undertaking new work focusing on rural issues.

Marine tourism had been the focus of a well-attended conference in Oban in March. The Chair of HIE had delivered a keynote speech, and reported that the agency's contribution to the development of marine tourism had attracted positive comment from delegates.

The Chair reported that he had visited Liberty British Aluminium in Fort William with HIE's Lochaber Programme Manager. Opportunities will be explored for a future Board visit.

2.2 Enterprise and Skills Strategic Board

The Board welcomed an update paper showing progress being made by the Enterprise and Skills Strategic Board, and including details of HIE's engagement, both at Board level and through a series of dedicated workstreams. A series of Strategic Board meetings had been scheduled through the rest of the year and the Chair of HIE would be attending. Terms of reference for the Strategic Board were in preparation and expected to be approved shortly.

Positive dialogue had been held with the new Head of the Analytical Unit, with HIE emphasising the need for performance measures to encompass the community development focus that was a fundamental component both of its role and that of the forthcoming South of Scotland agency. It would be important that terminology used by the analytical unit, including 'return on investment' and 'best value', was clearly defined to cover more than cash value, and applied consistently across the enterprise and skills system. HIE had an opportunity to advocate the effectiveness of approaches to deliver sustainable and inclusive growth over the long term, and to use its experience to inform the thinking of the Strategic Board on best practice in developing Scotland's rural economy.

The Board welcomed the update, recognising that it was vital for HIE to prioritise support for the work of the Strategic Board and ensure that the needs and opportunities of the region were represented. Members expressed their appreciation to HIE's Leadership Team and other staff for their considerable input to this important task.

3 RESOURCES AND GOVERNANCE **GOIREASAN IS RIAGHLACHAS**

3.1 End-year review 2017-18

The Director of Regional Development presented the end-year review, showing the out-turns achieved through HIE's investments and interventions during 2017-18. All key performance measures had been met or exceeded. The forecast increase in turnover in year three by supported businesses was £101.5m (target range: £80-100m). Over the same timescale, the forecast increase in international sales by supported businesses was £40.3m (target £30-40m). HIE had supported the creation of retention of 981 jobs (target: 700-900), 139 of which were in fragile areas (target: 125-175). The average salary of jobs supported was £26,120 (target: £25,000). Turnover in the social economy was forecast to increase by £5.1m in year three (target: £3.0-4.5m), with £1.6m of this total generated by community-owned assets (target: £1.5-2.0m). The number of new/improved income-generating assets that had been supported was 39 (target: 25-30).

The Board welcomed the report and discussed a number of themes. It was observed that rise in turnover by supported businesses presented a clear demonstration of return on investment that would be of interest to the new analytical unit in the Scottish Government. It was also noted that HIE was continuing to promote Scotland's Business Pledge to account managed clients.

Members stressed the need for HIE to continue to take a pro-active approach to business and sector development, as described at high level in the agency's operating plan and in more detail in sector route maps, while also maintaining flexibility to respond effectively to emerging opportunities. It was agreed that the report could be clearer in some places as to whether certain figures were for a single year or cumulative over a longer period. This would be addressed before external dissemination. There was also interest in the methodology used by HIE to measure performance, and it was agreed that details of this approach will be presented to a future Board meeting.

The Chair expressed the Board's appreciation for an excellent set of out-turns, and offered to send a note of congratulations to all HIE staff over the coming days.

3.2 Financial statement to 31 March 2018

The Director of Finance and Corporate Services presented HIE's financial statement for the 12 months from 1 April 2017 to 31 March 2018, noting that figures were subject to final audit by Audit Scotland. The report showed that HIE had fully met its financial targets for 2017-18, achieving a balanced financial position. Total spend, including broadband and Wave Energy Scotland (WES), was £90.41m. HIE's grant-in-aid budget of £59.23m from the Scottish Government had been drawn down in full, as had £10.3m for WES, which is fully funded by the Scottish Government.

Paragraph removed in the interests of the effective conduct of public affairs.

The Board welcomed the statement and thanked staff for achieving a good outcome in a challenging year. *Sentence removed in the interests of the effective conduct of public affairs.*

3.3 Financial Planning Model 2018-2023

The Director of Finance and Corporate Services presented a short paper setting out the context for HIE's future financial planning, including steps that had been taken towards establishing a new, five-year financial planning model. Unlike a fixed financial plan, this model would be designed to be dynamic and flexible, capable of being altered as circumstances change. The Director sought the participation of Board members in developing the new model. It was agreed that an invitation to a planning session around the time of the August Board meeting would be issued shortly.

3.3a Proposed HIE budget 2018-19

The Director of Finance and Corporate Services set out HIE's proposed 2018-19 budget for Board approval, together with details of key risks and how these would be managed. HIE's total settlement from the Scottish Government for 2018-19 would be £71.7m, comprising £30.5m fiscal resource (up from £29.8m in 2017-18), £26.2 capital (equal to 2017-18 level), and £15m non-cash (up from £11m, although it was noted that HIE had only requested £5m non-cash). Anticipated funding from other sources, including capital and revenue receipts and European funds, would take the total budget (including non-cash) to £83.15m.

The Board approved the budget, stressing the importance of ensuring that HIE investment would benefit all parts of the region, and expressed particular interest in knowing more about how area team budgets are set. It was agreed that there would be an opportunity to review the geographical spread of HIE spending and area team budgets at the forthcoming financial planning session with Board members

(see item 3.3 above). Members noted that a rise in Block B spend was largely attributable to the agency's latest pay award and pension scheme costs.

In response to questions, the Director of Strengthening Communities explained that a proposal to categorise funding for community capacity building as discretionary rather than top-sliced was intended to give greater control to area teams, and would not affect the overall level of funding available for this purpose.

3.4 Wave Energy Scotland (WES) business plan

Iseabail Mactaggart left the meeting.

The Director of Business and Sector Development presented for HIE Board approval the 2018-21 Wave Energy Scotland (WES) business plan, including key performance indicators for 2018-19. Established as a subsidiary of HIE, WES is fully funded by the Scottish Government.

The three-year plan set out key priorities, operating principles and financial projections, and had already received backing from the WES Board and HIE's Leadership Team. During this period, WES intended to focus on taking technology that had been developed in its first three years, and demonstrating it in proof of concept deployments, with two wave energy systems being tested in real sea conditions at the European Marine Energy Centre in Orkney by 2020.

While the HIE Board expressed strong support for the WES business plan, members highlighted the need to receive certainty from the Scottish Government regarding ongoing levels of funding support before the plan could be approved. It was agreed that the Chair of HIE would write to the Minister for Business, Innovation and Energy, expressing the Board's wish to approve WES's new business plan and seeking confirmation that the government remained committed to provide funding at a level that would enable WES to achieve its goals for the wave energy sector in Scotland.

The Board approved another recommendation in the paper, to re-appoint Steve Thomson as Chair of the WES Advisory Group for a further term of three years from April 2018. It was agreed that the business plan would be re-examined once the government's funding position had been clarified, and that Mr Thomson would be invited to a future Board meeting.

Iseabail Mactaggart rejoined the meeting.

3.5 Risk Register – March 2018

The Head of Business Improvement and Internal Audit presented HIE's latest corporate risk register, describing a range of strategic and tactical risks that had been identified against key themes, along with actions being taken to treat them.

Paragraph removed in the interests of the effective conduct of public affairs.

3.6 Risk and Assurance Committee draft minute, 6 March 2018

Alistair Dodds, as Chair of the Risk and Assurance Committee, presented the draft minute of the meeting held on 6 March 2018. Minutes of the Risk and Assurance Committee are routinely presented in draft form so that the full Board can be alerted to any emerging issues at the earliest opportunity.

Sentence removed in the interests of the effective conduct of public affairs.

Board members Ailsa Gray and Belinda Oldfield had helped develop a new approach to risk appetite in HIE, and the Committee Chair expressed his appreciation for their valuable input.

3.7 Risk and Assurance Committee effectiveness and terms of reference

The Board welcomed a report on the effectiveness of the Risk and Assurance Committee, including actions identified, and approved revised terms of reference for the Committee.

3.8 HIE Board standing orders

The Board approved a refreshed set of standing orders, covering the Board's own operating arrangements. These standing orders come into effect immediately.

3.9 Remuneration Committee, 23 January 2018 – verbal update

Charlotte Wright, Carroll Buxton, Douglas Cowan, Sandra Dunbar, Nick Kenton and David Oxley left the meeting.

Donald MacRae, as Chair of HIE's Remuneration Committee, informed the Board that the Committee had met on 23 January 2018 in Inverness, and had approve the recommended pay award for the Chief Executive and Directors. The Head of Human Resources confirmed that HIE's staff pay award, which included Directors' pay, had been approved by the Scottish Government. The Chief Executive's pay award was currently awaiting government signoff.

The Board welcomed the update.

Charlotte Wright, Carroll Buxton, Douglas Cowan, Sandra Dunbar, Nick Kenton and David Oxley rejoined the meeting.

4 INVESTMENT DECISIONS **CO-DHÙNAIDHEAN AIRGEAD-TASGAIDH**

4.1 *Item removed due to commercial sensitivity.*

4.2 Northern Innovation Hub: 30 under 30 project

The Director of Business and Sector Development presented an appraisal paper recommending that HIE commit funding of £2,389,071 for the '30 under30' element of the Northern Innovation Hub, a £16m programme which operates in the Highland Council area. Funding would comprise £1,861,415 from the Inverness and Highland City-Region Deal and £527,656 from the European Regional Development Fund. The seven-year project would provide a programme of support, including coaching and mentoring, to encourage young entrepreneurs to remain in, or locate to the region, and set their companies on a path to sustainable growth. Support would be dispersed, reflecting both the geography and range of business sectors across the Highland area.

The Board welcomed the project's alignment with HIE's ambitions to attract and retain talent in the region, and to create more opportunities for young people. Its focus on improving productivity through innovation was noted, as was its focus on companies that were at an early stage in their development and not yet account managed by HIE.

In response to questions on the level of demand that was anticipated for these services, the Director explained that expectations were based on experience gained through previous programmes, and that the budget included provision for marketing. Members also stressed the need to ensure alignment with the broad range of activities delivered by HIE and others to support and develop entrepreneurship

across the region. It was noted that governance arrangements were in place, with the project being managed by HIE, and a project board established with City-Region Deal partners.

It was agreed that an update on progress in delivering the whole Northern Innovation Hub programme would be presented to a future Board meeting. The project was approved.

4.3 Inverness Campus: sale of plots 11 and 12 for hotel

The Director of Regional Development updated the Board on the outcome of a marketing exercise that aimed to attract a business class hotel developer to purchase two plots covering 2.89 acres at Inverness Campus. Sale of plots 11 and 12 for a hotel had been approved in June 2017, with the Board urging HIE staff to ensure that the project would generate not only a good sale price, but also social benefits and a high service level.

Paragraph removed due to commercial sensitivity.

Paragraph removed due to commercial sensitivity.

4.4 Property Factoring and consultancy 2018/19

The Board approved HIE cash funding totalling £4,249,661 gross for property factoring and associated consultancy in 2018/19, noting that the net figure would be much lower, at £1,879,932, following receipt of head lease rent, service charges and insurance recoveries.

This will cover costs associated with the full extent of HIE's commercial property portfolio, which currently comprises 54 industrial and 45 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 An Lòchran, Inverness Campus – which is owned by HIE – and 14 offices across the region that are leased from the private sector. HIE had appointed property managing agents Graham and Sibbald, following competitive tender, until 5 November 2020, to provide an all-encompassing service ranging from dealing with letting enquires through to rent reviews, lease renewals, sales, purchases, invoicing and management of service charges.

4.5 Community Broadband Scotland: amendments to previous approval

The Director of Strengthening Communities requested the Board's approval to utilise uncommitted Community Broadband Scotland (CBS) funding to deliver a range of services through HIE's new Digital Communities team, and to extend the end of the project funding period from 31 March 2018 to October 2020. These proposals had been agreed with the Scottish Government. They would ensure full utilisation of conduit funding of £7.51m that had originally been approved for CBS, and would not require any additional budget.

The Board noted that, following review in 2017, it had been decided to wind up CBS and form the Digital Communities team which will complete a range of CBS-supported projects that were already under way and contribute to the development of R100 aligned interventions. Another key focus for the new team is to support communities to benefit fully from widespread uptake and use of digital technology, including new local energy systems, and opportunities for home working.

In discussion, the Director agreed that it would have been preferable for these proposals to have been presented to the Board before the planned end date of the original CBS project, but it had not been possible to conclude new staffing arrangements earlier. With reference to satellite broadband solutions

that were included in the scope for the Digital Communities team, it was agreed to specify that these would need to be affordable. The Head of Human Resources confirmed that the team budget included all relevant staff costs.

The Board approved the requested project amendments.

5 ITEMS FOR DISCUSSION **CUSPAIREAN AIRSON BEACHDACHADH**

5.1 HIE property review / strategy

The Board noted the contents of a report describing a review of HIE's property strategy. It was agreed to return to this subject at a future meeting, and that the draft strategy should cover the totality of HIE's property and land portfolio.

5.2 Potential bid to deliver pilot loan fund for Scottish SMEs

The Board noted analysis that HIE had undertaken to inform its decision as to whether to submit a bid to the Scottish Government to administer a new pilot loan fund to support the growth of small-to-medium-sized businesses across Scotland. While the aims of the new initiative were welcomed, the Board agreed that it would not be appropriate for HIE to bid to become the fund manager.

6 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

6.1 HIE Operating Plan 2018-19

The Board welcomed the latest draft of HIE's Operating Plan 2018-19, which was close to being finalised and had been submitted to the Scottish Government for comment. Once approval had been received from the Cabinet Secretary for the Rural Economy and Connectivity, the plan would be laid before the Scottish Parliament and published on the HIE website.

6.2 Property Activity Report for Quarter 4, 2017-18

The Board noted the contents of HIE's most recent property activity report, covering the three months from January to March 2018.

6.3 Business Panel survey – January/February 2018

The contents of HIE's latest Business Panel survey were noted, and will be disseminated shortly.

6.4 Any other Business

There was no other business.

6.5 Forthcoming Board dates

5 June 2018 – Risk and Assurance Committee, An Lòchran, Inverness

26 June 2018 – HIE Board, An Lòchran, Inverness

7.1 Establishment of UK spaceport infrastructure

Professor Crerar left the meeting and Alistair Dodds took the chair.

Martin Johnson joined the meeting by teleconference.

The Board considered a paper from the Director of Business and Sector Development, describing in detail an opportunity for HIE to enable the region to capitalise on emerging opportunities in the global space sector by supporting the establishment of vertical launch facilities for micro-satellites. HIE had been alert to opportunities being driven by the UK Space Agency (UKSA) in this sector, which had stimulated market interest in 2017 through a competition for potential spaceport operators. The Board had considered updates at previous meetings, as staff investigated its potential to generate benefits for the region, and examined likely economic, community and environmental impacts.

The current paper presented an overview of market drivers; a summary of classes of launch technology, and information on three potential sites in the Highlands and Islands, in the Outer Hebrides, Shetland, and Sutherland. The paper included independent economic impact assessments and diligent business case evaluations carried out on the proposals for the three locations, carried out by consultants PwC. It concluded by recommending conditional approval for HIE cash funding totalling £17.2m (gross) to fund the construction of a vertical launch site in Sutherland, and cover associated professional fees. *Sentence removed due to commercial sensitivity.*

It was made clear that, were the Board to decide to support the Sutherland site, the first stage would require short-term enabling spend, estimated at £2.524m over the next 18 months, to further review and develop the main aspects of the project in accordance with Green Book principles. Commitment to the full amount of capital expenditure to be managed by HIE (£17.2m) was expected to be needed towards the end of 2019. It was also recommended that HIE should continue to work with those supporting the Outer Hebrides and Shetland sites in the development of their plans, and explore options for any related projects.

Discussion was opened by the Chief Executive, who noted that the Highlands and Islands had been identified as the only part of the UK with the potential to host a vertical launch site for satellites. *Sentence removed in the interests of the effective conduct of public affairs and commercial sensitivity.*

The Head of Business Improvement and Internal Audit then summarised the outcomes of a review that HIE had carried out to examine the approach that the development agency had taken to evaluate the space opportunity. *Sentence removed in the interests of the effective conduct of public affairs.*

Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity.

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With the UKSA working to a tight timescale to select bidders, the Board agreed to convene a further meeting at the earliest opportunity. Additional information would be provided on economic impacts,

supply chain opportunities, community benefits, governance, and other potential funding sources. Mr Dodds thanked everyone for their participation in a complex and challenging discussion.

CLOSE

Chris Roberts
24 April 2018