

BOARD MINUTE

31 OCTOBER 2023

Highlands and Islands Enterprise



BOARD MEETING
COINNEAMH BÙIRD

**MINUTE OF THE HIE BOARD MEETING HELD ON TUESDAY 31 OCTOBER 2023, STARTING AT 14:00
IN ORKNEY RESEARCH AND INNOVATION CAMPUS, STROMNESS, AND ONLINE**

PRESENT (STROMNESS) Alistair Dodds (*Chair*)
Stuart Black (*Chief Executive*)
Amanda Bryan
Angus Campbell (*Deputy Chair*)
Simon Cotton
Freda Newton
Ailsa Raeburn
Calum Ross
Anna Salgado
David Wilson

PRESENT (ONLINE) Keith Nicholson
Belinda Oldfield

IN ATTENDANCE (STROMNESS)

Sandra Dunbar Director of Business Improvement and Internal Audit
Graeme Harrison Area Manager, Orkney
Rachel Hunter Director of Enterprise Support
Martin Johnson Director of Strategy and Regional Economy
Nick Kenton Director of Finance and Corporate Services
Karen Moncrieff Director of Human Resources
David Oxley Director of Strategic Projects (from item 2.1 onwards)
Chris Roberts Head of Communications
Andrew Carton Team Leader (HIE), Enterprise Agency Sponsorship, Scottish Government

IN ATTENDANCE (ONLINE)

Carroll Buxton Deputy Chief Executive (items 1.1 – 2.5)
Douglas Cowan Director of Communities and Place
Graeme Adair Construction Frameworks Manager, item 2.1
James Gibbs Area Manager, Inner Moray Firth, item 2.2
David Howie Head of Strategic Projects, items 2.2, 2.3, 3.1
Marie Mackintosh Subsidy Control Manager, item 2.2
Iain Bolland Diligence Quality Manager, item 2.2
Zoe Laird Head of Growth Deals, Items 2.3, 3.1
David Reid Area Manager, Moray, item 2.3
Liz Taylor Data Protection Officer, item 4.3
Lorna Gregson-MacLeod Head of Planning and Partnerships, item 4.4
Alison Sharp Corporate Planner, item 4.4
James Laraway Business Improvement Manager, items 4.5

1 STANDING ITEMS CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to the meeting, including Orkney Area Manager Graeme Harrison and Andrew Carton from the Scottish Government. He thanked the Orkney area team and staff in HIE's Executive Office for arranging a highly successful visit, enabling Board members to engage directly with local businesses, communities and partners.

No apologies had been received.

1.2 Declarations of interest

Ailsa Raeburn declared an interest *[part of sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]*. It was agreed that she would leave the meeting when this item was discussed.

Angus Campbell noted an interest *[part of sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]*. It was agreed that he would leave the meeting when this item was discussed.

Calum Ross noted an interest *[part of sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]*. It was agreed that he could participate in discussions on this matter, but would not participate in decision-making.

The following Board members and HIE directors made transparency statements in relation to items on the agenda. None of these was considered to present a conflict of interest.

Board member	Item	Transparency statement
Freda Newton	1.3	Reference to destination management organisations in Board minute.
	1.5	Green Grant Fund supports businesses in the region.
	4.1	Isle of Skye Candles is a supplier to Jacobite Cruises
	4.4	Tourism sector is mentioned in half-year review
Simon Cotton	2.3.1	Noted interest in a manufacturing company in Moray
Calum Ross	4.4	Tourism sector is mentioned in half-year review

1.3 Draft minute of Board meeting held on 29 August 2023

The minute was approved as an accurate record.

1.4 Matters arising from the minutes and action grid

The annual letter of guidance to HIE had been received from the Scottish Government and circulated to Board members. The Chair noted that it would be helpful for future letters of guidance to be issued closer to the start of the financial year.

A paper to HIE's Leadership Team on artificial intelligence (AI) had been circulated and a further paper for the Board would be included in the meeting agenda in December.

The Chair had received a letter from the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy, confirming the appointment of Angus Campbell as Deputy Chair of HIE.

The Chief Executive reported that HIE's Finance team had looked into the question of whether potential expenditure on the flood bund at Dingwall Business Park, which was in multiple ownership, should be classed

as capital or revenue. It had been concluded that HIE could use its capital budget to fund works on the sections of the bund that it owned, however discussion was required with the Highland Council regarding parts of the bund that were owned by others.

All other matters arising would be covered in the agenda.

1.5 Chair and Chief Executive's update

Updates were provided on the following matters:

- **Green Grant Fund**

The Director of Enterprise Support reported that around a dozen projects had now been approved for funding through the Green Grant Fund, with a combined value of approximately £600k. Further applications were being reviewed by HIE's Investment Committee and the value of the pipeline of projects for 2023/24 and 2024/25 was estimated to be greater than £3m.

The quality of applications was generally high and more than half of those approved so far had come from social enterprises. The Director intended to bring a paper to the December meeting of the Board, requesting additional funding that would enable HIE to invite new applications early in the New Year. The Board were pleased to note that HIE had been able to use discretionary funding to support some applicants whose projects did not meet Green Grant criteria but were considered capable of delivering economic benefit.

Reflecting on their engagement with Orkney businesses, members asked HIE to consider whether enough was being done to support companies to address technological challenges, particularly in the manufacturing sector. The Director noted that a close working relationship existed with the National Manufacturing Institute for Scotland, which had already hosted visits by HIE staff and clients, and the area team will follow up the comments made with the businesses concerned.

- *[Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

- **AMTE Power**

The Deputy Chief Executive provided an update on AMTE Power, an important business for Caithness, which was continuing to experience cashflow difficulties.

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

- **Orkney Fishermen's Society**

The Deputy Chief Executive reported that the assets and business of Orkney Fishermen's Society had been acquired by a new owner, safeguarding employment in the company. *[Sentences removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

- **Machrihanish**

[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]. Works to make buildings at Machrihanish wind and watertight were expected to conclude in

November. HIE was continuing to receive interest in property on the site *[part of the sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]*.

- *[Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity]*.

- **Cairngorm**

The Director of Communities and Place provided an update on Cairngorm, focusing on the current programme of works to resolve safety issues that had caused HIE to take the funicular railway out of service in August.

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

- **Housing / Rural and Islands Housing Action Plan**

The Director of Communities and Place noted that the new Rural and Islands Housing Action Plan had been published by the Scottish Government earlier in October, outlining 29 actions to support the long-term national housing strategy. *[Sentence removed in the interests of the effective conduct of public affairs]*.

The Chief Executive, who chairs HIREP's Housing Sub-group, stated that a key concern was the need for sufficient funding for housing delivery, noting that the present shortages extended beyond affordable housing and affected a wide range of provision. Discussions were under way with Scottish Government and Scottish Futures Trust, recognising that the difference between the cost of housing provision and the value of the end product presented a significant challenge requiring a level of subsidy. Greater support for organisations that provide housing was also required to accelerate delivery.

The Board welcomed the update, emphasising the importance of adequate housing supply to increase population and help HIE and partners capitalise on current opportunities to realise the enormous potential of the Highlands and Islands as a contributor to Scotland's economy.

- *[Item removed due to commercial sensitivity]*.

- **Skills landscape**

The Director of Strategy and Regional Economy reported that HIE was in regular contact with Scottish Government officials who were leading on skills provision. It was expected that proposals would be put forward for ministerial decision shortly and that enterprise agencies would be consulted.

The Chair noted that he and the Chief Executive were seeking a meeting with their opposite numbers at Skills Development Scotland.

- **Refresh of National Strategy for Economic Transformation (NSET)**

The Director of Strategy and Regional Economy informed the Board that the Scottish Government was undertaking a refresh of NSET, including reflecting on alignment with other key initiatives such as the Green Industrial Strategy and New Deal for Business, and with a view to publishing in spring or summer 2024. HIE had provided initial thoughts to the Director General, Economy.

The Chief Executive noted that HIE would be hosting leaders from the Scottish Government Economic Development Directorate in Inverness on 16 and 17 November, which presented a positive opportunity for engagement.

- **HIE pay award**

The Director of Human Resources reported that HIE had received formal approval from the Scottish Government for a two-year pay award and was in the final stages of negotiating with the official union, making it highly probable that the award would be included in November salaries. A majority of staff would receive a 10% increase over two years.

HIE's Remuneration Committee was scheduled to meet on 1 November to consider matters including senior staff pay.

- **Chair and Chief Executive's engagement**

The Chair and Chief Executive had discussed transport issues at a meeting with the Cabinet Secretary for Transport, Net Zero and Just Transition and the Minister for Transport.

The Chair had met Barry White, Co-chair of the NSET Delivery Board. Arrangements would be made for HIE to attend a meeting of the Delivery Board to discuss the agency's role.

An MSP briefing event held in Edinburgh on 24 October had been well attended by Highlands and Islands MSPs and shadow ministers. This had provided a good opportunity to promote HIE's new strategy and invite discussion on a range of issues.

A planned meeting of the Convention of the Highlands and Islands had been cancelled due to a severe storm and would be rescheduled as a virtual meeting.

Board members Angus Campbell and David Wilson had taken part with the Chair and Chief Executive in an engagement event with business and community leaders in the Outer Hebrides. A note of the meeting would be issued shortly.

The Chair and Chief Executive had met the Chair and Interim Principal of the University of the Highlands and Islands when matters discussed included aligning skills with the needs of businesses and the economy, and the restructuring of UHI which had been widely reported in the media.

Lastly, it was noted that Board members would be invited to attend a new climate literacy course that was being rolled out to HIE staff.

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

2.1 European Marine Science Park building 2 – funding for construction

Graeme Adair joined the meeting.

David Oxley joined the meeting during this item.

The Construction Frameworks Manager requested Board approval to start a competitive tender process to identify a preferred supplier to construct a second building at HIE's European Marine Science Park (EMSP) near Oban, Argyll.

Planning permission had been obtained in 2018 for a site next to the existing Malin House property and detailed design work completed. With accommodation in Malin House highly committed and tenanted, HIE believed there was now a shortage of suitable, good quality premises for the marine sector in the area, including potential spin-out companies from the neighbouring Scottish Association for Marine Science. The project would be capable of delivering up to 11 suites of offices and laboratories to support small businesses, each providing 6 to 8 jobs, as part of a developing cluster at EMSP. *[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

In response to questions, it was noted that HIE's assessment of potential demand for these premises was based on local knowledge and the present volume of enquiries rather than a formal study. The Board were assured that the initial fit-out of laboratory space would be relatively generic to appeal to a broad range of potential tenants, however members highlighted that scarcity of housing in the Oban area could prove a negative factor.

Another question was whether the project represented a good return on investment for HIE in a very tight fiscal environment. In response, it was noted that developing EMSP as an innovation centre aligned with Scotland's Innovation Strategy and would provide high quality, well paid jobs in a key growth sector for the region and Scotland.

The Construction Frameworks Manager confirmed that a RAB calculation would be undertaken, in line with usual practice, to establish the net difference between the costs of creating the building and its market value when completed. It was also acknowledged that there would be revenue impacts for HIE until full occupation was achieved. The Chief Executive stressed the role of HIE in creating property and other infrastructure that would not in itself make a commercial return on investment to the agency, but would fulfil the aim of delivering wider economic benefits.

In response to a question from the Chair, the Scottish Government Sponsorship Team Leader advised that an Accountable Officer template was not required at present but could be needed in a future year.

The Board approved the request to start procurement as requested, and instructed that the outcome should be brought back to the Board for decision. An in-house demand study will be undertaken in parallel and information will be provided to the Board on the anticipated revenue shortfall.

Graeme Adair left the meeting.

2.2 *[Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].*

2.3 Moray Growth Deal RESTRICTED

Zoe Laird and David Reid joined the meeting.

The Moray Area Manager described the Moray Growth Deal, a transformational investment of more than £100m over 10 years in eight strategic projects across Moray. The deal aims to build on the existing strengths of Moray's culture, tourism, and manufacturing sectors whilst addressing transport and housing challenges to facilitate economic growth that is sustainable, fair, and inclusive.

The deal will also support major developments in the health and aerospace sectors, as well as early years and advanced education, all of which will expand Moray's STEM skills base to enable local people to access high quality jobs and tackle gender imbalances in key sectors in the economy.

Angus Campbell left the meeting.

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

[Paragraph removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

2.3.1 [Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

2.3.2 [Item removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity].

3 **UPDATES** **CUNNTASAN AS ÙR**

3.1 Growth Deal update

[Note: As a contextual item, this update was taken out of sequence and delivered prior to item 2.3 above.]

The Head of Growth Deals presented a short update on HIE involvement in four growth deals in the region, namely: Argyll and Bute; Inverness and Highland; Islands, and Moray. Several projects were now close to completing their full business cases and delivery of 12 new projects supported by HIE was expected to get under way within the year.

Three programmes were led by HIE. Marine aquaculture in Argyll and destination development in Innse Gall were both under development, while the Northern Innovation Hub in Inverness and Highland was in delivery. The agency was also leading delivery of two projects, the Science Skills Academy as part of the Inverness and Highland City-Region Deal, and the Moray Innovation Centre for Manufacturing (MICM), which was currently seeking full business case approval from the Scottish and UK Governments. Extensive HIE support was currently going towards developing a further 19 projects across the growth deals.

Considerable investment was expected across the region over the next ten years as a result of growth deals reaching delivery stage, however challenges included the impact of inflation on project costs and pressure on match funding from public sources.

The Board welcomed the update, noting that it was particularly useful to see how much spend was forecast over coming years.

David Howie and Zoe Laird left the meeting.

4 **RESOURCES AND GOVERNANCE** **GOIREASAN IS RIAGHLACHAS**

4.1 Financial statement to 30 September 2023

The Director of Finance and Corporate Services reported on HIE's financial position and forecast at 30 September 2023.

Key points on the capital budget included the negative reserve of £5.6m which was considered an acceptable level for this point in the year. Capital was just under £2m over-committed at present, but there was significant scope for new discretionary approvals. Converting Green Grant Fund projects to approvals and spend would have a positive impact.

HIE's revenue reserve had increased from £0.52m to £0.66m. There was an over-commitment of £0.21m overall, driven by a £0.48m over-commitment on discretionary budgets and an over-commitment of £0.24m on CMSL / internal Cairngorm, both of which HIE believed could be managed. Significant staff turnover would be needed to achieve budget and the 2023/24 pay award was still to be confirmed. *[Sentence removed due to commercial sensitivity].*

Regarding income arising from the Cairngorm legal cases settlement, the Scottish Government had to date only agreed that HIE could retain an amount equal to the legal costs incurred in the cases. *[Sentences removed in the interests of the effective conduct of public affairs].*

In response to a question from the Chair, the Director confirmed that decisions taken at today's Board meeting were affordable, but could have an impact on future decision-making regarding other projects.

The Chair stressed the importance of maintaining dialogue with ministers and senior officials in the Scottish Government to continue to make a robust case for investment in economic and community development in the region, noting the positive impact this has both in attracting investment and jobs, and generating revenue for government in the form of taxation. It was agreed that HIE's funding and its ability to capitalise on present opportunities with considerable potential to generate national impacts would be discussed at the next meeting with the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy, and that the Chair would also send a letter to the government, strongly arguing the case for an appropriate level of budget.

The Board otherwise noted the current financial position and the actions being taken.

4.2 Annual report and accounts summary

The Board noted a summary of HIE's final audited financial results for 2022/23 and the Director of Finance and Corporate Services confirmed that HIE's annual report and accounts had been laid in the Scottish Parliament the previous day, Monday 30 October.

The Board welcomed the summary, noting the importance of achieving clean accounts and good performance. It was also good to see that the time taken to produce and audit the annual report and accounts had been reduced when compared with the previous year.

4.3 Data Protection Officer update

Liz Taylor joined the meeting.

The Data Protection Officer (DPO) presented a report on compliance with data protection laws, covering the period from 6 October 2022 to 29 September 2023. It was noted that the DPO is a statutory role, required to report to the Board. Issues covered in the report ranged from the application of good practice in data retention across the organisation to the need to be alert to the rapidly growing area of access to artificial intelligence, which presents both opportunities and risks.

Of 46 recommendations identified in 2021, 27 remained outstanding. No new major areas of non-compliance had been identified, although there were high priority recommendations relating to information security that

had implications for data protection compliance. All actions had been consolidated and were regularly reviewed and updated throughout the year with key tasks prioritised, however resourcing was a challenge.

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

A new Data Protection Impact Assessment Process (DPIA) had been introduced, significantly reducing risk, and there were more automated links between key HIE information and records management systems.

It was agreed that advice to HIE staff on email management would also be shared with Board members.

The Chair thanked the Data Protection Officer for her presentation and the Board noted the report.

Liz Taylor left the meeting.

4.4 Half-year review 2023/24

Lorna Gregson-MacLeod and Alison Sharp joined the meeting.

The Head of Planning and Partnerships delivered the half-year review of performance, noting that HIE's new five-year strategy had been launched in August. This had established a new framework based around four pillars of People, Place, Planet and Prosperity and three cross-cutting themes of Net Zero, Fair and Inclusive Growth and Regional Transformational Opportunities.

Due to the delayed receipt of HIE's guidance letter from Scottish Government (received 16 October), the Operating Plan for 2023/24 remained in draft and the half-year review had been structured to reflect the new strategic framework. Significant inroads had been made in transitioning to the new strategy, although some areas that will contribute to longer-term aspirations will be taken forward in the latter part of 2023/24 and in future years.

Positive actions had been taken to support regional transformational opportunities, however a more strategic and planned approach would ensure HIE can capitalise on time-limited opportunities to generate the regional benefits highlighted in the strategy. The annual targets were very stretching and budget constraints meant that non-financial interventions would be required to achieve them.

The number of fragile area jobs supported was low at present and remained challenging due to labour market conditions. In addition, delivery of the key outcome to increase average wages had been affected by an increase in lower wage sector investment and a decrease in higher paid sectors such as technology and advanced engineering, which had been a contributor to higher wages in the past two years. It was recommended that HIE should focus more strongly on interventions to support jobs that pay higher wages and contribute to green measures during the remainder of the financial year.

The Board welcomed the report, noting it was strong on both detail and the clear presentation of information and analysis. In discussion, the Head of Planning and Partnerships suggested that the target and metrics on average salary were correct, but that reporting could be more nuanced. Board members queried progress towards supporting jobs in fragile areas and the Head of Planning and Partnerships offered to provide further analysis for a fuller picture.

The Board thanked the Planning and Partnerships team for an impressive paper. It was agreed that the contents would be shared with HIE staff and used to inform external communications.

Lorna Gregson-MacLeod and Alison Sharp left the meeting.

4.5 Risk register

James Laraway joined the meeting.

The Director of Business Improvement and Internal Audit introduced the latest HIE corporate risk register. It was noted that three new risks had been added, covering housing and accommodation, Cairngorm and delivery of net zero and climate adaptation. A risk on ongoing legal cases had been removed. There was a greater focus on lessons learned and knowledge sharing, with reviewer development sessions planned. Guidance on risk-based sanctions checks was being updated and a communications plan would be put in place.

[Sentence removed in the interests of the effective conduct of public affairs, and due to commercial sensitivity and data protection].

The Board noted the report.

James Laraway left the meeting.

4.6 Minute of Risk and Assurance Committee meeting, 17 August 2023

The minute was noted.

4.7 Verbal update of RAC meeting 6 October 2023

4.8 Verbal update of RAC meeting 11 October 2023

Angus Campbell, as Chair of the Risk and Assurance Committee, provided a verbal update on matters discussed at the two most recent meetings, held on 6 and 11 October, including finalisation of the 2022/23 HIE annual report and accounts. It was noted that a lessons learned exercise was planned and would inform both HIE and Audit Scotland on the preparation of future annual reports and accounts. *[Sentence removed in the interests of the effective conduct of public affairs].*

The Chair of HIE thanked the Chair of the Committee the other members on behalf of the Board.

5 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

5.1 Northern Innovation Hub

The Board noted an update on the Northern Innovation Hub, part of the Inverness and Highland City-Region Deal. The inclusion of case studies was particularly welcomed.

5.2 2022 census briefing

The report was noted. Board members highlighted the importance of maintaining HIE's focus on fragile areas and collaborating with others to tackle rural housing issues.

5.3 Any other business

There was no other business.

5.4 Forthcoming meeting dates

- The Risk and Assurance Committee will meet on 5 December 2023.
- The HIE Board will meet in Inverness on 12 December 2023.

Chris Roberts
Head of Communications
31 October 2023

APPROVED