

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN GLASGOW ON 30 AUGUST 2019

Present: Lord Smith, Chair
Steve Dunlop, CEO
Melfort Campbell OBE
Karthik Subramanya
Dr Poonam Malik
Professor Dame Anne Glover
Gavin Nicol
Dr Sue Paterson
Willie Mackie
Carmel Teusner

In Attendance: Jane Martin, MD Business Services and Advice
Linda Hanna, MD Scottish Economic Development
Charlie Smith, Chief Transformation Officer
Carolyn Stewart, Chief People Officer
Stuart Fancey, Scottish Funding Council
Karen Hannah, Corporate Support
Irene Adams, Advisor
Richard Rollison, Scottish Government

1. STANDING ITEMS:

The Chair welcomed members to the meeting.

Conflicts: The Chair asked members to declare any conflicts in relation to the agenda items. No conflicts were received from Board members.

The Chair declared an interest in the paper scheduled for approval at Item 2.3. Willie Mackie, Deputy Chair would take over as Chair of the meeting for this item and the Chair would leave the meeting for the discussion.

1.1 MINUTES OF THE BOARD MEETING HELD ON 28 JUNE 2019 – SE(M)312

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

1.2 MATTERS ARISING – SE(312)(MA)

It was noted that the Matters Arising were on track.

1.3 BOARD COMMITTEE UPDATES

SE Board Audit & Risk Committee meeting held on 24 June 2019 – SEAC(M)(19)02

SE Board Urgent Approval meeting held on 25 July 2019 – SEBUA(M)(19)02

SE Board Urgent Approval meeting held on 15 August 2019 – SEBUA(M)(19)03

SE Board Audit & Risk Committee meeting held on 21 August 2019 – verbal update

SE Board Audit & Risk Committee Terms of Reference – SE(19)57

SE Board Nomination & Governance Committee Annual Report 2018/19 – SE(19)39

SE Board Remuneration Committee Annual Report 2018/19 – SE(19)40

Willie Mackie provided an update on discussions arising from the Audit & Risk Committee meeting held on 21 August 2019. Willie updated on Risk Management, advising that this continues to be cascaded throughout the organisation. The Committee highlighted the need to complete the work on refreshing risk appetite which had commenced earlier in the year with the session with Scott Moncrieff. It was suggested that time is allocated at the Board Strategy session in October to complete this exercise.

Willie also updated on the recent EY audits of the EIS shared service. Representatives from EY and Glenn Exton, SE joined the Audit & Risk Committee meeting for this discussion. Willie outlined the outstanding recommendations and, with agreement from the Committee, agreed to write to the partner Chairs of the Audit Committees to drive forward an action plan. The Board would be kept apprised of progress going forward.

Members discussed the issues and acknowledged the need for a secure platform and strong strategy to deliver on the future transformation needs of the partners. Charlie Smith advised that a Product Council was being established, which he would chair, which would help to align the technology provision and the architecture.

The Board was asked to approve the Terms of Reference for the Audit & Risk Committee, which had been slightly updated. These were approved.

Jane Martin provided an update on the project which was approved at the Urgent Approval meeting on 25 July, advising that the deal was almost complete and an announcement was likely for 5/6 September.

In relation to the Minutes of the Urgent Approval on 15 August, the Board asked that the minute was amended to better reflect the challenge in discussion. The Minutes would be revised and re-circulated.

1.4 CHAIR'S REPORT

The Chair provided an overview of the meetings he had undertaken since his appointment, these included a meeting with the Cabinet Secretary and meetings with some of the Executive Leadership Team.

1.5 CHIEF EXECUTIVE'S REPORT

Steve Dunlop asked Paul Lewis to provide an update on the situation in relation to a member of SDI staff in Hong Kong and outlined the steps Scottish Enterprise was taking to support staff.

Members sought assurance of diligence across partnerships to ensure that systems and protocols were of the highest standard. Paul confirmed that discussions were underway with Scottish Government to review this.

Steve highlighted three key areas of activity which SE was working on with Scottish Government: Programme for Government, Economic Action Plan and Comprehensive Spending Review. Richard Rollison, Scottish Government, confirmed that the Programme for Government was scheduled for publication the following week and gave an overview of the key themes. Richard also provided an update on Scottish Government focus on Brexit and preparation for a potential No Deal.

An update on two major projects was provided:

Fergusons Shipyard – an SE representative had been appointed to the project board.

Michelin – good progress continued to be made and an Interim Chief Executive had been appointed. An early site masterplan had been developed and approved by partners which gave a view of the extent of the site transformation. Work was ongoing to develop the underlying details.

Steve updated the Board on the appointment of Charlie Smith as MD International Economic Development & Group Strategy.

1.6 SE BOARD SUBCOMMITTEE PROPOSAL – SE(19)56

Stuart Clarke, Head of Legal and Company Secretary, joined the meeting to seek approval for the establishment of an Approvals Committee which would approve any decisions relating to the business of SE which would otherwise be made by the Board, save for an identified and declared conflict by a Board member. It was considered that this was a prudent approach which would strengthen SE's management of conflicts. If approved, the Nominations & Governance Committee would agree the full membership.

Members discussed and were supportive of the establishment of the sub-committee. This was approved subject to further consideration of increasing the membership, and consideration of the mechanism to ensure that Board members not on the sub-committee have sight of the decisions being taken.

A meeting of the Nominations & Governance Committee would be convened to agree membership and TORs.

Douglas Colquhoun and Linda Murray joined the meeting for the following two items:

1.6 FINANCE & PERFORMANCE REPORT AS AT END OF JULY 2019 – SE(19)41

Douglas provided a review of financial results to July 2019 (Period 4) comparing financial performance against the original Business Plan budget for the year. An update on the latest full year income and expenditure forecasts for 2019/20 was also provided. The second half of the report provided information on the proposed re-based Business Plan budget for 2019/20.

Douglas confirmed that the process to rebase the budget was completed on 16 August. This had included detailed sessions across the business and with the Executive Leadership Team. The proposed rebased budget was set at £325.3m, £17m lower than original. There were three contributory factors for the reduction: Core Grant-in-Aid had been reduced, slippage on a major partnership project had resulted in the associated ring-fenced allocation from the Scottish Government no longer being available in the current financial year and confirmation of the reduced planned expenditure on the Energy Investment Fund which was also a ring-fenced budget allocation from the Scottish Government.

Douglas outlined some of the key changes and highlighted the continued pressure on the Resource budget, advising that more regular rebasing would be carried out to ensure effective management of this budget.

Since the rebasing exercise had completed there had been two further developments which had resulted in a further £12.5m of capital budget being available: two additional Scottish Investment Bank exits were now anticipated and the Scottish Government had confirmed that SE could retain of £7.5m property disposals income. Consideration

was being given to allocation of the additional funds and the Board would be updated once the decision had been taken.

The Board acknowledged the current economic challenges and other influences, such as South of Scotland and SNIB, which would have impact on the structure of the budget. Members discussed opportunities and were updated on other action being taken internally, e.g. changes to Intervention Frameworks, to alleviate the budgetary position. The Strategy Session on 21 October would provide an opportunity for further discussion on future direction.

1.7 PERFORMANCE REPORT FOR THE PERIOD ENDED JULY 2019 – SE(19)42

Linda Murray provided an update on progress to the end of July 2019. Linda highlighted some key economic changes, highlighting the adverse impact on Business Investment and some markets beginning to stall. Private sector employment was slowing, and in the UK the service sector had increased slightly while the Construction sector had slowed. It was becoming increasingly difficult to disentangle the effects of Brexit and other economic factors. Export growth was slowing down and some European customers were delaying orders to Europe. Employment had started to fall in some sectors while some businesses were beginning to add staff rather than invest in R&D.

There had been an increase of 38% traffic to the Prepare for Brexit Campaign site with 236 companies using the diagnostic tool and a further 88 enquiries. This would be closely monitored going forward and a refreshed campaign was being launched the following week.

Linda highlighted the change in format of the report which had adopted a dashboard style. All five measures were on track, with three at the bottom end of the range: R&D, Capital Expenditure and Export Sales. This was similar to the previously reported position.

The Board asked if there was any change to the 7% assumption and Linda advised that additional work over the following two weeks was scheduled with the Scottish Government to revisit and produce some scenarios.

Members asked about potential changes to the measures to reflect the ongoing challenges and Linda confirmed that these would be reviewed in October/November once further intelligence had been collated. Work was also continuing on progress in relation to supporting measures and this would be available soon.

The Board thanked Linda for the update.

1.8 SOUTH OF SCOTLAND UPDATE – SE(19)43

Linda Hanna presented this paper which provided an update on progress towards establishing the South of Scotland Enterprise (SOSE) agency, the evolution of its future model, and highlights thinking around what that means for SE.

Linda highlighted the work with Scottish Government since the Bill was passed in June 2019. Royal Assent had been received on 12 July and work had been underway to establish the new agency by 1 April 2020. Key decisions had to be made to ensure that the new agency is connected into the national, international and regional model. Work was ongoing with the Transition Team to draw out the implications for SE and to

work through these with colleagues in Scottish Government. Staff had also been seconded into Scottish Government for this purpose.

Linda outlined the challenges of designing the new model in an unstable economic climate and ensuring that the model is robust and agile to be able to respond. The recruitment of the Chair and Chief Executive would be critical to achieving this.

An opportunity to discuss how this impacts on Scottish Enterprise would be included in the Strategy session.

2. PAPERS FOR APPROVAL

2.1 SITE DISPOSAL – SE(19)45

Allan McQuade and Garry Williamson sought approval to enter into binding missives for the sale of a site in Glasgow at a Guaranteed Minimum Price of £10m excluding VAT. Approval was also sought for the Director of Business Infrastructure to be given delegated authority to agree the final enhancement costs figure, provided it was within 10% of the estimates.

Allan McQuade provided the background, advising that the site was classed as a legacy, non-strategic asset which was identified for disposal to support the objectives set out in the Property Portfolio Asset Management Plan. Disposal of the site would be a significant regenerator, bringing the brownfield site back into use.

Garry Williamson outlined the open market process, advising that five bids had been received. The disposal price represented Market Value and there were no State Aid implications. Discussions had been held with Clyde Gateway to seek advice on maximising social and economic benefits from the site disposal.

The Board asked about previous uses of the site and potential liability and it was confirmed that the previous uses of the site were known. A full, detailed site investigation had been undertaken and future liability would be agreed with the purchaser.

The Board was happy to approve the disposal of the site.

2.2 DIODES SEMICONDUCTORS GB LTD – SE(19)46

Suzanne Sosna, Andrew Ingram and Cameron Ritchie joined the meeting to seek approval of expenditure of up to £13,700,000 (£12m R&D Grant and £1.7m training grant) towards the development of advanced trench MOSFETS.

Suzanne provided the background to the company, advising that the site in Inverclyde had been manufacturing for 49 years and was a significant employer to the area. There was a skilled workforce of 300 employees and the project would help to unlock more skills and further improve the quality of jobs, as well as providing sustainability into the longer term with the aim of creating a centre of excellence for manufacturing.

Members discussed the prospects of competing in scale and technology in a highly competitive industry. Andrew Ingram highlighted the attraction by Diodes to the Scottish skillsbase, the capability in MOSFETS technology and the ambitious growth trajectory, with a strong track record and understanding of the market.

On questions relating to the package of support, the team outlined the conditions of grant, payable on achievement of milestones.

The Board acknowledged the strong inclusive growth elements of the project and thanked the team for the work done to develop the project.

In conclusion, the project was approved.

Lord Smith and Irene Adams left the meeting for the following discussion.

2.3 SPIRE GLOBAL PROJECT – SE(19)47

Suzanne Sosna, Cameron Ritchie and Paul Funnell joined the meeting to seek approval of a support package of £14.7m, comprising of £6.7m RSA (to be offered to Spire Global UK Limited – (Spire UK) and an £8m commercial convertible loan note (CLN) investment into the group's parent company, Spire Global Inc (Spire Inc). The commercial investment element was subject to further approval from Scottish Government. The RSA project would result in new skilled jobs being created at the Group's Skypark complex in Glasgow and the investment in Spire Inc would facilitate the group's growth in a fast-growing cutting-edge industry.

Susanne Sosna provided an overview of the company, the opportunities for both the data and space sectors and for Scotland overall. Susanne highlighted the creation of new skilled, high value jobs and the benefits to the area. Following a question relating to the retention of talent in Scotland, the team provided an update on the current technology cluster in Glasgow and the growing space cluster as well as the links with universities. Positive discussions had been held with the company in relation to this wider engagement and the opportunities for further growth on the investment. Members asked about the investment in the parent company and were assured that investment of this type was usual. The investment was packaged with the RSA grant which would anchor the company in Scotland.

Following discussion, the Board was very supportive of the project and this was approved.

3. PAPERS FOR DISCUSSION

3.1 CLIMATE EMERGENCY TO CLIMATE OPPORTUNITY – SE(19)48

Martin Valenti, Linda Murray and Andy McDonald joined the meeting to facilitate a strategic discussion with the SE Board to explore SE's role and level of ambition in addressing the climate emergency. The accompanying paper set out why climate change needs to be central to SE's vision and purpose and the strategic choices required to be made for SE to make a bigger contribution to delivering the 2045 net zero targets.

Steve introduced Martin Valenti, who was seconded to SE from SEPA to specifically work on the climate opportunity agenda.

The paper provided five provocations for discussion and to seek the SE Board's views on SE's potential future role in the low carbon economy.

Members acknowledged that a great deal of the work SE was currently doing would enable further collaboration and the shifts required to capture opportunities. It was recognised that a more collaborative approach across public and private sectors was

needed. More dialogue with industry was required, e.g. acknowledging and building on the work being done in the Oil & Gas Industry to diversify.

A change project approach was suggested to set out our vision and ambition, articulate SE's role and to capture and drive forward the actions required. Martin Valenti stressed the need for a more collaborative framework with partners, to share the challenge and to be aligned in our approach. Members acknowledged the need for a clear direction of travel, understanding what is currently being done and what can be accelerated and to identify the resource and capital available.

The Board discussed potential opportunities, such as:

- Policy - the need for policy change in certain sectors, e.g. biotech to enable future innovation. Within the policy context exploring opportunities for market-making, procurement opportunities and stimulating demand.
- Applying conditions to SE investment to enable SE to meet its objectives towards a low carbon economy. Further work would be required to explore the potential implications.
- Vacant and derelict land and alignment with Inward Investment. Martin Valenti highlighted the major opportunities for abandoned landfill sites.

The Board thanked the team for the initial scoping paper and welcomed the opportunity for further discussion at the Board Strategy session.

3.2 HEALTH & SAFETY BOARD TRAINING

Lynne Gray, Partner, Burness and Paul, and Stuart Clarke, Head of Legal joined the meeting to facilitate the Health & Safety Training.

4. PAPERS FOR INFORMATION

Notification of New Interest	SE(19)49
Annual Health and Safety Report 2018/19	SE(19)50
Scottish Enterprise Health, Safety and Wellbeing	
Quarterly Board Report – April to July 2019	SE(19)51
Global, UK and Scottish Economic Commentary	SE(19)52
Approvals within Delegated Authority	SE(19)53
Testimonials & Complaints	SE(19)54
Forward Events and Summary of Events in past month	SE(19)55

5. ANY OTHER BUSINESS

There was no further business.