

**MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN GLASGOW ON
28 JUNE 2019**

Present: Willie Mackie, Deputy Chair
Steve Dunlop, CEO
Melfort Campbell OBE
Karthik Subramanya
Dr Poonam Malik
Professor Dame Anne Glover
Gavin Nicol
Dr Sue Paterson (by Skype)

In Attendance: Jane Martin, MD Business Services and Advice
Iain Scott, Chief Financial Officer
Linda Hanna, MD Scottish Economic Development
Paul Lewis, MD International Economic Development (By Skype)
Karen Hannah, Corporate Support

Apologies: Carmel Teusner
Charlie Smith
Stuart Fancey, Scottish Funding Council
Carolyn Stewart, MD People Services

1. STANDING ITEMS

Willie Mackie welcomed Richard Rollison, Scottish Government to the meeting.

Members were asked if there were any declarations of interest in relation to any of the agenda items.

2.1 Halo Enterprise and Innovation Centre, Kilmarnock, Willie Mackie declared a potential conflict of interest due to his role of Chair of Ayrshire College. Willie confirmed that he had no commercial dealings with the project and it was agreed that he would remain in the meeting for the discussion.

Anne Glover also declared a potential conflict of interest as an employee of Strathclyde University. It was agreed that she would remain in the meeting for the discussion.

1.1 MINUTES OF THE BOARD MEETING HELD ON 26 APRIL 2019 – SE(M)311

The Minutes of the previous meeting were approved as an accurate record.

MATTERS ARISING - SE(311)(MA)

The matters arising were noted.

1.3 BOARD COMMITTEE UPDATES

SE Board Audit & Risk committee meeting held on 17 April 2019 – SEAC(M)(19)01

The Minutes of the meeting were noted.

SE Board Audit & Risk committee meeting held on 24 June 2019 – *Verbal Update*

Melfort Campbell provided an update on discussions at the recent Audit & Risk Committee meeting, which he had chaired in Carmel Teusner's absence. An update on the cyber security audit on the shared service had been provided at the meeting and the overall conclusion acknowledged that good work had been done but a more strategic focus was required going forward. The report was currently in draft and a final report and recommendations would be shared with the Audit & Risk Committee in August.

The key focus of the meeting was to review the Annual Report & Accounts for endorsement prior to final approval by the SE Board. Melfort highlighted the final financial position which was £300,000 underspend. A private discussion with Audit Scotland had been held which was very positive and reflected the good working relationship throughout the process. The Audit Scotland report was also very positive as was the audit undertaken by Wylie Bisset on the subsidiaries.

SE Board Audit & Risk committee Annual Report 2018/19 – SE(19)38

The Annual Report was noted and the Terms of Reference approved.

1.4 CHAIR'S REPORT

Willie Mackie highlighted some of the key events and meetings he had attended recently, in particular, the Building Scotland's Future Together event, which had been extremely successful in bringing together SE, partners and stakeholders. Willie had personally received excellent feedback on the event, and the Cabinet Secretary and First Minister conveyed their congratulations to Steve and the SE Team on the success of the event.

The EY Survey results had been published and confirmed that Scotland had retained its ranking as the top location for FDI in the UK after London. Willie thanked Paul Lewis and the team on achieving this result.

Paul provided an update on the results from DIT which were based on published figures for the last financial year and overall showed a decrease in the UK as a whole in terms of projects and jobs, with Scotland showing a decrease of 10%. Further work was needed to build Scotland's position.

The Strategic Board had discussed the forthcoming Comprehensive Spending Review and agencies were being encouraged to be proactive and innovative in their proposals.

It was acknowledged that this was a challenge and an opportunity to begin to consider SE's contribution and to invest in projects which will make a significant difference to the economy.

Board members discussed some key areas of opportunity, particularly in relation to climate change.

Willie reminded members that the next SE Board meeting would be held in Glasgow, and not Edinburgh, as originally planned. Health & Safety training would be held following the meeting.

1.5 CHIEF EXECUTIVE'S REPORT

Steve Dunlop thanked members of the SE Team on the successful delivery of the Building Scotland's Future event.

Steve provided an overview of his overseas programme in Japan and China which was focused on opportunities for FDI.

Together with the Cabinet Secretary, Steve had attended the Moving on Summit in Montreal, where the Michelin Alliance was launched. Steve emphasised the importance of this joint venture in redefining Scotland's role.

Steve advised that the National Manufacturing Institute of Scotland which had been approved by the SE Board in September 2018 and delegated authority had been transferred to him. A further sister project had been identified and would be subsumed in NMIS. Work was progressing to finalise the details and would come back to the Board if there were any significant changes.

Steve invited Jane Martin to provide an update on progress on the Single Entry Point. Jane provided the context, advising that this was the initial phase of a larger programme with partners with the aim to have all services of the core partners in one place with an anticipated deadline of December. At the request of the Cabinet Secretary considerations were being given to the potential and capability to accelerate the project.

A further update would be provided at the next SE Board meeting and the item would remain as a standing item thereafter.

Members discussed the challenges and the choices required going forward in relation to resilience vs restructuring. Steve outlined some specific cases of companies at risk and SE's efforts to repurpose those companies in the economy. Jane highlighted a potential urgent Board approval for support to a company which went into administration in January 2019. It was agreed that a strategy was needed to set out criteria for SE intervention.

Paul Lewis provided an update on our International activities, advising that the Scottish Government's Export plan launched in May set out the ambition to increase exports as a % of GDP to 25% (currently 20%) and now forms the basis of SE's new operating plan. There will be increased focus on those exporters with the greatest potential and increased resources will be deployed into the 15 priority export markets (principally North America, Europe and China).

Talgo submitted its bid on 5 June 2019 for the £2.75bn contract to design, manufacture and maintain high-speed trains for HS2. This follows extensive work by the Talgo/Scotland Team over the course of the last 18 months to secure Longannet as Talgo's preferred location for a major new manufacturing facility employing 1,000 people.

Linda Hanna updated members on the UK Strength in Places Fund announced last year which takes a place-based approach to research and innovation funding, to support significant local economic growth. The first wave of funding is underway and to date there have been 96 Expressions of Interest, with four being shortlisted UK-wide, four of which are from Scotland. SE was working to help strengthen the four Scottish bids, and to develop a contingency plan should they not be successful. A further update to the Board would be provided later in the year.

Steve advised that SE's property portfolio would be brought to the Board later in the year for discussion on strategic investment to reactivate some sites.

Douglas Colquhoun and Linda Murray joined the meeting for the following discussions:

1.6 FINANCE & PERFORMANCE REPORT AS AT END OF MAY 2019 – SE(19)26

Douglas presented the financial results for May 2019 and an update on the latest full year financial forecasts for 2019/20. This included the expenditure to date, the latest income and expenditure forecasts and key risks in the 2019/20 plan.

Douglas highlighted the significant pressure on the resource element of the budget, particularly in relation to business transformation and salaries, and outlined the detailed review which was underway by business areas to revisit commitments and identify potential budget headroom that could be used to address pressures. This would inform a rebase of the budget in August.

Members discussed the implications of SNIB, South of Scotland Agency and Brexit on the budget and requested that this was highlighted in the reports going forward.

1.7 PERFORMANCE REPORT FOR PERIOD ENDED MAY 2019 – SE(19)27

Linda Murray presented the early progress against the five published measures in SE's 2019/20 operating plan and provided details on a range of activities taking place across SE to deliver SE's Strategic Framework, published at the beginning of June 2019.

Two months into the performance year, all five measures were on track to achieve the full-year target ranges. Monitoring of any impact on the measures in relation to the budget was continuing. There was continued uncertainty of Brexit still impacting on business investment (e.g. investment in ICT, machinery, equipment) with some companies preferring to employ people rather than invest in technology.

The previous Manufacturing productivity boost due to March 29 stockpiling was now reducing. Brexit was also impacting on export growth with European clients delaying placing orders with Scottish companies and shifting supply chains.

Progress against the three-year corporate strategy will be reported annually and reflect the contribution SE makes to Scotland's National Performance Framework and the Strategic Board's performance framework.

Work was underway to review SE's Performance Measurement approach to better reflect future plans (recognising NPF and Strategic Board's performance framework) and to better align with Inclusive Growth, Fair Work etc. Consideration was also being given to how to address climate emergency and the resultant changes this will have on the measures.

Publication of the Strategic Framework had been well received on social media and across partner agencies.

Willie thanked Linda and the team for the work done on publication of the Strategic Framework and the work involved in the Strategic Board missions.

Members discussed the new approach to the measures and recommended a collaborative approach with partners which incorporates some softer measures which reflect what makes Scotland unique as a nation. More visibility of progress on the supporting measures was also requested.

1.8 ANNUAL REPORT AND ACCOUNTS 2019/2019 – SE(19)28

Douglas Colquhoun presented the Scottish Enterprise's Annual Report and Accounts for the year ended 31 March 2019 and presented the key highlights. Audit Scotland had confirmed that the financial statements represented a true and fair view, that there were effective management systems in place and consequently an unqualified audit opinion had been issued for the year.

The financial outturn position showed an underspend of £0.3m against our Resource budget of £243.6m which was the equivalent of 0.13% of the budget for the year.

The total Resource Budget (£251.9m) had been supplemented by a further allocation of £35.0m for Annually Managed Expenditure (AME). The outturn was £11.4m in excess of the allocation and Scottish Government had confirmed that the outturn could be accommodated within the total Scottish Government AME allocation.

Douglas highlighted the effect of downward valuation adjustments in investments and updated on the Financial Transactions performance. Work was ongoing with Scottish Government colleagues to lay Scottish Enterprise's Annual Report and Accounts in Parliament by 31 August.

Douglas Colquhoun thanked Iain Scott and David Burns for their guidance and support over the years.

Melfort Campbell confirmed that the Audit & Risk Committee had considered the accounts and recommended them for SE Board approval. On behalf of the Committee, Melfort also thanked Iain and David for their contribution over the past 30 years.

Sue Paterson highlighted a discussion held at the Audit & Risk Committee in relation to assurance and governance for projects. Steve Dunlop agreed that this merited further consideration, particularly in relation to partnership projects.

Willie Mackie thanked the team for the work done to produce the Annual Accounts. This was Iain Scott's last Board meeting and Willie thanked him for his contribution to SE as Chief Financial Officer and Company Secretary over many years.

2. PAPERS FOR APPROVAL

2.1 HALO ENTERPRISE AND INNOVATION CENTRE, KILMARNOCK – SE(19)32

Gillian Adam and Garry Williamson joined the meeting to seek approval to provide a commercial loan of up to £6.077M to The HALO Kilmarnock Limited (THKL) to develop The HALO Enterprise and Innovation Centre (HEIC) in Kilmarnock. The broad terms of the loan including amount, duration, loan security and repayment date had been agreed, however approval was also sought for the final terms of the loan, including agreeing an interest rate which complies with the Market Economy Operator (MEO) test, to be delegated to the Chief Executive.

Linda Hanna provided the background to the project, highlighting that this was very innovative and was a great example of working with partners, looking at opportunities from a place perspective and restructuring opportunities.

Gillian Adam reiterated the place-making opportunities and outlined some of the challenges on the use of Financial Transactions which had been addressed.

Garry Williamson confirmed that Heads of Terms had been agreed and confirmed the interest rate which had been set.

The Board asked for confirmation on the contingency on any overspend and was assured that a contingency budget had been set and that any over-runs would be the responsibility of THKL. Discussion focused on stimulating demand going forward and it was confirmed that a plan was being developed. It was agreed the SE Board would be updated in due course.

In conclusion the project was approved. Willie thanked Steve and the team for their efforts to deliver the project.

3 PAPERS FOR INFORMATION

The following information papers were noted:

South of Scotland – Board Report	SE(19)33
Global, UK and Scottish Economic Commentary	SE(19)35
Approvals Within Delegated Authority	SE(19)36
Testimonials & Complaints	SE(19)37
Forward Events and Summary of Events in past month	SE(19)34

4 ANY OTHER BUSINESS

There was no further business and the meeting was closed.