



MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 7 FEBRUARY 2017, MACPHAIL CENTRE, ULLAPOOL

PRESENT:

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

IN ATTENDANCE:

Carroll Buxton	Director of Regional Development
Douglas Cowan	Director of Strengthening Communities
Forbes Duthie	Director of Finance and Corporate Services
David Oxley	Acting Director of Business and Sector Development
Sandra Dunbar	Head of Business Improvement and Internal Audit
Karen Moncrieff	Head of Human Resources
Chris Roberts	Head of Corporate and Media Relations
Robert Muir	Area Manager, Lochaber, Skye and Wester Ross, items 1.1 - 2.2
Alastair Nicolson	Head of Planning and Partnerships, item 3.3
Tim Hurst	Managing Director, Wave Energy Scotland, item 4.1

1 STANDING ITEMS

1.1 Welcome and apologies

Apologies had been received from Paddy Crerar.

1.2 Declarations of interest

Iseabail Mactaggart declared a general interest in matters concerning wave energy. It was agreed that she would leave the meeting when item 4.1 was being discussed.

William Swann informed the Board that the Gupta family, who were behind Liberty House (item 2.2), had, some years previously, helped fund a charity with which he was involved in India. This was noted, but was not considered to present a conflict of interest.

1.3 Minute of meeting: Friday 2 December 2016

The minute of the HIE Board meeting of 2 December 2016 was approved.

1.4 Minute of meeting: Tuesday 13 December 2016

The minute of the HIE Board meeting of 13 December 2016 was approved.

1.5 Matters arising

It was noted that the Cabinet Secretary for the Economy, Jobs and Fair Work had accepted an invitation to discuss the Enterprise and Skills Review directly with HIE Board members, and that a meeting would take place in Edinburgh on 4 March.

The Scottish Government had confirmed that HIE's requests for one-year extensions to the appointments of six current Board members had been approved. The six, whose appointments have now been extended until 31 March 2018, are: Paddy Crerar, Alistair Dodds, Donald MacDonald, Donald MacRae, Iseabail Mactaggart and William Swann.

Preparations to recruit HIE's next Chief Executive were progressing well and an appointment panel had been established.

It was planned that the agenda for the April Board meeting would include an overview and discussion of HIE's approach and activities in the fields of innovation and entrepreneurship.

2 UPDATES

2.1 Update from the Chairman and Interim Chief Executive

The Interim Chief Executive noted that Forbes Duthie would retire at the end of March and that this would be his final HIE Board meeting. Recruitment for a new Director of Finance and Corporate Services was now under way.

[Paragraph removed due to commercial sensitivity.]

In Argyll, Korean-owned wind tower manufacturer CS Wind was continuing to face significant challenges, particularly in the onshore market, and had announced that up to 63 jobs were at risk. HIE was maintaining close contact and monitoring the situation carefully.

Following detailed discussions with HIE, contact centre operator Kura had agreed to lease premises in the Enterprise Park Forres that had previously been occupied by Capita. The new arrangements will provide continuity of employment for around 100 former Capita employees in Forres.

[Paragraph removed due to commercial sensitivity.]

At Cairngorm, HIE staff were continuing to work very closely with operating company Natural Retreats, which was suffering from a complete lack of any significant snowfall to date during the 2016/17 winter season. Building local engagement through stakeholder relations remained a key area of focus. A revised masterplan for Cairngorm Mountain Ltd was expected to be presented to the HIE Board in June.

Glasgow School of Art's new campus at Altyre, near Forres, had been formally opened, with the ceremony attracting widespread media coverage.

Two Highlands and Islands businesses had been announced as winners in the Scottish Life Sciences Awards. Inside Biometrics, based in Dingwall, won the innovation award, while BASF Pharma Callanish took the prize for export and international trade.

The Head of Business Improvement and Internal Audit (BIIA) updated the Board on a court action concerning the renovation of Lews Castle in Stornoway. Stornoway-based Kenman Holdings had received consent to pursue an action against Comhairle nan Eilean Siar (CnES), which had led the renovation project. HIE was not the subject of any action, but had an interest as the agency had awarded funding support to CnES for this project. The Board noted that HIE's contribution was conditional on the project being compliant with procurement and State Aid regulations, and that the renovated Lews Castle was due to be opened by the First Minister in March.

HIE had received a complaint and was the subject of a court challenge concerning funding awarded to Global Energy Group for quayside development at Nigg yard in Ross-shire. A court date was expected to be scheduled for May 2017, and it was anticipated that the legal process could be protracted.

[Paragraph removed, as disclosure at this time could potentially harm the effective conduct of public affairs.]

The Head of Human Resources confirmed that arrangements were being put in place to enable recruitment of HIE's next Chief Executive to get under way in March, with interviews and appointment scheduled to take place early in June.

The Chairman updated the Board on engagement with the Scottish Government concerning the current Enterprise and Skills Review, including a role he had performed outwith his duties as Chair of HIE, to conduct a review of future governance arrangements and provide a report to the Cabinet Secretary for the Economy, Jobs and Fair Work. HIE's response to this report had also been submitted to the Cabinet Secretary and was included in Board papers. Professor Crerar thanked Amanda Bryan, Alistair Dodds and Donald MacRae, who had formed a sub-group of the Board to focus on the Review. The next steps would include a meeting of the Ministerial Review Group, which was due to take place later in February, and discussion at the Convention of the Highlands and Islands, which Alistair Dodds and Charlotte Wright would attend on 20 February.

2.2 Lochaber Smelter: update following acquisition by Liberty House

The Area Manager, Lochaber, Skye and Wester Ross, updated the Board on the current position of the Lochaber aluminium smelter, hydro stations at Fort William and Kinlochleven, and the wider estate formerly owned by Rio Tinto Alcan, following their acquisition by Liberty House, part of the GFG Alliance. The Scottish Government had entered into a 25-year power purchase agreement with Liberty House, which had committed to: invest £50m in the existing smelter operation; invest £70m in a new factory in Fort William to make alloy wheels for the automotive industry; invest in an electric arc furnace, and engage with community trusts to develop estate lands.

[Two sentences removed, due to commercial sensitivity.] HIE had established a response team with the Highland Council and Skills Development Scotland to progress a range of important issues including industrial development, skills, housing, development of Corpach port, community land, and supply chain opportunities.

The Board welcomed the update, recognising that these developments represent a project of national significance that is set to have a transformational impact on Fort William and the surrounding area. Discussion focused on subjects identified in the response team workstreams above, and on the importance of enhancing grid capacity to export energy from

the site. The Chairman thanked the Area Manager for his update, and for his valuable contributions to this major project.

Robert Muir left the meeting

2.3 Verbal update: marketing land at Inverness Campus for hotel development

The Director of Regional Development updated the Board on HIE's plans to attract a developer to build and operate a hotel on Inverness Campus. Since the last Board meeting, the Campus team had been exploring ways to maximise social benefits arising from the project, in line with the original vision for the Campus, while also taking care to comply with State Aid regulations. The Board recognised the challenges inherent in designing a visitor accommodation project that would generate social benefits, and also have sufficient appeal to the market to attract the right developer. Members endorsed the approach being taken by HIE staff, recognising that it was likely to take time to determine the optimal way forward. A fully developed proposal will be brought back for Board consideration in due course, before being put to the market.

3 RESOURCES AND GOVERNANCE

3.1 Financial statement to 31 December 2016

The Director of Finance and Corporate Services presented HIE's latest financial report, covering the nine months to 31 December 2016, with a verbal update to cover activity in January 2017. This noted that HIE remained in a strong position to deliver full budget utilisation by the year end. In the final quarter of the financial year, budgets were being continually monitored and adjusted to ensure a balanced outcome would be achieved by both HIE and its subsidiary, Wave Energy Scotland (WES). The WES budget for 2016/17 had been reduced from an initial allocation of £10m to £8m, and HIE had used part of this difference to return £1.5m to the Scottish Government, at its request, for reallocation.

The Scottish Government's baseline 2017/18 budget for HIE had confirmed a £0.5m reduction in grant-in-aid, from £56.2m in 2015/16 to £55.7m. However, a further £3.2m would be available as a result of HIE no longer being required to make Strategic Forum savings. The net result, therefore, was equivalent to a £2.7m increase in HIE's ability to invest in the coming year. WES's budget would be £8.0m, although it was possible that additional resource could be negotiated in-year if required.

During questions, the Director explained that HIE's superannuation fund deficit had declined slightly to £44m following a change in US interest rates, and would continue to be monitored closely. Mr Duthie also confirmed that funding was expected to be released before the year end relating to two major projects, which would enable full use of resources to be achieved.

The Chairman thanked the Director for his report, noting that this Board meeting would be Mr Duthie's last before his retirement at the end of March. Board members joined the Chairman in expressing their appreciation of the Director's excellent service to HIE in skilfully managing the organisation's finances over 15 years, and offered their good wishes to him in his upcoming retirement. Mr Duthie thanked the Board, and paid tribute to his colleagues in HIE's finance team for their contributions.

3.2 Risk register – January 2017

The Head of Business Improvement and Internal Audit (BIIA) presented the most recent update of the HIE corporate risk register. This showed that, in January 2017, HIE had

identified a total of 31 risks (22 strategic and 9 tactical) which were being tracked and treated across the organisation. This compared with a total of 27 risks identified in October, and had been compiled following review of business unit registers, discussions with key individuals and consideration of discussion points raised at the most recent meetings of the Board and HIE senior managers. It was noted that the register would be discussed in detail at the next Risk and Assurance Committee meeting in March, when a revised approach to risk management would also be presented.

In discussion, Board members highlighted the need to recognise and address risks arising from changes that were being considered through the current Enterprise and Skills Review, in order to ensure that the needs and opportunities of all parts of the region would continue to be supported under any new arrangements. Belinda Oldfield also requested that future reports include clear indications of the most significant risks facing HIE at any given time.

3.3 Minute of the Risk and Assurance Committee meeting, 13 December 2016

Alistair Dodds, as Chair of the Risk and Assurance Committee, presented the minute of a committee meeting that had been held on 13 December 2016 to agree a protocol concerning an existing declaration of interest by the Interim Chief Executive.

3.4 Draft minute of the Risk and Assurance Committee meeting, 10 January 2017

The Committee noted the content of the draft minute of the Risk and Assurance Committee held on 10 January 2017. Minutes of the Risk and Assurance Committee are routinely presented in draft form to offer the full Board early sight of any significant issues that may be under review.

4 ITEMS FOR DISCUSSION

4.1 Wave Energy Scotland – technology programme stage gate transitions

*Iseabail Mactaggart left the meeting.
Tim Hurst joined the meeting.*

The Managing Director, Wave Energy Scotland (WES), presented proposals to refine the process, budget and timeline for approving projects that would progress through WES's stage gate transitions. Stage gates are a means by which WES evaluates the most promising projects in its portfolio and selects those that should continue further through research and development and towards the creation of a prototype.

Projects chosen to advance to the next stage require HIE Board approval, and past recommendations had been presented to scheduled Board meetings for this purpose. However, discussion at the Risk and Assurance Committee on 10 January had highlighted the need to maintain pace in these development projects, and it was now recommended that holding additional meetings of the Board or a designated sub-group to appraise WES's recommendations would expedite the process and provide a better option for the developers.

The Board endorsed this recommendation, and approved the proposed timetable and methodology for evaluating projects within two current WES programmes, one for power take-off (PTO) technologies, and the other for a novel wave energy converter (NVEC) programme. It was noted that the PTO programme required a decision in April, and that a virtual Board meeting would be scheduled to accommodate this. The Board also requested an update on WES's progress to date and its aspirations for the future, to be presented at its April meeting.

*Tim Hurst left the meeting.
Iseabail Mactaggart rejoined the meeting.*

4.2 HIE corporate performance report

The Head of Planning and Partnerships presented a summary corporate performance report, outlining progress achieved to date during 2016/17. This showed that HIE was on course to meet or exceed all performance measures that had been agreed with the Scottish Government for the year. In particular, Mr Nicolson highlighted that a total of 1,482 jobs had been supported with 92 separate clients, most of these paying at or above the Living Wage. After removing HIE's largest investment approved during the year (LifeScan Scotland), the figure for jobs created or retained remained 1,116, which was still well above the 700-900 range that had been set as the performance measure. It was noted that the jobs figure included 166 in fragile areas, against a performance measure of 100-150.

In discussion, Board members explored these figures in greater depth. Questions were raised as to whether the measures for the year were sufficiently ambitious. In response, it was explained that HIE's planning process tried to balance ambition with expectation, and that opportunities existed to adjust measures in-year to ensure that the organisation remained focused on high achievement. It was clarified that the figures record the positive outcomes of cases supported by HIE, and do not represent net results for individual clients or the economy as a whole, although every effort is made to be as accurate as possible. It was also noted that the cost per job of individual projects was taken into account at appraisal stage. Lastly, it was noted that the relatively smaller size of many of the business supported by HIE, when compared with other parts of Scotland, made increasing productivity a particularly challenging topic for the region.

The Board thanked Mr Nicolson for his presentation, and looked forward to the year-end results being presented at its next meeting.

4.3 Draft HIE operating plan 2017-2020

The Head of Planning and Partnerships gave a short presentation to inform discussion of HIE's Operating Plan for 2017/18, which was currently in preparation, with the aim of being published at the end of March 2017.

Board members focused on the importance of pursuing effective collaboration between HIE and other public, private and third sector partners, including central and local government and other agencies involved in Scotland's enterprise and skills system. It was agreed that collaboration was an underlying principle of HIE's approach to economic and community development, and that the agency's commitment to partnership should feature strongly throughout the plan. There was also a need to ensure that HIE's plans were accessible and meaningful to a broad audience by using clear language to express the organisation's ambitions and actions.

Specific points were noted in relation to individual sections. These included stressing the need to improve mobile phone coverage as well as broadband; including greater detail on universities' role in research, development and commercialisation, and highlighting HIE's role in influencing central government in determining both regional and national policy. Under performance measurement, it should be made clear that HIE's methodology, while tailored to the particular characteristics of the region, would be aligned with partner enterprise and skills agencies. Following discussion on the tourism sector, it was agreed that a report on the impact of the North Coast 500 route would be brought back to a future meeting.

The plan will continue to be developed, and agreed with Scottish Government officials before being submitted for Cabinet Secretary approval.

4.4 Strengthening communities: A refreshed approach to our policies, priorities and opportunities

The Director of Strengthening Communities gave a presentation describing a refreshed approach to HIE's policies, priorities and opportunities regarding the agency's role in strengthening communities and fragile areas. This updated the Board on the progress of work being carried out to examine HIE's approach to a broad range of topics, including community account management, the role of local development officers, support for social enterprises, job creation, collaboration with other public bodies, and a focus on place-based development initiatives.

The presentation generated a great deal of interest and discussion, with Board members expressing strong appetite for a refreshed approach that was outward-looking, ambitious, and focused on how HIE and partner bodies could marshal resources to support communities with the aspiration and capacity to enhance their resilience and sustainability. Ailsa Gray highlighted the availability of online toolkits for community development and offered to meet the Director to explore how these might be utilised. Robert McIntosh suggested that it would be useful to meet the new Scottish Land Commission, possibly through a board-to-board session. A proposal to hold a Scotland-wide strengthening communities conference during 2017 was noted, and it was agreed that further work should be carried out to determine the best format, location and timing for such an event.

The Board welcomed the progress that had been made to date, and agreed that a detailed strategic paper would be brought back for full discussion in the summer.

4.5 HIE Business Panel - qualitative research

The Board welcomed the findings of qualitative research, conducted through in-depth interviews with selected members of HIE's online business panel, to investigate issues identified in the most recent full panel survey (October 2016). A total of 20 interviews had been held in December 2016 and January 2017, targeting a sample of businesses in the sectors of food and drink, and tourism, for whom issues identified in the October survey of the full panel were particularly relevant. The research presented mixed views on business confidence, and showed that the main factor affecting this issue was the UK's decision to leave the European Union. Although some food and drink businesses reported that the weakness of sterling had improved competitiveness, others were challenged by price increases for certain products and rising costs from wholesalers. Recruitment and skills challenges were also highlighted, including lack of technical and social skills, relatively small talent pools, and competition from larger employers.

A report summarising these findings will be shared with the Scottish Government and partner agencies. HIE's next full business panel survey was currently under way, and results were expected to be available in March. As well as core tracking questions, this survey had been designed to focus on trade issues, including imports, exports and supply chain opportunities, and would again be followed by qualitative in-depth research among a smaller cohort.

5 PAPERS FOR INFORMATION

5.1 Annual survey of MSPs

The Head of Planning and Partnerships presented the results of the latest survey of MSPs, which will be used to inform HIE's strategic engagement strategy.

5.2 Digital HIElights

The Head of Corporate and Media Relations gave a short demonstration of the new, fully digital version of HIE's regular newsletter HIElights. The publication had been redesigned to be more easily read on phones and tablets, and was able to include a wider range of interactive content, including video and audio links in both English and Gaelic. Its frequency was also increasing to monthly, rather than being aligned with the cycle of Board meetings.

5.3 Economic briefing - February 2017

The Board welcomed the latest economic briefing, covering current issues affecting the region, its businesses and communities.

5.4 Quarterly approvals list: October-December 2016

The latest quarterly approvals list had been published on the HIE website and was noted.

5.5 Property activity report, quarter 3, 2016-17

The Director of Regional Development presented HIE's property activity report for the third quarter of 2016/17.

5.6 Year of History, Heritage and Archaeology 2017 - update

The Director of Strengthening Communities outlined activities with which HIE was engaging throughout 2017 to support the national themed year of History, Heritage and Archaeology

5.4 Any other business

Belinda Oldfield noted that she had been invited to join the Scottish Government's trade mission to the Hydro Nations summit meeting in India in January. This had provided an excellent opportunity to experience at first hand the very impressive work being carried out by Scottish Development International overseas.

5.5 Forthcoming Board dates:

The next Risk and Assurance Committee meeting is due to be held on 7 March 2017 in Inverness.

The next HIE Board meeting is due to be held on 11 April 2017 February in Inverness.

Chris Roberts
7 February 2017