

HIGHLANDS AND ISLANDS ENTERPRISE

**BOARD MEETING – WEDNESDAY 10 FEBRUARY 2016
CALEDONIAN SUITE, MOORINGS HOTEL, BALVANIE, by FORT WILLIAM**

DRAFT MINUTE

PRESENT: Lorne Crerar (Chairman)
Alex Paterson (Chief Executive)
Alistair Dodds
Donald MacDonald
Iseabail Mactaggart
Donald MacRae
William Swann

IN ATTENDANCE:

Forbes Duthie	Director of Finance and Corporate Services
Carroll Buxton	Director of Regional Development
Douglas Cowan	Director of Strengthening Communities
Charlotte Wright	Director of Business and Sector Development
Sandra Dunbar	Head of Business Improvement and Internal Audit
Karen Moncrieff	Head of Human Resources
Tim Hurst	Wave Energy Scotland Director (item 3.5)
Chris Roberts	Head of Communications
Ailsa Raeburn	Head of Community Assets (item 5.1)
Andrew Johnston	Science Skills Academy Project Director (item 5.3)
Morven Cameron	Head of Academic Development (item 5.3)

1. STANDING ITEMS

1.1 Welcome and apologies

The Chairman welcomed all Board members and HIE directors to the meeting, including Douglas Cowan, who was attending his first HIE Board meeting since being appointed as Director of Strengthening Communities.

Apologies were received from Paddy Crerar, Craig Spence and Steve Thomson.

1.2 Declaration of interest

Iseabail Mactaggart has registered a related party interest with regard to Wave Energy Scotland Ltd (WES) and would leave the meeting when item 3.5 was being considered.

1.3 Minute of meeting: Tuesday 15 December 2015 HIE 2004/02226

The minute of the Board meeting held on Tuesday 15 December was approved.

1.4 Matters arising

a Item 4.1 – Arnish: Proposals from SSE

The Chief Executive reported that he had been in contact with SSE concerning their proposals for Arnish and was awaiting a response.

b Item 5.5 – Consultation on provisions for a future Islands Bill

The Chairman requested that a copy of HIE's submission to the Scottish Government's islands consultation be distributed to all Board members for information.

c Item 6.5 – Audit Scotland review of the role of Scotland's economic development agencies

The Head of Business Improvement and Internal Audit gave a verbal update on Audit Scotland's progress in reviewing the role of Scotland's enterprise agencies. National auditors had held several positive meetings with HIE clients, including some fragile communities. It was anticipated that a draft report could be ready in late spring/early summer.

2. UPDATES

2.1 Chairman's and Chief Executive's update

HIE 2004/02226

The Chief Executive noted that two senior vacancies had now been filled, with the appointments of Douglas Cowan as Director of Strengthening Communities and James Gibbs as Area Manager, Inner Moray Firth.

The start of the calendar year had produced several challenging business issues for HIE and the region, including redundancies announced by Marine Harvest, and Rio Tinto Alcan commencing a review of its operations in Lochaber. The Board was advised that the volume of account managed businesses being actively monitored by HIE had doubled, and that the agency was anticipating that local authority budget savings were expected to have an impact on some social enterprises and other services.

A number of positive announcements of business projects supported by HIE had also been made or were anticipated, including Norbord's announcement that it would be investing £95m to replace and expand its mill near Inverness, and the prospect of Wind Towers (Scotland) Ltd at Machrihanish transferring to new ownership.

Mr Paterson informed the Board of the outcome of the Scottish Government's recent spending review. Although the agency's grant-in-aid budget from the Scottish Government for 2016-17 would be £2.8m (4.7%) less than the current year, the scale of the reduction was judged to be manageable, particularly when considered against a highly challenging context for public spending across the country.

Following value engineering, HIE's support for BASF's expansion at its life sciences plant at Callanish, Isle of Lewis, had come in slightly over budget. The Board had approved support of £2.8m in August 2015, and the final figure would be £2.826m. The Board gave its assent to the adjusted figure.

The Chief Executive had held constructive discussions with the Scottish Funding Council and the Principal of the University of the Highlands and Islands (UHI) concerning future plans for the university, which is one of the region's most significant economic drivers. UHI will be a key topic at the next meeting of the Convention of the Highlands and Islands, to be held in Stornoway in March 2016. *[Sentence removed as disclosure at this time could harm the effective conduct of public affairs.]*

The Chairman reported that he and the Chief Executive had held a positive meeting with the Deputy First Minister earlier in February, where topics discussed included the Spending Review and HIE's draft Operating Plan 2016-19, which was currently being prepared for publication in March.

Professor Crerar had chaired a panel conducting three days of interviews in January, with the aim of appointing new HIE Board members. Names had been put forward for approval by the Scottish Government and new members were expected to be appointed in time to take up their three-year appointments from the beginning of April. The recruitment strategy had been designed to promote diversity and equality, in line with HIE and government policy.

Professor Crerar had also been on the interview panel for the new Chairman of Scottish Enterprise, and would be meeting the successful candidate, Bob Keillor, in his new role in March.

Finally, the Chairman noted that this Board meeting would have been the last for Steve Thomson and Craig Spence both of whom had served the HIE Board for eight years. Unfortunately, neither was able to attend. Professor Crerar paid tribute to their many significant contributions to the work of HIE and the development of the region.

2.2 Overview of Lochaber, Skye and Wester Ross

HIE's Area Manager for Lochaber, Skye and Wester Ross, Robert Muir, gave a short presentation on the area, which has a population of around 40,000, including 10,000 in Fort William, and covers around a quarter of the land mass of the Highlands and Islands. In common with the region as a whole, the area was keen to attract more young people. Unemployment was relatively low, although seasonality was an issue in the tourism and food and drink sectors in particular. The public sector was a significant employer, and others included forestry, aquaculture, and oil and gas (mostly with area residents travelling to jobs elsewhere). Creative industries were represented, including TV and film production on Skye, as well as life sciences. In the universities sector, the Gaelic college Sabhal Mòr Ostaig, part of UHI, was a significant driver of economic and cultural development. Local ownership of assets, including energy projects, marine facilities and broadband, was helping to strengthen community sustainability in many locations.

In the wake of aquaculture redundancies being announced, and Rio Tinto Alcan launching a review of its Lochaber operations, the Enterprise Minister had held a meeting of local business leaders in Fort William the previous day. This had been generally positive, highlighting opportunities being pursued in the area as well as challenges being faced, and a short-term working group was being set up to examine these and progress actions.

The importance of skills development was identified as a key theme, which had also been raised by local business people whom the Board had visited the previous day. It was agreed that a discussion paper on skills in the region, including HIE's role as a partner in the Highlands and Islands Regional Skills Development Plan, would be considered at the next Board meeting on 26 April.

2.3 Wind Towers (Scotland) Ltd / CS Wind

The Director of Business and Sector Development updated the Board on the progress of talks with CS Wind Corporation, a South Korea-based, international leader in renewable energy manufacturing. These talks were intended to attract considerable inward investment and create new market and employment opportunities for Wind Towers (Scotland) Ltd (WTS), which employs around 130 FTEs in Machrihanish, Argyll. Negotiations were advancing positively, and CS Wind had signed a memorandum of understanding with WTS's owners, SSE (which has an 80.1% shareholding) and HIE (19.9%). The Korean company's interest presented an excellent opportunity for HIE to achieve its long-term objective of securing a well-resourced owner / operator for WTS which could consolidate and expand the business as both a strategic player in Scotland's renewables sector and a major employer in

the Kintyre area. It was noted that the pace of negotiations was likely to require an additional Board meeting to be called in advance of the next scheduled meeting, which would not take place until 26 April.

3. RESOURCES AND GOVERNANCE

3.1 Financial statement to 31 January 2016

HIE 2009/00611

The Director of Finance presented the Financial Statement for the ten months from 1 April 2015 to 31 January 2016, including summary accounts for HIE subsidiary Wave Energy Scotland (WES). The statement showed that spend was progressing well and commitment levels were manageable in order to achieve a satisfactory year-end outcome. As a result of the Scottish Government Spending Review, HIE's cash budget for 2016/17 would be £56.2m, a reduction of £2.8m (4.7%). This would inevitably require some tightening of expenditure, but would enable HIE to continue to pursue its current strategies and ambitions. A detailed 2016/17 budget for HIE would be presented to the Board in April.

3.2 Corporate performance report

HIEA 2013/00841

The Director of Regional Development presented the latest Corporate Performance Report, dated 26 January 2016. This showed that rates of both economic activity and employment in the Highlands and Islands remained notably higher than Scottish and UK levels. Jobs growth across the region had continued through 2015, although at a slower rate than the year before. Claimant count unemployment for the region was 1.1% in December 2015, remaining below the average rates for Scotland (1.7%) and the UK (1.5%). After a period in which unemployment has fallen to historically low levels in the Highlands and Islands, however, there are signs that the rate was beginning to level off. Regional GVA had risen by 4.5% in 2014 to just under £10bn. This was similar to the rate of growth seen across Scotland.

Despite these positive indicators, some business sectors – notably energy and food and drink – continued to face challenging conditions. In particular, Marine Harvest had announced plans to make around 80 staff redundant following the completion of an ongoing review of operations and Rio Tinto Alcan was undertaking a strategic review of its Lochaber smelter which could impact significantly on the local economy. The Director also noted that the current economic and fiscal environment continued to present challenges.

Norbord had confirmed a £95m investment package which would secure the long-term future of its Morayhill facility near Inverness and its extensive supply chain across the region. This announcement meant that HIE could now report out-turns from its investment of up to €15m in the Norbord expansion, which had been approved in June 2014. All Operating Plan measures were on track to meet or exceed year-end aspirations.

Discussion highlighted HIE's digital ambitions in particular, and it was agreed that the project manager of #hellodigital, the new Digital Scotland demonstration centre at Inverness Campus, would be invited to deliver a presentation to a future Board meeting. The Board also welcomed the encouraging progress being made by Community Broadband Scotland, which is being delivered across the country by HIE.

3.3 Risk register – January 2016

HIEA 2014/00216

The Head of Business Improvement and Internal audit presented the most recent update of the HIE Corporate Risk Register, which had been prepared following review of business unit registers, discussions with individuals, and consideration of discussion at the previous Board

and Senior Managers meetings. This showed a total of 23 high level risks (16 strategic and 7 tactical) that had been identified and were being tracked and treated across the organisation.

3.4 Draft Operating Plan 2016-19

HIEA 2515877

The Director of Regional Competitiveness presented the draft HIE Operating Plan 2016-19 which comes into effect on 1 April 2016, and is planned to be published before the Scottish Parliament election period begins on 24 March. The Board welcomed the document and agreed that the 2016/17 performance measures included in the plan should remain at 2015/16 levels, taking into account the challenging economic conditions which currently prevail, and the significant impact that a single approval (Norbord) would have on 2015/16 out-turns. The Chairman also pointed out that, as is customary, performance measures would be reviewed in-year to ensure they remained ambitious. The wording relating to HIE's role in supporting crofting communities was discussed and it was agreed that this should be reviewed for greater clarity.

3.5 Wave Energy Scotland strategy and update

Tim Hurst joined the meeting and Iseabail Mactaggart left.

The Director of Wave Energy Scotland updated the Board on WES's activities since it was established by HIE, at the request of the Scottish Government, and incorporated as a wholly-owned subsidiary in December, 2014. Formed to address technology and financial challenges affecting the wave sector, WES is seeking to maintain Scotland's position as a global leader in marine energy and build on the significant value that has accrued to Scotland from innovation, research and development, and demonstration to date. As a global authority on wave energy, WES ultimately aims to enable at least one device to reach the stage where it is ready for commercialisation by the public sector. A clear technology development pathway had been developed, comprising five discrete stages – feasibility; concept characterisation; concept optimisation and demonstration; small prototype development, and finally large prototype demonstration. An advisory group had been established to provide guidance and expertise on a range of relevant topics, including finance, insurance, project development and academia, as well as technology specialists and marine operators.

The Board welcomed the update and the strategy, and endorsed the direction of travel that WES is planning to take. It was agreed that the Director would return with regular updates on progress at every second Board meeting.

Tim Hurst left the meeting and Iseabail Mactaggart rejoined.

3.6 Draft RAC minute: 8 December 2015

HIE 2004/02226

The Head of Business Improvement and Internal audit presented the draft minute of the HIE Risk and Assurance Committee held on 8 December 2015. Issues which had been addressed included the implication for HIE and Highlands and Islands communities from the new Community Empowerment Bill and the importance of HIE's information systems maintaining strong levels of cyber security. These minutes are routinely presented to the HIE Board in draft form, prior to approval by the Committee and publication online.

4. INVESTMENT PROPOSALS

4.1 Inverness Campus update

The Director of Regional Competitiveness presented a paper updating the Board on progress towards closure of Phase 1 of the development of Inverness Campus as a prime location for business, learning and research and economic driver for the region. The Board had approved a budget of up to £25m for this phase, with individual appraisal papers being considered for its constituent parts. To date, a total £23,692,201 had been approved (this figure includes a potential recovery of £250k).

Site handover from the main contractor had taken place in September 2014, 16 months later than planned, and the Campus had been officially opened by the Deputy First Minister in 2015. Since then, significant achievements had included the opening of the new Inverness College UHI building; completion of an advance unit for life sciences; construction of An Lòchran, shared premises to be occupied by HIE, UHI, and Scotland's Rural College (SRUC) and due for completion in April 2016; construction of 150 student residential units, due for completion in August 2016, and a number of enhancements to provide additional parking, reception and security premises, and cycle and pedestrian access to Inverness Retail and Business Park. Considerable international interest had been generated through marketing activities and the Campus had established a pipeline of enquiries and potential projects.

To complete phase 1, a further £550,000 (including 15% contingency) was requested towards the costs of project management and works to be carried out by the main contractor to resolve issues which had arisen during construction and finish infrastructure and landscaping works to a high quality. This would bring the predicted final total costs of all Campus phase 1 activity to £24,242,201, including contingency. The Board approved the request.

5. DISCUSSION PAPERS

5.1 Scottish Land Fund III – proposals for HIE engagement and delivery

Ailsa Raeburn joined the meeting

The Head of Community Assets gave a presentation on the new £40m Scottish Land Fund 2016-20, which the Scottish Government had asked HIE to deliver, in partnership with the Big Lottery Fund. The Board noted that, because of the Scottish Parliament election in May 2016 only the first year's funding had been confirmed to date and that the remaining budget was expected to be confirmed in the new Parliament. HIE was leading work to scope the new fund to maximise impact and return on investment and had made a number of recommendations to increase benefits realisation and align the fund with national strategic goals to achieve community empowerment, tackle inequalities and drive inclusive growth across the country in both rural and urban communities. It was anticipated that the new fund would be publicly launched by the First Minister in March 2016.

The Board welcomed the presentation and requested that the Director of Strengthening Communities keep them informed of progress

Ailsa Raeburn left the meeting

5.2 Mobile connectivity update

The Chief Executive presented a paper illustrating the extent of current mobile coverage in the Highlands and Islands, and outlining work which has been undertaken to understand

how improved coverage can be achieved. Currently the region has just 61% indoor voice coverage (compared with 79% for Scotland and 85% for the UK), and 29% geographic voice coverage (Scotland 29%, UK 58%) from the four main mobile network operators. High quality and widespread mobile coverage is as important as fixed broadband services to deliver HIE's aspiration for the Highlands and Islands to be a digital region. Improving coverage would require overcoming a number of challenges, including technological, planning, and access and commercial issues.

HIE had raised the issue of mobile connectivity at the Convention of the Highlands and Islands and was working with the Scottish Futures Trust and the Scottish Government's Digital Directorate to progress plans. The route map for success fell into three categories: assisting operators to upgrade existing sites; assisting operators to build more sites commercially, and address 'not spots'. It was encouraging that provider EE, which is in the process of being acquired by BT, had won a Home Office contract to provide communications infrastructure for the emergency services which offered significant potential to address coverage challenges in the Highlands and Islands.

The Board welcomed the update and underlined the importance of mobile connectivity to rural areas in particular. Further updates will be brought back to future meetings.

5.3 Highlands and Islands Science Skills Academy

Andrew Johnston joined the meeting

The Director of the Science Skills Academy delivered a presentation on this project, which aims to ensure that young people in the Highlands and Islands are aware of and excited by the opportunities offered by STEM/D subjects: science, technology, engineering, maths and digital media. The academy had been designed as a measure to enhance competitiveness by growing the STEM/D workforce, and draws on the Highlands and Islands Skills Investment Plan, the Wood Commission report on developing Scotland's young workforce, and the second report of the Science and Engineering Education Advisory Group, as well as scoping STEM/D activities around the region. Soon to be based alongside HIE, UHI and SRUC in An Lòchran on Inverness Campus, it is a partnership between HIE, Highland Council, SDS and UHI, with a long-term aspiration to establish a Highlands and Islands network of innovative learning centres.

Five main workstreams are being progressed to proof of concept stage: 'Newton modules', based on an innovative Scandinavian model of hands-on activity; extra-curricular activities; resource support for schools; public engagement, and continuous professional development.

The Board thanked the director for his presentation.

Andrew Johnston left the meeting

6. PAPERS FOR INFORMATION

6.1 HIElights

Draft copies of the latest issue of HIE's e-newsletter, HIElights, were tabled. This issue is due to be distributed during February.

6.2 Economic Briefing: February 2016

The Board received copies of the latest regional economic briefing, prepared by HIE's Research and Economics team.

6.3 Property Activity Report to 31st December

The Property Activity Report for the third quarter of 2015/16 was noted.

6.4 AOB

In response to a question, the Director of Strengthening Communities confirmed that HIE remained in dialogue with a potential developer regarding Ardyne Point, near Dunoon, but the timescale of the project had changed.

6.5 Forthcoming Board dates:

29 March 2016: Risk and Assurance Committee, Inverness

26 April 2016: HIE Board meeting, Inverness

7 June 2016: Risk and Assurance Committee, Inverness

21 June 2016: HIE Board meeting, Inverness

Chris Roberts
10 February 2016
HIE 2004/02226