

BOARD MEETING
COINNEAMH BÙIRD

MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 17 DECEMBER 2019
AN LÒCHRAN, INVERNESS

PRESENT: Lorne Crerar (Chair)
Carroll Buxton
Alistair Dodds
Amanda Bryan
Angus Campbell
Paddy Crerar
Ailsa Gray (by telephone)
Donald MacRae
Robert McIntosh
Freda Newton
Calum Ross

IN ATTENDANCE:

Morven Gibson,	Shadow Board Member
Nick Kenton,	Director of Finance and Corporate Services
Douglas Cowan,	Director of Communities and Place
David Oxley,	Director of Business Growth
Martin Johnson,	Interim Director of Strategy and Regional Economy
Karen Moncrieff,	Director of Human Resources
Sandra Dunbar,	Director of Business Improvement and Internal Audit
Rachel Hunter,	Director of Service Delivery
Adrian Kitson,	Head of Executive Support
Graeme Harrison,	Area Manager, Orkney, item 3.2
Lorna Gregson-MacLeod,	Head of Planning and Partnerships, item 2.5
Elaine Hanton,	Interim Project Lead – Cairngorm, item 4.1
Ruaraidh MacNeil,	Project Director Inverness Campus, item 3.1 and item 4.3
David Howie,	Project Lead, Space Hub Sutherland, item 4.2a and 4.2b
Stuart Robertson,	Director of Digital

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting. Apologies were noted for Belinda Oldfield, Board Member.

1.2 Declarations of interest

It was noted that Rachel Hunter is conflicted in relation to agenda items 4.2a and 4.2b and will leave the room when these items are discussed.

1.3 Minute of Board meeting held on 29 October 2019

The minute was approved.

1.4 Matters arising from the minutes and Action Grid

There were no matters arising from the minutes and action grid that were not covered in the meeting agenda.

1.5 Chair and Chief Executive update – November 2019

The Interim Chief Executive reported current issues with CS Wind and Argyll Creamery. CS wind at Machrihanish has announced a gap in production and potential redundancies on the site. There has been 20 redundancies and they are awaiting word of an order in Spring 2020. No formal announcement has been made to close although this remains a possibility. In relation to Argyll Creamery, an attempt at a buyout had failed however a deal had been agreed with First Milk to ensure that milk was transported to market at no cost to farmers.

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

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Enterprise and Skills Strategic Board, a meeting of the Chairs and Chief Executives had taken place and this had been very positive. The Chief Executives have agreed to review opportunities for potential shared services.

Cairngorm Mountain (Scotland) Limited, a meeting had taken place with the Interim Chief Executive and there had been a good winter opening launch event held on 7 December.

The Chair provided an update and outlined that he had visited Stornoway with the Interim Chief Executive. During the visit they met with Stornoway Port Authority and had visited the new HIE office. A resolution is being sought to property issues with a further visit planned for 17 February 2020.

The Chair has held positive meetings with the Interim Chief Executive and staff of Cairngorm Mountain Scotland Limited (CMSL). The main issue raised by CMSL was concern about comments attributed to a community group relating to operations at Cairngorm. A call has also taken place with the Cabinet Secretary for Rural Economy to provide assurance in relation to HIE activity at Cairngorm.

The Chair of HIE chaired a meeting of the Enterprise and Skills chairs on 28th November, a copy of the minutes of this meeting will be posted on Boardbooks. There is also a meeting on 9 January 2020 with Nora Senior and Chairs to discuss the agenda for the Strategic Board. A further chairs meeting has been convened for the end of February and will be chaired by Frank Mitchell, the chair of Skills Development Scotland. There will be three meetings per annum on a rotational chair basis and Nora Senior will attend. Going forward, it is planned the Chief Executives will also attend.

A meeting took place with Argyll and Bute Council and it was noted that good links need to be maintained.

2.1 Financial Report

The Director of Finance and Corporate Services updated the Board summarising the financial position for the eight months of the financial year to 30th November 2019.

The negative reserve has now been reduced to £1.4m a reduction from the £10.2m agreed as part of the overall opening capital budget. It was noted that capital expenditure on Cairngorm was proceeding at risk however the capital position is comfortable.

Revenue spend is running 3.5% behind straight-line with the negative reserve currently at £0.5m.

Key risks are as follows:

- *[Paragraph removed in the interests of the effective conduct of public affairs.]*
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- **Centre for Health Science (CfHS)** – The sale of CfHS generated a profit on disposal. The treasury potentially has the right to call in a profit on disposal depending on its value expressed as a value of the overall sale. We are clarifying the guidance on this, but our current working assumption is that we will be permitted to retain the profit.
- **Back-Dated VAT Liability** - The VAT compliance review work is progressing with a new VAT recovery method to be presented to HMRC as soon as possible. HIE is working with a revised figure has been submitted for tax advisors Ernst & Young and the SG to ensure the new VAT recovery method is fair and reasonable. Once the new method is agreed HIE will be able to quantify the impact on the current year budget.

With regards to the VAT issue, this remains a complicated position. A revised figure has been submitted by HIE for the financial year 2018/19 and HMRC has asked HIE to submit figures for 2017/18. There is a risk that HMRC may not accept the new method. *[Sentence removed in the interests of the effective conduct of public affairs.]*

The Chair, the Deputy Chair, the Chief Executive, Director of Business Improvement and Internal Audit and the Director of Finance and Corporate Services had a call with HIE's tax advisor to gain an overview of this complicated issue. The call provided certainty around the direction of travel.

The Board acknowledged that this was a difficult position with the different partners involved and agreed the need to get to a resolution as soon as possible. It was also noted that it would be important moving forward to ensure adequate staff training to ensure applying correctly.

2.2 Financial Outlook 2020/21

The Director of Finance and Corporate Services presented a report to the Board with an estimated financial outlook for 2020/21 based on information available and an overview of the approach for budget-setting. Highlighting that there was no indication of when the Scottish budget will be set due to the delay in the setting of the UK wide budget.

There are two scenarios for the resource budget position for 2020/21, an optimistic and a pessimistic view. Following a call with Scottish Government (SG), the resource budget will be under pressure next year with a possible 4.5% reduction. A scenario where HIE has to absorb all costs would not be sustainable. An option to transfer between Capital and Revenue could be an option and a response is expected from SG on this. The resource budget will come under pressure from pay awards and VAT. The scenarios reflect the uncertainty on the VAT cost going forward under the new recovery method, which is still being finalised. CMSL operating costs and the masterplan will also impact

The Chair confirmed that there was a meeting planned with Mr Ewing the Cabinet Secretary for the Rural Economy and Mr MacKay the Cabinet Secretary for Finance, Economy and Fair Work in January 2020. The overall position may not be known until the budget is set by Westminster.

The Board asked about efficiency savings and the Director of Finance and Corporate Services outlined that savings have been made in relation to vacancy management, shared services and shared office space. It was also noted that the Business Transformation Programme was aiming to deliver efficiencies and support more effective delivery. A report on efficiency savings will be provided at a future Board meeting.

2.3 Risk and Assurance Committee 3 December – key points

The Chair of the Risk and Assurance Committee (RAC) provided an update on the key topics discussed at the meeting of 3 December. This included Cairngorm and the Section 23 review by Audit Scotland, Space Hub Sutherland and VAT. Reassurances had been provided with regards to Finance Team staffing with a graduate appointment made and a further post under recruitment. The appointment of a new Risk Manager was noted with a review being undertaken into how HIE records and manages risk. A development day for the Risk and Assurance Committee had been arranged for 10 January 2020 which will be led by the Director of Business Improvement and Internal Audit. A progress report was received from EIS in relation to progress being made with Cyber Security accreditation. National Fraud Initiative was covered as well as a review of Board transparency around availability of agendas, minutes and papers to the public, this will complete in early 2020.

The Chair of the Risk and Assurance thanked all members and staff for their input throughout the course of the year.

It was further noted that in relation to the Nigg Court case, a letter had been sent to the Chair of HIE with regards to submitting additional information relating to this case and a request that this be brought to the attention of Audit Scotland and the HIE Board. It was noted that the case was being appealed by the pursuers and a procedural hearing was to be held in January.

2.4 Risk Register

The Director of Business Improvement and Internal Audit provided a brief update noting that the register will be updated re the Nigg Court case.

The Corporate Risk Register was presented to the Risk and Assurance Committee (RAC) on 3rd December in order to give them an up-to-date view of the current risk landscape. In addition, the RAC reviewed the Risk Management Business Improvement Initiative document that was previously considered by the Leadership Team and were supportive of the approach taken and recommendations presented.

2.5 Strategy Session and Corporate Report

Lorna Gregson-MacLeod joined the meeting.

The Board and Leadership Team participated in a strategy session led by the Interim Director of Strategy and Regional Economy and the Head of Planning and Partnerships.

Lorna Gregson-MacLeod left the meeting.

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

3.1 Inverness Campus North Bridge – Project Amendment

Ruaraidh MacNeil joined the meeting for items 3.1 and 4.3.

The Project Director Inverness Campus presented a project amendment paper to the Board to provide and update on programme, risk, costs and funding in relation to the Inverness Campus North Bridge project, along with a summary of lessons learned. The key recommendations are 1) That the existing HIE Approval (HMS 9360617) is increased from £2,676,502 to £3,361,348 with a total recovery of £962,962 from Sustrans and HC. This represents an increase in the HIE approval by £665,884, which with the exception of retention would be incurred this FY; 2) That once the final report on the “Lessons Learned” workshop is available that the recommendations are reviewed and where appropriate incorporated into future projects and 3) A separate financial approval will be presented for approval to HIE LT to cover the £468,000 maintenance payment ahead of adoption of the bridge by Highland Council in circa March 2021.

A number of updates have been provided to the Board with regards to this challenging project with the project Director confirming that work had now successfully commenced on the bridge. The Interim Chief Executive confirmed that a lessons learned exercise had taken place and a further internal workshop is due to be held to define specific areas of HIE action for this project and of wider relevance. The final output from this will be presented at a subsequent Risk and Assurance Committee.

The Board approved the recommendations made in the project amendment and acknowledged the update noting that the lessons learned review will be issued to the Risk and Assurance Committee with an update provided to the Board.

4 UPDATES **CUNNTASAN AS ÙR**

4.1 Cairngorm Mountain

Elaine Hanton joined the meeting.

The Interim Project Lead – Cairngorm and the Director of Business Improvement and Internal Audit presented a short paper to the Board to provide an update on activities that have taken place over the two months since the last Board meeting.

Critical to the development of the Business Case and master planning is engagement with a wide range of key stakeholders. There has been considerable effort in the early part of November to engage with stakeholders including Scottish Government, CMSL Board, Public Sector bodies, Aviemore and Glenmore Community Trust, CMSL senior staff, CMSL staff and Cairngorms National Park Authority. Master planning is underway with the aim of completing by May 2020.

Focus remains on the development of the Outline Business Case and this will be brought back to the Board in February prior to submission to the Scottish Government. Early indications are that reinstatement would be the preferred option, but this will be tested as part of the business case options appraisal process. This remains a very challenging and high risk project and there are a number of interdependent activities in the programme critical path which need to align for the funicular solution to commence in summer 2020. It is noted that the project plan requires HIE to continue to incur costs at risk to maintain the critical path. In addition, a solution will require public sector funding of the infrastructure work and CMSL operating costs. If work on the Funicular

can start in May 2020, it is still possible that this could be completed in one season however some costs need to be procured in advance and this will form part of the Outline Business Case.

As part of the Business Case development process, HIE's contractors, RSM, have started a process of identifying lessons learned both at Cairngorm previously but also from wider investments and global best practice in relation to ski resort operation. Work to date has included reviewing previous reports by Audit Scotland and the Scottish Parliament review into Cairngorm and running a workshop with HIE staff and CMSL's interim CEO. Going forward, RSM will facilitate further workshops with HIE and CMSL staff as well as undertaking a global best practice review.

HIE continue to recognise the high-risk nature of this project, the need to deal effectively with legacy issues and the significant public interest in HIE activity at Cairngorm. *[Sentence removed in the interests of the effective conduct of public affairs.]*

Meetings have taken place with Audit Scotland and HIE staff on 22 November and 5 December to commence the Audit Scotland Section 23 review. The target date for the publication of the review is 7 May 2020 prior to the Auditor General term of office ending. The Scottish Government is also looking to conclude their independent review of HIE activity relating to Cairngorm Mountain.

The Board discussed this in some detail and were keen to understand progress with the communications plan. It was confirmed that the communications team are working with CMSL and procuring additional PR and communications support. It was also noted that HIE will need to have a response ready if and when the Scottish Government report is published. The Board also reaffirmed the importance of following up the guarantees.

The Board thanked the team for their efforts and look forward to receiving an update and an outline business case in February.

4.2 HIE Space Programme Summary

The Interim Director of Strategy and Regional Economy presented a short update on space-related activities across the HIE Region following on from a paper submitted to HIE Board in October.

HIE's Space Programme Board engages both separately and collectively with the key space projects within HIE, providing oversight, support and coordination. Ad hoc or project-specific space matters are routed through Martin Johnson as SRO for HIE's Space Programme, in accordance with HIE's space-governance arrangements.

The Scottish Government have stood up a multi-agency Scottish Space Programme Group (SSPG), to have oversight of space projects across Scotland, providing support and coordination. HIE is represented by Martin Johnson. The SSPG has been focused on supporting the development of an incorporated space industry body, which can potentially employ staff and take ownership of key aspects of development. SG and SE are considering providing pump-priming funding to SSIC for a 3-year period.

SSPG have been looking at Scotland's relationships with key bodies, such as UKSA, MOD, CAA, and NATS around key themes of regulation and partnering; key global industry players for trade and investment; and a forward programme of events that Scotland should have a presence at.

There are socio-economic opportunities for space across the Region, with colleagues engaged in supporting, working up the business cases for respective projects for investment of time and funding.

The Interim Chief Executive was encouraged by the Scottish Space Programme Group and their awareness of HIE decisions relating to space and the important role that the Scottish Space Programme must have in issues of national space infrastructure.

The Board noted the update.

4.2a *[Paragraph removed in the interests of the effective conduct of public affairs.]*

4.2b *[Paragraph removed in the interests of the effective conduct of public affairs.]*

4.3 The Centre for Health Science 2 (CFHS2)

The Project Director Inverness Campus presented an update to the Board on this project. A paper for funding for the Centre for Health Science 2 (CfHS2) project was approved by the HIE Board in April 2019. The Board approved a budget of **£3.987m** sufficient for a building constructed to 'shell & core' standard, plus a further conditional £800k towards fit-out costs estimated at £1.6m on the basis that partnership funding could be identified. A number of factors that have emerged since April have necessitated a change in approach to the procurement of the project and its definition.

The intention is to create a national exemplar project, integrating academic healthcare research, delivery of clinical care to patients, and the creation of new commercial opportunities, products and services in health science and technology centre (the **triple helix**). The co-located elements from the three partners would be as follows: 1) NHS Highland – a 24-bed Elective Care Centre (ECC); 2) UHI - The UHI Life Science Innovation Centre and 3) HIE - a life sciences business incubator/accelerator. It was anticipated at the time of the April paper that all project funding would be in place by May 2019 and that construction could commence shortly thereafter, with a planned completion date for the building scheduled for Spring 2021.

The Target Cost came through in June 2019, HIE's portion of the building was presented at some 32% over the agreed budget, with the other partners, UHI and NHS Highland presented with similar unexpected cost issues. Despite an extensive Value Engineering exercise being instructed by the partners, as of October 2019 the Target Cost remained stubbornly high at some £573,000 (16%) over the original budgeted figure for HIE, with the other two partners again similarly challenged.

There are three possible options for taking this forward with the preferred option being that HIE procures a new building jointly with UHI, adjacent to a separate NHS Highland facility, potentially on plots 3, 4 and 5. This would provide potential economies of scale benefits for HIE and UHI and better value for money as well as strong interaction between UHI and HIE designed in, delivering the benefits in line the original vision. It is the intention that the project will be delivered within the original approved amount although this would be challenging due to the cost incurred to date and the time delay.

Instead of NHS Highland procuring a building on behalf all three partners (NHS, UHI and HIE) under a Development Agreement arrangement, it is now intended that HIE will procure the building for itself and UHI, under a different Development Agreement. The original Health Facilities Scotland 2 (HFS2) procurement will continue for NHS. The joint UHI/HIE building will be procured either through the SCAPE Framework, or through a full OJEU process. The building design will clearly have to change to accommodate two buildings rather than one. Although the project will involve continued close working with NHS, the project governance, management and legal arrangements will reduce to two parties rather than three, simplifying matters and reducing risk. A new MoU between UHI and HIE is currently being drafted, plus risk register which will reflect lessons learned to date.

It is proposed that this be brought back to the Board in late summer 2020 with a full design and costs.

The Board asked if there would be additional costs. It was confirmed that an additional £200k would be required for design fees and that a case would be made to the Director for consideration for approval in December or January. This will be followed by a paper to Leadership Team in April / May 2020 and a paper back to the Board for a decision in August 2020.

4.4 Digital Connectivity in the Highlands and Islands 2020 and Beyond

The Director of Digital provided a brief update on HIE's role in Digital Connectivity in the Highlands and Islands 2020 and beyond. By March 2020 HIE shall reach the end of the six year, £145m Next Generation Broadband (NGB) project which has pushed superfast broadband (24Mbps or above) to 81% of the homes and businesses in the region. HIE is also supporting Scottish Government's efforts to improve 4G mobile coverage beyond the coverage brought about by a combination of commercial investment and the UK Government funded Emergency Services Network. In addition, we are working in partnership with other local bodies to roll out full fibre networks to public buildings in Inverness, Fort William, Thurso and Wick through the UK Government funded Local Full Fibre Network project which promises to unlock commercial delivery of gigabit fibre to homes and businesses.

Related to this is the Scottish Government's Reaching 100% (R100) programme to provide superfast (30Mbps or above) broadband to all premises in Scotland. The £600m procurement which is the main element of the initiative is close to contract signature.

It was originally expected that HIE financial contribution to the NGB project would be spread across the deployment period. However, it was agreed at an early stage that HIE's contribution would come at the end of the project. *[Paragraph removed in the interests of the effective conduct of public affairs.]*

The Interim Chief Executive confirmed that this was not a new funding requirement but a reprofiling of current budget.

The Board endorsed the paper noting that a paper will be presented to a future Board meeting once details have been finalised.

5 ITEMS FOR INFORMATION CUSPAIREAN AIRSON FIOSRACHADH

5.1 Business Panel Survey

5.1a Business Panel Survey - Infographic

The report was noted.

5.2 HIE Publication Scheme Approvals List July – September 2019

5.2a HIE Publication Scheme Account Management List October 2019

The report was noted.

5.3 Any other business

The Interim Chief Executive brought a request received in relation to BSW for the transfer of the shareholding of two brothers to a private equity fund, this would include the transfer of any funding obligations. The original decision was a Board decision therefore HIE is seeking approval from the Board to proceed with the transfer. The Board were comfortable with this and approved the request.

The Chair and the Board also thanked Morven Gibson for the great contribution she had made during her term as a Shadow Board member.

5.5 Forthcoming meeting dates

- January 2019 – Possible additional Board Meeting

- 18 February 2020, HIE Board meeting
- 03 March 2020, Risk and Assurance Committee meeting

Adrian Kitson
Head of Executive Support
17 December 2019