

HIGHLANDS AND ISLANDS ENTERPRISE

HIE 07/13

BOARD MEETING – WEDNESDAY 12 FEBRUARY 2014, HORIZON CENTRE, FORRES

DRAFT MINUTES

PRESENT:

Lorne Crerar (Chairman)
 Alex Paterson (Chief Executive)
 Donald MacDonald
 Iseabail MacTaggart
 Jim Royan
 Craig Spence
 William Swann
 Steve Thomson

IN ATTENDANCE:

John Swinney MSP	Scottish Government Cabinet Secretary for Finance, Employment and Sustainable Growth
Carroll Buxton	Director of Regional Development
Forbes Duthie	Director of Finance and Corporate Services
Charlotte Wright	Director of Business and Sector Development
Rachael McCormack	Director of Strengthening Communities
Sandra Dunbar	Head of Business Improvement and Internal Audit
Karen Moncrieff	Head of Human Resources
Chris Roberts	Head of Communications
Alastair Nicolson	Head of Planning and Partnerships (items 3.1 and 3.2)
Douglas Cowan	Argyll the Islands Area Manager (item 4.1)
Margaret McSparran	Argyll and the Islands Area Team (item 4.1)
Elaine Hanton	Head of Energy (items 4.1 and 4.2)
David Oxley	Moray Area Manager (item 5.1)

1. STANDING ITEMS

1.1 Apologies

Apologies were received from Mary Bownes.

1.2 Declaration of interest

There were no declarations of interest for this meeting.

1.3 Minutes of the meeting held on 03 December 2013

The minutes of the Board meeting held on 3 December 2013 were approved.

1.4 Matters arising

The Director of Business and Sector Development reported that the Regional Skills Investment Plan was due to be discussed at the Convention of the Highlands and Islands in March and would come back to a future meeting of the HIE Board.

1.5 Chairman's and Chief Executive's update

HIE 2004/02226

[Paragraph removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]

Mr Paterson reported on positive discussions regarding the future of jewellery manufacturer Ortak, and that the outcome would preserve manufacturing jobs in Orkney. He also reported that HIE was working with North Ayrshire Council, the Scottish Funding Council and Scottish Government to ensure a sustainable future for Millport Marine Station.

[Item removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]

In Moray there was good news that Open Brolly, a HIE account managed business and tenant in Horizon Scotland, Forres, had won a national life sciences award for an innovative healthcare app in partnership with NHS Highland. Forres-based AccuNostics had also been nominated.

HIE has signed a Memorandum of Understanding with the Satellite Applications Catapult, one of seven innovation centres established by the Technology Strategy Board to commercialise research. An immediate outcome is the setting up of Morton Manufacturing at the Enterprise Park Forres, a new business which is currently trialling a satellite-enabled communications hub of a medical data transfer.

February would mark a milestone in the rollout of next generation broadband across the Highlands and Islands with the first publicly funded cabinet going live in Buckie.

The Chief Executive had the opportunity to meet candidates for the post of Principal of the University of the Highlands and Islands, and an announcement was expected shortly.

As expected, Flybe had closed its Inverness base, one of six to be shut down in a company-wide restructuring. Flybe services from Inverness Airport would not be affected.

The latest Highland and Islands visitor survey showed positive outcomes for Shetland, Orkney and the Outer Hebrides, all of which had recorded increases.

The Chairman reported that he and Jim Royan had helped interview applicants for up to four positions on the HIE Board. The standard of applicant had been very high, and Professor Crerar would keep Board members informed of developments.

The Chairman and Chief Executive had held a positive meeting with John Swinney, Cabinet Secretary for Finance, Employment and Sustainable Growth, in January. Topics which were discussed included the alignment of HIE's forthcoming Operating Plan with the Government Economic Strategy. The Chairman had also held a positive meeting with the Chairman of Global Energy Group, which is investing significantly in Nigg, with HIE support.

2. CAIRNGORM MOUNTAIN LTD

2.1 Cairngorm Mountain: procurement of a new operator

HMS 9346524

Susan Smith, Head of Business Development; Keith Bryers, Head of Property and Infrastructure; Phil Milne of Ernst and Young, and James McMorro of Harper Macleod joined the meeting.

The Board welcomed members of the team responsible for leading a detailed procurement exercise to seek a new operator for Cairngorm Mountain resort, including the funicular railway and associated visitor facilities. With 90 FTE employees, the current operating company, CairnGorm Mountain Ltd (CML), is one of Badenoch and Strathspey's main employers. The funicular railway is the area's most popular paid visitor attraction and Cairngorm is Scotland's principal skiing centre. Cairngorm Mountain's facilities and marketing play a significant role in attracting new and repeat visitors from the UK and overseas to Badenoch and Strathspey and to the Cairngorms National Park. The provision of snowsports and services to other winter visitors that have developed locally have helped Aviemore in particular become a prime all-year round visitor destination.

The Board noted that HIE had taken over CML in 2008 as an interim measure when the business was experiencing financial difficulties, with the express intention of returning its operations to the private sector when market conditions improved. HIE's drive to secure a new operator aimed to diversify the business away from a significant reliance upon snowsports, bring innovation through investment and product development, and improved marketing – all of which will both drive growth on-site and support sustainable economic growth in the wider Speyside economy.

During 2012 HIE had commissioned Ernst and Young to run a market testing exercise which demonstrated interest from the private sector. A procurement exercise was launched in March 2013 through the Official Journal of the European Union, using the 'competitive dialogue' process. Three organisations passed pre-qualification stage and were shortlisted: Natural Retreats (UK) Ltd, Serco Leisure, and Nevis Range. The latter had withdrawn after the first round of dialogue, which took place between May and August 2013. HIE continued dialogue with Natural Retreats and Serco, receiving final submissions in November 2013.

The project team considered the plan from Natural Retreats (UK) Ltd both credible and deliverable. It was based on reasonable assumptions and commercial principles, and represented a better alternative to both the competing bid and to the status quo. Natural Retreats (UK) Ltd passed all the pass/fail questions, exceeded HIE's minimum threshold score and was the higher scoring bidder. Its business plan was judged to be innovative and dynamic, being based on a range of complementary factors including: snowsports diversification; investing in a new day lodge, activity centre and education centre; refurbishing the Ptarmigan building, and broadening the appeal of the resort throughout the year. Its vision for Cairngorm is to create a world class leisure destination which offers high quality services across all aspects of the site to enhance the overall resort experience and the services and products it offers visitors.

Specific outcomes include:

- Providing more activities for visitors
- Creating a full day of activities, increasing visitor time and customer spend
- Creating higher quality product offerings, encouraging larger visitor numbers to increase spend per head
- Improving the winter season by mitigating weather risks and increasing the number of snowsports days
- Increasing repeat visitors, particularly outside the snowsports season
- Investing in the resort's assets and maintaining these to an appropriate standard
- Marketing and rebranding, with significantly increased spend.

All of these factors would ultimately reduce the reliance of the resort on winter trade, which remains a high risk factor. The combined effect would be to increase summer revenues and boost winter trade and profits, leading to the resort becoming commercially self-sustaining.

HIE would continue to own the land, all buildings, ski lifts and the funicular railway. The operating company would transfer, via a sale purchase agreement, to Natural Retreats (UK) Ltd to operate the assets under a lease agreement and manage the resort under an operating agreement for a period of 25 years. Appointment would be on the basis that HIE enters into a share purchase agreement (SPA) with another company in the Natural Retreats Group, Natural Assets Investments Ltd (NAIL), for the sale and purchase of its shares in CML. HIE would then agree a new contract with CML, now owned by NAIL, as operator of Cairngorm Mountain Resort.

Following detailed discussion, the Board approved the appointment of Natural Retreats UK Limited as the preferred bidder to operate Cairngorm Mountain resort, and gave authority to the HIE project team to negotiate and finalise contractual arrangements.

The Board also approved: a repayable loan of a maximum £4,000,000 to CML, following its purchase by NAIL, to construct a new day lodge subject to planning consent, expenditure of £1,702,100 to address dilapidation and extend the life of a number of HIE-owned assets at Cairngorm, and a change of structure of the ranger service, which will see CML meeting the cost and line managing the service at Cairngorm Mountain while a steering group is set up to consider strategic matters involving the wider ranger service in the Cairngorms National Park Area.

It was noted that the new operator would be bound by the terms of the s.50 agreement and required to demonstrate compliance. The Ranger Service will play a key role in delivering the management of the Estate, and in assisting the operator in complying with the lease and s.50.

3. RESOURCES AND GOVERNANCE

Alastair Nicolson joined the meeting.

John Swinney MSP, Cabinet Secretary for Finance, Employment and Sustainable Growth, joined the meeting.

The Cabinet Secretary confirmed that he would shortly be considering recommendations for new appointments to the HIE Board. Mr Swinney recorded his gratitude to all HIE Board members for their contributions, and expressed his personal thanks to Jim Royan, whose final HIE Board meeting this was, for his strong input to the Moray Task Force and Moray Economic Partnership in particular.

Mr Swinney offered strategic guidance to the Board, focusing on three areas of activity which the Scottish Government would look for continued progress in the Highlands and Islands. These were: strategic interventions, for example the current digital strategy, which demonstrate that the Highlands and Islands is a region for business; maintaining a focus on all the key national growth sectors, especially energy, food and drink, and tourism, and ensuring the full economic value of UHI is developed; and tackling issues of fragility and creating opportunities which generate community development.

On the subject of pensions, Mr Swinney confirmed that the Scottish Government was comfortable with the proposed changes to the HIE Superannuation Scheme. However, he requested that a suitable form of wording should be agreed between the government and HIE regarding future potential changes to the normal retirement age of the scheme.

The Board discussed HIE's plans to build new shared premises with the University of the Highlands and Islands at Inverness Campus, and to secure interim accommodation for Inverness-based staff at Fraser House in the city centre from May 2014 until the new building is ready, which is expected to be at the end of 2015. Mr Swinney confirmed the Scottish Government's support for both plans, subject to a final review of costs following tender of the proposed new building.

3.1 Corporate Report

HIE 2004/02226

The Head of Planning and Partnerships presented the latest Corporate Report, showing that the Highlands and Islands economy was continuing to exhibit resilience to the challenges posed by current economic conditions. Unemployment rates remain significantly lower than either Scotland or the UK at 2.1% for December 2013, a trend which has been fairly constant since the recession. The economic activity rate for the Highlands and Islands stood at 78.9% for the year to June 2013, with all sub-areas experiencing a higher rate than both Scotland and the UK. In addition, recent research findings suggested the outlook for Highlands and Islands businesses was one of resilience and resolve. Optimism for future prospects remained high as were aspirations to grow. Over the past year HIE has contributed towards job creation projects with a total investment value of £100m – suggesting the research evidence is a reliable reflection of economic conditions.

In fragile areas, HIE's Community Capacity Building programme was delivering continuity of support for account managed communities. Our new programme designed to enhance cultural capacity, Collaborative Creative Communities, had engaged four pilot organisations and approved year one development funding. Following 10 years of sustained community effort, community ownership of the Paic Estate (Isle of Lewis) was expected shortly, bringing a further 27,000 acres into community ownership.

Overall, HIE was delivering well against all in-year measures, and on course to achieve or exceed all ranges which had been forecast at the start of the year.

3.2 Draft Operating Plan 2014-17

HIEA 2013/00841

The Chief Executive introduced the latest draft of the HIE Operating Plan 2014-17, which will come into effect on 1 April 2014. The new plan aimed to build on recent achievements and continue HIE's aspiration to move up a gear, particularly in the organisation's work to drive productivity among account managed businesses, and to reduce fragility and peripherality in more remote parts of the region.

The Director of Business and Sector Development placed continuing emphasis on supporting the growth and ambition of client businesses and social enterprises, with a particular focus on growth sectors. Effort would be applied to strengthen the levers which generate well-paid employment, including leadership and entrepreneurship, collaboration with key organisations, support for individual business leaders, international trade and inward investment. There would be a greater focus on sales and marketing, and on realising the benefits of investment in digital infrastructure, while opportunities would be explored to improve access to business finance, including sources other than banks.

The Director of Strengthening Communities reported that the Operating Plan showed a focus on three particular strands of community development – capacity building, asset ownership and management and social enterprise. HIE's approach would recognise and build on the intrinsic strengths of the region, which was one of the most mature and enabled social economies in Europe. The organisation would continue to develop community account management as a means of building capacity and enabling communities to drive their own

plans and actions. Opportunities to promote the Highlands and Islands as an international centre for social enterprise would be pursued.

The Director of Regional Development outlined four themes which had been identified as presenting particular opportunities for the region. In helping create a digital region, HIE would focus on obtaining maximum impact from the present NGB rollout programme to achieve more than the 84% of premises which currently fall within scope. HIE would strive to develop the Highlands and Islands as a region for young people, with key initiatives being the organisation's universities strategy, graduate placement programme, and implementing the Investment Plan with our partners. In developing low carbon opportunities, HIE would work across all four priorities identified in the Operating Plan. The agency would also continue to invest in strategic infrastructure, including creating property to support growth sectors in areas where the private sector would not do so, and maximising the value of past and current regionally significant investments.

The Board welcomed the direction of travel outlined in the Operating Plan. The draft would be finalised before submission to the Scottish Government and Board members were invited to send any comments directly to HIE by Wednesday 19 February.

Alastair Nicolson left the meeting.

The Cabinet Secretary left the meeting.

3.3 HIE Office update

HIE 2004/02226

The Chief Executive updated the Board on progress with securing a new office for HIE within a new, multi-occupancy building, with a working title of the Enterprise and Research Centre (ERC), located on Plot 10 of Inverness Campus. The ERC will house HIE's head office, UHI research and teaching across several disciplines, laboratories for Scotland's Rural College (SRUC), and a range of complementary initiatives such as a regional science academy, digital excellence centre and marketing suite for the Highlands and Islands.

HIE's sponsor team in the Scottish Government has recommended that Ministers approve the proposed development, and the Board noted that Mr Swinney had confirmed this position earlier in the meeting. The requirement for a new building had come about as a consequence of HIE's success in helping attract a major business services facility to Inverness, as the client, CapGemini, had chosen to locate almost 1,000 posts (including 500 new jobs) in HIE's current premises. At the same time, both UHI and SRUC were expressing interest in locating research and education teams on the campus, and HIE realised there was an opportunity to align the interests of all of these economic drivers for the benefit of the region.

[Paragraph removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]

HIE needs to exit its current premises by 23 June 2014, and has been considering options for temporary accommodation until the new building is ready, which is expected to be no earlier than late 2015. Fraser House in Inverness city centre, owned by BT, had emerged strongly as the most suitable location.

The Board welcomed the update, and will receive a further progress report in April.

3.4 Pensions update

HIE 2004/02226

The Director of Finance and Corporate Services informed the Board that several months of consultation with HIE staff and union representatives had resulted in a clear set of proposals

regarding changes to the HIE Superannuation Scheme being submitted to the Scottish Government, where they had been received positively. The Director paid tribute to staff across the organisation for their understanding and co-operation in addressing an extremely challenging situation which affects the whole of the UK public sector at present.

The Board noted that the Cabinet Secretary for Finance, Employment and Sustainable Growth had earlier confirmed the Scottish Government's position, and thanked the Director for this update.

3.5 Risk Register

HIEA 2013/00255

The Head of Business Improvement and Internal Audit presented the latest Corporate Risk Register, outlining 19 current strategic risks and seven tactical risks which have been identified by HIE and are being monitored and addressed. An annual wholesale refresh of the risk register is due to be carried out in April 2014, and will be presented to the Board.

The Board discussed matters arising and welcomed the latest risk register.

3.6 Financial Statement to 31 January 2014

HIE 2009/00611

The Director of Finance and Corporate Services presented a report summarising HIE's financial position for the ten months to 31 January 2014. This showed that grant-in-aid (GIA) drawdown was slightly behind profile due to the frontloading of property sales, while expenditure was slightly ahead on a comparative position with previous years. Overall discretionary commitment was at a sufficient level to ensure resources would be fully utilised.

[Paragraph removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]

Overall, HIE remained in a robust position regarding investment and spend targets and staff had met both the September and December spend targets. Therefore, HIE was confident that spend and investment targets would be delivered this year.

The Board thanked the Director for his report.

4. INVESTMENT PROPOSALS

4.1 [Item removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]

4.2 EMEC Wave Test Site Expansion: Project amendment

HMS 9341979

The Head of Energy presented a paper seeking HIE Board approval of a proposed re-allocation of up to £3,000,000 granted to the European Marine Energy Centre (EMEC) in March 2013 and, as yet, not drawn down. This change has been necessitated by external developments impacting on the wave device testing market and the emergence, in parallel, of a pressing need to develop innovative solutions to maintain a full grid-connected test service for clients on the EMEC's Fall of Warness tidal test site. This amendment also had the approval by Scottish Government, which provided a £3m enhancement to HIE's GIA budget to fund the original project.

Following discussion, the Board approved EMEC's proposal to refocus the £3 million of approved HIE funding towards addressing grid constraints at the Fall of Warness in line with changed priorities. The Board also gave consent for EMEC to be authorised to commence

front-end engineering and other related studies necessary to fully define a hydrogen conversion project up to a maximum expenditure of £350,000 from within the overall £3m approval, and delegated authority to the Chief Executive and Leadership Team to consider EMEC's detailed spending proposals prior to EMEC committing to them.

Elaine Hanton left the meeting.

4.3 IT Services Contract

HIE 2004/02226

The Director of Finance and Corporate Services updated the Board on the present status and future options concerning a shared contract, held by HIE, Scottish Enterprise (SE), Skills Development Scotland (SDS) and the Scottish Criminal Cases Review Commission (SCCRC) for the provision of IT services. HIE had joined this contract, which had been let to Atos, following Board approval in December 2010. The present contract runs until the end of 2014, and work is currently under way to identify the optimum solution for the partners' present and future needs. IT systems and connectivity had improved markedly under the current arrangement, with changes including a refresh of IT hardware including laptops and monitors, enhanced disaster recovery support, MS Lync supporting knowledge sharing and collaboration by giving staff greatly improved video and communications capability, upgraded web browsers, wi-fi capability in all HIE offices and new smart phones.

While further improvements are still under way, a new arrangement, taking advantage of developments in cloud technology, is now being developed to maintain progress over the next five years. It was proposed to build on the achievements of the last four years and reflect on changes affecting both technology and market conditions by moving to a multi-supplier arrangement, again in partnership with SDS and SE. This will see HIE and its partners working with a range of suppliers, through an integration function, to be carried out by the present provider, EIS. It was proposed that HIE should continue to participate in the new model, which would be led by SDS as host organisation. *[Sentence removed as disclosure at this time could have a detrimental effect on commercial interests and could prejudice the effective conduct of public affairs.]*

The HIE Board acknowledged the improvements which had been made to IT services through the current arrangement and endorsed the direction of travel set out by the Director. Authority was delegated to the Chief Executive to negotiate and finalise contract arrangements and costs following completion of the procurement process. An update will be provided to the Board in due course.

5. DISCUSSION PAPERS

5.1 Moray Overview

HIEA 2013/00459

David Oxley joined the meeting. However, the item had to be postponed to another occasion due to lack of time.

5.2 MSP Survey

HIEA 2012/00771

The Board welcomed the results of the latest survey of MSPs, which had been carried out by independent researchers and commissioned jointly with Scottish Enterprise.

5.3 Marking HIE's 50th Anniversary in 2015

HIE 2005//00289

The Board noted proposals to mark the fiftieth anniversary of the founding of HIE's predecessor, the Highlands and Islands Development Board, which falls in 2015.

6. PAPERS FOR INFORMATION**6.1 HIElights****HIE 2004/02226**

The latest issue of the e-newsletter HIElights was noted.

6.2 AOB**HIE 2004/02226**

The Chairman noted the very positive comments made by the Cabinet Secretary in relation to HIE's ambition, governance and performance.

Professor Crerar expressed the Board's sincere gratitude to Jim Royan and Mary Bownes, both of whom had reached the end of their second term as Board members, and had made outstanding contributions over the past six years. Professor Bownes had been unable to attend the February meeting, and was thanked in her absence for her work on the Board's behalf. Although this was Mr Royan's final meeting of the Board, he would be attending one last meeting of the Risk and Assurance Committee on 11 March, and would continue to be a valued member of the region's business community, with a particular interest in Moray.

6.4 Forthcoming Board dates:

- a) HIE Risk and Assurance Committee: 11 March 2014
- b) HIE Board meeting: 29 April 2014

Chris Roberts
12 February 2014
HIE 2004/02226