

BOARD MEETING
COINNEAMH BÙIRD

MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 18 FEBRUARY 2020
AN LÒCHRAN, INVERNESS

PRESENT:

- Lorne Crerar (Chair)
- Carroll Buxton
- Alistair Dodds
- Amanda Bryan
- Angus Campbell
- Ailsa Gray
- Donald MacRae
- Robert McIntosh
- Freda Newton
- Belinda Oldfield
- Calum Ross

IN ATTENDANCE:

- 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
- Chris Roberts, Head of Corporate and Media Relations
- Jon Pickstone, Head of Regional Economic Development, Scottish Government
- Marion McCormack, Head of Enterprise Sponsorship, Scottish Government
- Catriona Maclean, Head of Rural Economy and Communities, Scottish Government
- Audrey MacIver, Director of Energy and Low Carbon, item 2.5.1
- Elaine Hanton, Interim Project Lead, Cairngorm, item 3.1
- Dave MacLeod, Head of Property and Infrastructure, item 3.1
- RSM UK, item 3.1
- RSM UK, item 3.1
- [Sentence removed in the interests of the effective conduct of public affairs.]*
- David Howie, Project Lead, Space Hub Sutherland, item 4.1a
- James Gibbs, Area Manager, Inner Moray Firth, item 4.3
- Gavin MacKay, Head of Energy Industries, item 4.3
- Tim Hurst, Director, Wave Energy Scotland, item 4.4
- Rachel Mackenzie, Area Manager, Innse Gall, item 4.5

1 STANDING ITEMS CUSPAIREAN COTHROMACH
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1.1 Welcome and apologies

The Chair welcomed Board members, HIE staff and senior officials from the Scottish Government, who were attending this meeting to participate in discussions concerning HIE's budget settlement for 2020-21. Apologies were noted for Paddy Crerar, Board member.

1.2 Declarations of interest

Rachel Hunter had declared a conflict in relation to agenda item 4.1, Space Hub Sutherland. It was agreed that she would leave the meeting while this item was being discussed.

1.3 Minute of Board meeting held on 17 December 2019

The minute was approved.

1.4 Matters arising from the minute

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

1.5 Chair and Chief Executive update – January / February 2020

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

Also in Kintyre, it was reported that efforts to save Campbeltown Creamery had been unsuccessful and it now appeared that there was no viable future for the business.

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

On human resources, the Interim Chief Executive reported that several members of staff were approaching retirement, and that a recruitment exercise for a financial accountant to strengthen capacity in the Finance team had been unsuccessful. Vacancy management in HIE was being reviewed closely with a view to achieving efficiencies, and this issue had gained urgency following the announcement of a reduction in HIE's resource budget from the Scottish Government. Leadership Team was considering pausing recruitment for a period, though exceptions would be made for vital posts in the organisation.

Quarterly meetings between HIE and Scottish Government officials were now well-established and proving productive.

Opportunities to enhance collaborative working across agencies had been explored in meetings with the newly-appointed Interim Chief Executive of the South of Scotland Enterprise agency, Nick Halfhide, and with the Chief Executive of Crown Estate Scotland, Simon Hodge.

A question was raised as to whether a legal undertaking with GEG Holdings in respect of the planned Nigg East Quay development would be submitted for Board approval at a later date. This issue is covered later on the agenda and it was agreed that the Interim Chief Executive would provide an update at the next meeting.

The Chair reported that he had discussed matters relating to space at a positive meeting with Ivan McKee MSP, Scottish Government Minister for Trade, Investment and Innovation.

Chairs and chief executives of the five agencies within the remit of the Enterprise and Skills Strategic Board would now meet quarterly to pursue opportunities for collaboration and influence. HIE had instigated these meetings, the first of which would be attended by the Interim Chief Executive during the last week in February. Nora Senior, Chair of the Strategic Board, was also expected to attend.

Constructive meetings had been held with the board of Cairngorm Mountain (Scotland) Ltd (CMSL) and with Aviemore and Glenmore Community Trust (AGCT), which had recently appointed a new Chair. Protocols to facilitate effective working between HIE, CMSL and AGCT were being finalised.

The Chair had met representatives of Shetland Islands Council and was pleased to report that they had been very complimentary about the contribution made by HIE's Shetland area team.

2 RESOURCES AND GOVERNANCE GOIREASAN IS RIAGHLACHAS

2.1 Financial report

The Director of Finance and Corporate Services presented HIE's financial statement for the 10-month period from 1 April 2019 to 31 January 2020. Although the position for both capital and revenue spend remained challenging, the director was confident that issues were being addressed effectively, and that a balanced outcome could be achieved by the year end.

With two months of the financial year remaining, capital spend was 15.9% below straight line, at almost £19.5m against a budget to date of £24m. However, the negative reserve, which had been £10.2m at the start of the financial year, had been eradicated. Although some internal budgets were carrying a projected overspend, the Finance team were working with individual managers to ensure these would be brought back on track.

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

Revenue spend was 7.4% behind straight line. Gross expenditure at 31 January amounted to almost £25.9m against a budget to date of £28.3m (excluding revenue expenditure on Cairngorm and funding of Cairngorm Mountain (Scotland) Ltd.

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

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

Clarification was requested on creative industries expenditure, some of which was considered to be potentially ineligible for anticipated ERDF support, which might result in a charge to HIE's 2019-20 revenue budget. It was explained that this situation had arisen owing to a change in EU funding rules. The change required the submission of historic data that had not previously been requested and was challenging to collect retrospectively.

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

Board members also highlighted differences in the rates of capital expenditure by HIE directorates – Regional Development (83% of budget spent to date); Business and Sector Development (47%) and Strengthening Communities (27%). In response, it was noted that several projects had always been expected to incur expenditure in the final quarter of the year and that in one case with Strengthening Communities, budget had been allocated towards a substantial third party project that could not be guaranteed to incur the anticipated expenditure in the current financial year. The Chair requested that the Board be provided with an update on this issue at its next meeting.

Concern was noted that the Scottish Land Fund, administered by HIE on behalf of the Scottish Government and the Big Lottery, was coming under pressure. The Board also recognised that actions were under way to change HIE's approach to commitment in order to manage budgets more effectively in 2020-21 and beyond.

2.2 Budget update

The Director of Finance and Corporate Services introduced a first draft of HIE's capital and revenue budgets for 2020-21. This had been prepared following announcement of the Scottish Government's draft budget on 6 February and was presented as a work in progress.

Although HIE was set to receive a 'flat cash' settlement from the Scottish Government for its capital (CDEL) budget, along with a £1m uplift in financial transactions, the revenue (RDEL) budget was to be reduced by £4m (13.56%). In addition, further pressure would arise from the loss of significant annual rental income from the Centre for Health Science, Inverness, following its sale to UHI, and from the upcoming VAT settlement with HMRC and implementation of the HIE pension recovery plan.

Currently, the focus was on identifying all projects with a legal commitment in 2020-21, as well as those where a client had been assured of approval, but legal undertakings had not yet concluded. To guide this process, a priority framework had been agreed by HIE's Leadership Team. Budget managers were ensuring all projects were correctly calendarized and all staff had been instructed not to make any new commitments that would require a cash payment in 2020-21 until the impact of the settlement was fully understood. Recruitment had been put on hold, with only a few exceptions.

Discussions were also under way with the Cabinet Secretary for Rural Economy and Tourism, and Scottish Government officials in an effort to find a solution. Confirmation had been requested in writing that the Scottish Government remained committed to fund an approved business case for Cairngorm, including funicular engineering works.

It was noted that there was likely to be potential for HIE to apply for additional funding to address specific issues, such as supporting the transition to a zero carbon economy and to address challenges arising from Brexit. National research and development funding may also be available, but required a minimum spend, which could be challenging for many small-to-medium sized HIE client businesses.

Board members expressed concern that the proposed reduction in HIE's RDEL budget would curtail the agency's ability to deliver the government's aspirations as set out in the refreshed Economic Action Plan, published in January 2020. While recognising that both HIE and the government were in a difficult position, it was important to work together to find a solution. It was noted that some HIE spend allocated for 2020-21 could potentially be brought forward into the present financial year, but that the accountable officer would need confirmation from the government that this was permissible.

The Board thanked the director for his report. An update will be provided at the June 2020 Board meeting.

2.3 Risk Register

The Director of Business Improvement and Internal Audit presented the HIE corporate risk register at January 2020 and a summary of the movement of risks over time. In line with best practice, a development session had been held with the Risk and Assurance Committee in January, at which HIE's future proposed risk management approach had been explored in detail and received positively. A new risk reporting template would now be implemented, including scoring both impact and likelihood on a scale of 1 to 5. Risk appetite statements would be revisited alongside HIE's refreshed organisational strategy and approach to delivery and investment.

The director informed the Board that a hearing for the claimant's appeal in the Nigg court case had been set for 4 and 5 June. The Chair enquired about the new single entry point (SEP) to public sector support for businesses – www.findbusinesssupport.gov.scot – which had gone live in January. This was a key element of improved collaboration between HIE and partner bodies and would continue to evolve in the months ahead. Partly as a result, the director reported that HIE was piloting a new enquiry handling approach to respond to an anticipated broadening of the client base resulting from SEP. Although take-up had been slow initially, this was in line with expectations and would help the service bed in.

Board members stressed the need for one-to-one human interaction to remain a core part of the support system and the director confirmed this had been recognised in the new operating model. The Chair requested an update on the single entry point at a future Board meeting.

2.4 Risk and Assurance Committee 3 December – draft minute

It was noted that key points arising from this meeting had been outlined by Alistair Dodds, as Committee Chair, at the previous Board meeting, held on 17 December.

2.5 Planning session

Audrey MacIver joined the meeting.

The Board and Leadership Team participated in a strategy session led by the Interim Director of Strategy and Regional Economy and featuring presentations on climate change and on fair work. This session had been arranged to complement and guide work underway around HIE's 2020-21 operating plan, within the context of the agency's three-year strategy and a focus on collaboration with partner organisations. A light touch refresh was proposed for the next operating plan, with additions required on key national priorities, including net zero carbon emissions and fair work.

In initial discussion, Board members emphasised the importance of HIE continuing to pursue actions that deliver social benefits throughout the region and identifying ways to express such achievements in terms of return on investment. In this context, the continued emphasis on talent attraction and retention was welcomed as a key means to underpin regional economic growth. It was noted that the Head of Planning and Partnerships was working on ways to evaluate and demonstrate the impact of inclusive growth and also looking at the proportion of HIE investment in fragile areas. Scottish Government attendees reported that colleagues managing city, region and island Deals were also looking into appropriate measures for inclusive growth and would welcome opportunities to develop a consistent approach with HIE.

Scottish Government attendees reported that the Cabinet Secretary for Rural Economy and Tourism was keen to schedule a strategic conversation with the HIE Board. It was agreed to seek a suitable date for a future meeting.

2.5.1 Climate change

The Director of Energy and Low Carbon led discussion on HIE's planned approach to help achieve the Scottish government's target to reduce greenhouse gas emissions to net zero by 2045. HIE's role was being developed by a senior team representing all aspects of the business and reporting to the Leadership Team. It planned to review the agency's own facilities, properties and policies, develop its influencing and support role across the region, and understand approaches being developed by partners and stakeholders.

Circular economy principles would be applied to reduce emissions, with an emphasis on decarbonising power and transport. Opportunities would also be identified to absorb greenhouse gases through carbon capture, storage and sequestration, with the Highlands and Islands having potential to play a key role. Future drivers would include the Scottish Government's revised climate change plan, due for publication in summer 2020, and an interim report from the Transition Commission, expected by the end of the year.

Board members welcomed the presentation and highlighted both challenges and opportunities arising from the increased focus on addressing climate change. It was noted that there could be difficulties in certain sectors that may deliver economic benefits, but also generate carbon, with the cruise market cited as an example. At the same time, opportunities would become available in agriculture and land use, including community-owned land, and in local energy production, and these could have significant impact in the Highlands and Islands. The issue of conditionality was raised, recognising that there could be potential for HIE to seek commitment from clients to reduce or offset carbon emissions as part of a funding approval.

There would be a need for public, private and third sector organisations across the Highlands and Islands to act in concert, with leadership from Scottish Government and with HIE well placed to lead and coordinate in the region. It was also important to engage with Ofgem and utility companies, and to recognise that there would be specific challenges in promoting energy efficiency in rural areas where fuel poverty is an issue.

2.5.2 Fair work

The Director of Service Delivery presented an update on the Scottish Government's Fair Work agenda and its impact on HIE operations. HIE's 2019-20 letter of guidance from the Scottish Government underlined the need to encourage employers to adopt fair work practices and embed fair work in services provided, and through procurement practices. It also requested that HIE attach fair work criteria to appropriate grants and funding streams, a move that had since been adopted in the agency's appraisal process for employment-related investments involving financial assistance over £100k.

The Board noted that account managers report a high proportion of HIE clients already implement fair work practices, and that attaching criteria to HIE funding was encouraging more to do so. Discussion highlighted the need to recognise how fair work could best be encouraged in the distinct context of the Highlands and Islands economy and on specific sectors, particularly those that currently rely on appropriate use of zero hours contracts. Discussions are ongoing with Scottish Government on these points, with a view to HIE extending conditionality to implement the government's full set of fair work criteria in 2021-22.

In discussion Board members recognised that there will be benefits for many businesses that implement fair work. However, it was also acknowledged that transition to full implementation would prove challenging for clients in some key sectors of the regional economy.

Audrey MacIver left the meeting.

3 INVESTMENT DECISIONS CO-DHÙNAIDHEAN AIRGEAD-TASGAIDH

3.1 Cairngorm Mountain – outline business case

Elaine Hanton, Dave MacLeod, joined the meeting. [Sentence removed in the interests of the effective conduct of public affairs.]

The Interim Project Lead, Cairngorm, introduced an outline business case that had been developed with consultants RSM UK Ltd relating to potential investment in Cairngorm. In preparing phase one of the business case, HIE's Cairngorm team had worked with the consultants to define and examine options to repair or remove the funicular railway, which is currently out of service, and to support the operating company. Future phases would consider longer-term strategy and masterplan (which is being developed in parallel), along with ownership and operating models, and how to maximise private sector and community involvement. The Project Lead emphasised that Cairngorm remained a high-profile and high-risk project for HIE. Any solution would require substantial public investment, need to be mindful of potential opportunity cost for HIE and take account of the impacts of climate change.

The Chair noted that regular discussions relating to Cairngorm were taking place between HIE and the Scottish Government and suggested that a government official should also take part in meetings of the Board's Cairngorm Sub-Group, which are currently being held every two weeks.

In addition to seeking Board endorsement for the direction of travel presented in the outline business case, the team requested that upcoming decisions relating to operating company Cairngorm Mountain (Scotland) Ltd (CMSL), including CMSL board strategy and funding strategy for 2020-21, and additional capital and revenue investments, be delegated to HIE Leadership Team.

RSM then explained the methodology they had used in preparing the outline business case, and described the outcomes. A shortlist of six options had been examined, each one accompanied by estimates of cost, impacts in terms of both visitors and job numbers, and potential to enable the operating company to generate income. The recommended outcome of the outline business case was to reinstate the funicular and, subject to further detailed assessment, continue to fund the operating company and progress investment in additional capital items to enhance visitor appeal and generate income. The estimated cost of this option was £19.9m. Subject to Board approval, all six options would be examined in greater depth for the detailed business case.

The Board discussed issues raised in the presentation and accompanying paper in depth. It was noted that £8.5m that HIE had received from the sale of the Centre for Health Science, Inverness, in 2019-20 had been earmarked as a source of funding to go towards the agreed solution for the funicular, but that additional support would be required. The rationale for investing in Cairngorm remained its potential to underpin wider economic activity and growth in Badenoch and Strathspey. While the masterplan was expected to highlight opportunities to attract private investment in future, it was recognised that the operating company could continue to require public support.

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

The Head of Property and Infrastructure reported that good progress was being made in preparing a planning application to strengthen the funicular. It was expected that this would be submitted to the Highland Council early in March, then called in by the Cairngorm National Park Authority, with a decision expected towards the end of May. It had been decided to progress the planning application and procurement of a contractor in parallel with developing the outline business case and masterplan in order to be able to progress works as quickly as possible, should it be decided that reinstatement of the funicular was the preferred option.

The Board endorsed the direction of travel presented in the outline business case and agreed to delegate authority to HIE Leadership Team for upcoming decisions relating to CMSL strategy and additional investments, as requested and for costs which need to continue at risk. The outline business case will now be submitted to the Scottish Government and developed into a full business case for consideration by the HIE Board and Scottish Government.

The Board thanked the team for their continuing efforts and look forward to receiving a further update in April.

Elaine Hanton, Dave MacLeod left the meeting. [Sentence removed in the interests of the effective conduct of public affairs.]

4 **UPDATES** **CUNNTASAN AS ÙR**

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

4.2 Space programme

The Interim Director of Strategy and Regional Economy presented updated the Board on space-related activities across the Highlands and Islands. This described approaches to governance, both within HIE and at national levels, and outlined a range of current and future socio-economic opportunities with which HIE is currently engaged to develop the space sector in the region. These are: Spaceport 1 in the Outer Hebrides; Shetland Space Centre; Machrihanish Airbase Community Company in Argyll, and Orbex in Moray.

The interim director represents HIE on the recently established, multi-agency Scottish Government Space Programme Group, which has oversight of space projects across Scotland and provides support and coordination. This meets fortnightly and is focused on establishing a new Scottish Space Industry Group (SSIG). A key advantage of this group would be to bring together all potential launch sites, creating opportunities for collaboration on matters of common interest, such as licensing and regulation, and range control. The Scottish Government will provide funding for SSIG in 2020-21, but is asking agencies to consider future funding. HIE's position is that it would not be appropriate to contribute until a final decision is made on Space Hub Sutherland and there is greater clarity on other sites in the region.

The Board noted that a key element of HIE's rationale in seeking to develop Space Hub Sutherland was market failure. With three potential launch sites now being taken forward in the region, could there come a time when market failure was no longer present? The Interim Chief Executive agreed that this was a possibility, and that if any proposed launch site in the Highlands and Islands were able to be fully funded from private sources, then market failure would not exist.

The Board noted the update.

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

4.4 Wave Energy Scotland (WES) – update on progress

Tim Hurst joined the meeting.

The Director, Wave Energy Scotland (WES), presented an update on progress made by the company, which is a subsidiary of HIE, and the delivery of projects within its technology programme. WES's purpose is to bring together the best engineering and academic minds to collaborate on innovative projects that will accelerate the development wave energy technologies. Since its inception in December 2014, it had held innovation calls to undertake research and development focusing on five programmes: power take-off systems; wave energy converters; materials; advanced control systems, and quick connection systems. There were now 17 active projects across all five programmes. *[Sentence removed in the interests of the effective conduct of public affairs.]*

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

In response to questions, the director confirmed that UK companies would continue to be able to access these programmes through WES following Brexit.

Another workstream was assisting the Scottish Government by carrying out technical due diligence and monitoring progress of projects submitted to the Saltire Tidal Energy Challenge Fund. Five assessments had been concluded, and monitoring was now underway for the winning project.

In the longer term, WES's overriding objective would remain the requirement to develop cost-competitive, utility-scale wave energy technology. However, this had been made significantly more challenging by the removal of a market support mechanism as well as rapid cost reduction in competing low carbon technologies such as offshore wind. At the same time, greater emphasis on climate change was now informing government policy and creating potential opportunities. These include the potential to trial

technologies arising from the WES programme in the North Sea oil and gas sector, which has recently committed to net zero carbon emissions, and internationally. The 2020 UN conference on climate change, due to be held in Scotland, had been identified as a key engagement opportunity.

The Board thanked the director for his update and congratulated the WES team on the progress they had achieved in a little over five years.

Tim Hurst left the meeting.

4.5 Ar Obair Gàidhlig / Our Gaelic work

Rachel Mackenzie joined the meeting by video link.

The Area Manager, Innse Gall, provided an update on HIE's work related to Gaelic and invited the Board to consider where the agency's priorities should lie. The update covered both Gaelic Language Plan for HIE itself and the agency's wider agenda to support Gaelic language and culture as an asset for social, cultural and economic regeneration.

Two recent developments were highlighted. In response to a review from Audit Scotland, Bòrd na Gàidhlig (BnG) had prepared an improvement plan, focusing on issues of governance and transparency, financial management and sustainability, and value for money. Secondly, the Soillse Islands Research Project was due to publish in spring 2020 and was expected to be a landmark piece of Gaelic research, with some hard-hitting findings that could have a lasting impact on strategy and policies relating to the language. Recommendations are expected to include a more holistic, place-based, community development approach that would be responsive to the needs and aspirations of Gaelic speakers.

HIE was making good progress in implementing its current Gaelic plan which had been published in April 2017, as demonstrated in a draft monitoring report for 2019-20. The agency was also contributing to the Scottish Government programme 'A Faster Rate of Progress', established by the Deputy First Minister in August 2018 to accelerate growth, change and collaboration to make a real difference with Gaelic. HIE co-lead two of five workstreams. These are Economy and Labour Supply, with Skills Development Scotland, and Community Engagement, with Comhairle nan Eilean Siar (CnES).

In discussion, the Board highlighted the work of CnES and asked about the role played by other local authorities in supporting Gaelic. The area manager noted that Glasgow had been cited by the Deputy First Minister as an exemplar in 'A Faster Rate of Progress', but expressed concern that other councils were less active and appeared not to regard Gaelic as a current priority.

The important role played by Bòrd na Gàidhlig (BnG) was recognised and it would be important for HIE to continue to work in partnership with the organisation. Opportunities to use Gaelic in the promotion of food tourism in the Highlands and Islands should also be considered. It was noted that businesses in Eire that use Gaelic are able to access additional public support, and that HIE could consider adopting a similar model. The Board also asked whether HIE had a role in promoting the use of Gaelic in the workplace. It was confirmed that Gaelic speakers among HIE staff could be identified through the use of lanyards, and that these could be made available to other organisations.

The Board welcomed the update, noting also that the next meeting of the Convention of the Highlands and Islands was due to include a substantial item on Gaelic. Members expressed the view that it would be helpful to see more tangible measures included in the next iteration of HIE's Gaelic Plan in order to measure progress as effectively as possible.

Rachel Mackenzie left the meeting.

5.1 Brexit – Current issues and approach.

The report was noted.

5.2 HIE Publication Scheme Approvals List October – December 2019
5.2.1 HIE Publication Scheme Account Management List January 2020

These reports were noted.

5.3 Any other business

The Deputy Chair led the Board in paying tribute to Professor Lorne Crerar, who was chairing his final meeting. Professor Crerar had served the Board for 12 years, including eight as Chair. Members agreed that his performance had been exemplary and that his input would be greatly missed.

The Chair recorded his gratitude to the Board and to HIE's Leadership Team, recognising in particular their outstanding dedication to pursuing ambitious goals and addressing significant challenges affecting the Highlands and Islands. He hoped that he was leaving HIE in a strong position for the future, and would continue to follow the organisation's progress with great interest.

5.4 Forthcoming meeting dates

- 3 March – Risk and Assurance Committee
- 28 and 29 April – Board meeting (Orkney)

Chris Roberts
Head of Corporate and Media Relations
20 February 2020