

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN ON 26 JUNE 2020 BY SKYPE

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

In Attendance: Jane Martin, MD Business Services and Advice
Linda Hanna, MD Scottish Economic Development
Charlie Smith, Director of SDI, Group Head of Strategy and Technology
Carolyn Stewart, MD People Services
Douglas Colquhoun, Director of Finance
Stuart Fancey, Scottish Funding Council
Mary McAllan, Scottish Government
Kevin Quinlan, Scottish Government
Stuart Clarke, Company Secretary
Karen Hannah, Corporate Office
Irene Adams, Advisor

STANDING ITEMS:

DECLARATION OF INTERESTS: The Chair highlighted a potential interest in the Early Stage Funds and Poonam Malik declared an interest in one of the companies referred to, TC Biopharm, in which she had an investment.

1. MINUTES OF THE BOARD MEETING HELD ON 24 APRIL 2020 – SE(M)317

The Minute of the previous meeting was approved.

2. Matters Arising

There were no matters arising.

3. Board Committee Updates/Minutes

3.1 SE Board Audit & Risk Committee meeting held 15 April 2020 - SEBAC(M)(20)01

Willie Mackie confirmed that an update had been provided at the previous meeting. Work was progressing on the 2019/20 Annual Report & Accounts. The Audit Scotland field work was due to be completed in the current week and this would lead to the production of the draft group accounts which would be shared with Audit Scotland and Scottish Government, followed by a clearance meeting. An informal meeting was scheduled with Gordon Smail, Audit Scotland once their report was complete. The

Audit & Risk Committee had been rescheduled for 13 July to review the accounts, and the meeting scheduled with the Board on 15 July would be used for consideration and final approval.

4. Chair Report

The Chair updated on key meetings with agency partners.

Sessions had been held with key businesses to gather input to the Advisory Group on Economic Recovery report, which had been well attended.

5. CEO Report

Steve Dunlop highlighted the discussion later in the agenda on finance and budget profile which would commence discussions on rearticulating SE's resources and budget to respond to the developing pipeline. Discussions were being held with Scottish Government colleagues and the Cabinet Secretary to elaborate and present the pipeline of opportunities for Scotland and articulate the resource requirements.

Linda Hanna provided an update on MSIP, advising that the Michelin factory formally closed on Tuesday. With the work done to date, of the 800 employees, there were 115 who hadn't yet secured another job, due to the impact of covid-19. Announcements were scheduled for the following week in relation to the first of the new tenants, which were a mix of technology and hydrogen growth, battery technology and sustainable mobility, and the first academic partnership with Dundee, with St Andrews coming shortly thereafter and an alignment with the Eden Campus. The accelerator was up and running and would be launched in September. Construction would begin in August/September once covid-19 guidelines were in place. Design work was underway on hydrogen and progress was expected soon. A core team was being established, transitioning from the seconded team from Michelin and SE. Interviews for the CEO post had been held earlier in the week and this would be announced the following week. Positions for the Innovation Manager and Business Development Manager were also expected to be secured within the following two weeks.

Linda also provided an update on Strength in Places and the announcement made of the successful seven projects, two of which were in Scotland: £55m to the University of Edinburgh consortium, including Fintech Scotland, project on global open banking; and, £91m to the University of Glasgow Precision Medicine. Stuart Fancey highlighted the excellent partnership response to the projects and the high-quality of the Scottish bids.

6. Finance and Performance Report as at end of May 2020 - SE(20)34

Alan Maitland joined the meeting to present an overview of the financial results to the end of May 2020 (Period 2) and an update on the latest full year forecasts for the 2020/21 financial year.

This was the first update of the financial year and Alan reminded the Board that, in light of covid-19, the Business Plan was refreshed during April and May, with assumptions made that there would be a significant deferral of expenditure, however, at this point the level of deferral had not yet crystallised, resulting in deficits in the C-del and R-del budgets.

There had been a slight improvement on Capital, with the deferral of one project into the next financial year, however, reduction in loan repayments in the Scottish Loan Fund had reduced the level of headroom created and the current position showed a deficit of £5.7m. On Financial Transactions, one project had been deferred and the position would be rebalanced the following month. The R-del budget was of more concern with a deficit of £6.3m.

A decision was awaited from the Scottish Government on additional funding.

The Income position was being closely monitored and the risks in achieving the income projections were highlighted, particularly on Exits, EU income, Property Disposals and Property Rental income.

The Board discussed the potential for further slippage in projects and Jane Martin outlined the work being done with companies to achieve a realistic view of progression of projects.

The constraints on future years' budgets was also discussed, versus the strength of the growing pipeline.

7. Performance Report as at the end of May 2020 - SE(20)35

Linda Murray presented the Performance Report to end of May which included the main covid-19 related activity taking place across the business, together with standard dashboards providing information on major projects, corporate risk, people and finance.

Linda highlighted the economic context and global insights included in the covid-19 update, indicating that economic output and GDP had fallen, with an impact on employment levels and international trade. Global insights were showing that some trade and investment markets were ahead of Scotland with the lifting of lockdown restrictions and businesses starting to return to normal, with evidence of reshoring which could have an impact on Scotland's FDI.

Some of the ongoing activity to support companies through covid-19 were highlighted, e.g. helping companies accelerate via funding, assisting companies to safely restart, raising awareness of sector guides, promoting services e.g. Workplace Innovation and SMAS and hosting on-line webinars, guides and checklists. Work was commencing on a new early stage challenge fund which was due to be announced in July.

Linda outlined some of the key information from the business as usual dashboards, indicating the current forecast position on performance measures for 2020/21, which were down from the previous year; the finance dashboard which reflected a spike in the first quarter due to the PERF and Hardship funds, the people dashboard which provided information on wellbeing and covid-related absences, and the corporate risks, with more detail provided on the top five risks. Linda also highlighted the nationally important companies work, which would be included as a dashboard once developed.

The Board requested further detail on sectors in relation to estimated unemployment, broken down by sector, job type and skills. Linda advised that SDS and OSHA had produced material which she would review and circulate.

Linda also advised that the Strategic Board sub-group report was due to be submitted to Ministers the following week and this would be circulated to the Board once published.

For future reports, it was suggested that information on project risk should be equated with risk appetite. It was also agreed that a review of risk appetite would be beneficial at a later stage.

The Board discussed staff engagement and wellbeing and Carolyn Stewart updated on the support being provided to staff and equipment being issued over the coming weeks to better support home working. Carolyn highlighted the feedback from staff in the recent survey with the majority of People Manager's reporting that staff's wellbeing was positive, and staff remained motivated. Procedures had also been put in place to relieve those members of staff who had been working exceptionally long hours, such as rotas, TOIL, encouraging staff to take regular breaks and annual leave, as well as regular wellbeing checks. Additional training had also been given to those members of staff on the front-line, to support them when dealing with difficult conversations, as well as additional resource to ensure that staff were being relieved. Work was also ongoing to collate feedback from staff to inform decisions on future ways of working, looking at a more blended approach of flexibility and office use.

The Board asked about the perceptions from businesses in Scotland in relation to other countries, which were re-opening at a faster pace. Mary McAllan outlined the work being done with manufacturing companies and confirmed the general acceptance of a gradual approach to ensure safety and sustainability.

Alan and Linda left the meeting.

STRATEGIC DISCUSSION

8. Covid-19 Update

8.1 Introduction & Context

Steve Dunlop updated on publication of the Advisory Group on Economic Recovery report and recent discussions with the Cabinet Secretary.

Charlie Smith and Douglas Colquhoun gave a brief presentation on the forward budget outlook and pipeline of opportunities. It was agreed that a further session would be scheduled for the Board to have a more in-depth discussion.

8.2 Update from Scottish Government

Kevin Quinlan provided an update on the work underway to respond to the Advisory Group on Economic Recovery report.

8.3 Business Support

8.3.1 PERF/Hardship – SE(20)37

Jane Martin referenced the interim report provided and sought feedback from the Board. A final report would be provided in August.

Jane summarised the key outputs, reminding the Board that £65m of funding had been approved across the two funds, with £130m paid out to companies, with parity across geographies and a mix of sectors. Jane highlighted some of the challenges in relation to company eligibility and low-quality applications and advised that a great deal of feedback had been collated. Further analysis would be undertaken with partners to gather lessons learned.

The closing date for appeals was 6 July and to date 600 appeals had been received. The team was currently working through these and it was anticipated that a concluding report would be done thereafter.

The Board asked about the partnership working experience and Jane highlighted the positive sense of joint purpose, however, acknowledged that the complexities of designing the system for three organisations was not without its challenges.

A question was raised regarding lessons-learned and Jane confirmed that a number of sessions were scheduled over the coming weeks with partners to capture learnings which would help to inform the future operating model.

The Board discussed the companies who did not qualify for PERF and Jane outlined some of the reasons for ineligibility, however, highlighted the approach taken with partners to identify other appropriate support for those companies, where possible.

Board members were asked to feed back any further comments direct to Jane.

Willie Mackie took over as Chair for the following discussion.

8.3.2 Early Stage Fund – SE(20)45

Kerry Sharp joined Linda Hanna to introduce this paper which sought in principle approval by the SE Board for the delivery of the Early Stage Challenge Fund, subject to the resource budget being secured from Scottish Government.

Linda advised that Scottish Enterprise had been asked to lead the design and delivery of a response to the Early Stage investment market as part of the Scottish Government's response to the COVID19 crisis. Building on lessons learned from PERF and the work done on the early stage market via the Scottish Investment Bank, the paper detailed the approach and operating model for the new fund.

Kerry outlined the aims and purpose of the new fund to support high-growth, early stage businesses with an international growth ambition, which had been impacted by Covid-19. The fund would provide a tailored support package to meet gaps, extend cash-flows and support future growth activity. Kerry detailed the estimated scale of the target market range based on analysis and highlighted that the aim was not to support the whole market as there was still private sector investor capital. The fund would be targeted to ensure the greatest impact for the future economy.

Kerry took the Board through the challenge fund model, outlining the application and appraisal process, eligibility criteria, funding awards and end-to-end process.

The Board discussed elements of the eligibility criteria, e.g. fair work, highlighting some challenges in relation to early stage companies and recommending some flexibility.

The Board thanked Kerry for a high-quality paper which set out compelling examples of the types of companies that the fund would be targeting and approved the fund in principle, subject to receipt of funding from Scottish Government.

Linda confirmed that she would keep the Board apprised of the funding and communications.

8.3.3 Rapid Response Unit/Strategic Companies

Linda Hanna provided an update on the work of the Rapid Response Unit with those strategically important companies for the economy. This involved working with those companies in distress as well as longer-term opportunities. A great deal of work had been undertaken to create insights and intelligence of what was currently happening in the economy which involved reaching out to companies and working in partnership with Scottish Government, HIE and South of Scotland Enterprise to map more widely across sector and regions.

8.3.4 Update: Covid – 19 Recovery and Renewal Scenarios Project – SE(20)43

This paper was presented for information and provided an update on the Covid-19 scenario thinking work being jointly delivered by the Scottish Government (SG) and Scottish Enterprise (SE).

PAPERS FOR APPROVAL

9. Site Acquisition – SE(20)36

Michael Wright, Euan Dobson and Stuart Wilson joined the meeting to ask the SE Board to consider further the deal structure and risks and mitigating actions associated with the proposed site acquisition and approve; 1. SE entering into an Option to Purchase the site with the company, which is non-binding on SE and 2. the granting of an Option to Purchase to the inward investor for part of the site. Subject to the views of the Board, a final approval will be sought to conclude the site acquisition. This is expected to be brought to the Board in late 2020.

Charlie Smith provided an update on the current status with the inward investor, advising that regular calls had been held with the UK MD and highlighting the expanding order book and need for a new facility due to capacity issues. Discussions would progress with the company in September in relation to the site option.

Linda Hanna gave a brief update on progress in relation to the site, reminding members of the risks considered at the last meeting. The option to buy timeline had been negotiated up to January 2021, which would mitigate the risk of purchasing the site without commitment from the inward investor. Linda also updated on information received from SEPA which had helped to understand the risks more clearly, together with potential costs.

Michael Wright advised that significant progress had been made to mitigate the risks discussed in March. An option arrangement had been agreed with the company which would allow SE not to commit to buying until a high level of confidence on commitment from the inward investor was received. The Heads of Terms had been completed with an option to run until the end of January 2021, and the company had agreed that this could be extended for a further 6 months for an additional fee, thus giving additional comfort.

The receipt of technical information from SEPA had given comfort that these could be managed within acceptable cost parameters. SE would take on the responsibility for surrendering the waste management licence and remediating the site to standards acceptable to SEPA. Discussions with SEPA had also given a higher level of confidence on cost appraisal which was circa £1.5m to £2.5m.

The company had undertaken to surrender the PCP license, which requires reinstatement to a baseline condition acceptable to SEPA and there was a high degree of confidence that they will meet obligations. There was confidence in the company's track record in environmental compliance. Should any other environmental risks arise, it was anticipated that these would be passive risks and would not trigger an obligation for SE to deal with and could be managed through the development strategy.

There was one outstanding risk regarding material that may arise which may fail environmental screening and could not be used as fill material. This was an unquantified risk for both parties as the demolition contract is mid work. A wholesale transfer was not acceptable, and a methodology had been devised to deal with the material should it arise. SE's financial exposure had been capped to no more than £200,000, with any further costs remaining with the company.

The Board acknowledged the progress made to mitigate the risks and discussion focused on the environmental risks in relation to historical use of the site. Stuart Wilson provided more information, highlighting the monitoring of the groundwater over the past 20 years, the baseline reporting received and the company's commitment to reinstate to the baseline conditions.

It was noted that discussions would continue with the inward investor to seek a greater level of comfort on commitment to the site.

The Board approved the Option to Purchase with the company and the Option to Purchase with the inward investor.

10. Change Request - Scottish Co-investment Fund and Scottish Venture Fund – SE(20)44

Kerry Sharp joined the meeting to seek approval for a change to the public/private intervention rate in the Scottish Co-Investment Fund (SCF) and Scottish Venture Fund (SVF), where appropriate on a deal by deal basis. This would mean that SE could provide up to 70% of funds in eligible deals matched by 30% private sector investment. This compares with a limit of 50% participation by SE in eligible deals in the current approval. This change is acceptable under current state aid considerations.

This new intervention rate would be applied in circumstances where there was evidence that companies were unable to secure enough private sector investment as a direct or indirect result of changes in investor capacity and behaviour as a result of COVID 19.

The Board asked about the evidence of the current market and the impact that the requested change would make. Kerry confirmed current market evidence showing a reduction in deals and investment and discussions with co-investors on the support required. Kerry also confirmed that this level would not apply to all deals and careful consideration would be given to where it was appropriate to apply this level of matched investment, to where there is clear evidence of need. Kerry also advised that this amendment wouldn't be put in place immediately, the initial focus would be on delivery of the Early Stage Growth Challenge Fund and then a decision would be made on how best to deploy this change.

The Board acknowledged the success of the co-investment model and the opportunity to support early stage companies in areas of strategic priority.

The change request was approved.

Papers for Information

The following papers for information were noted:

Notification of New Interest	SE(20)38
Global, UK and Scottish Economic Commentary	SE(20)39
Approvals Within Delegated Authority	SE(20)40
Testimonials & Complaints	SE(20)41
Forward Events and Summary of Events in past month	SE(20)42

GLOBALSCOT DEMO

Julie Morrison and Sara Pomfret joined the meeting to take Board Members through a demo of the new Globalscot approach which provides tools for flexibility and collaborative working as well as fulfilling the desire of customers to be more self-serving. A high-level walk through of the new platform and its functionality was provided.

The Board thanked the team for the demonstration and commended them on the work done on the new approach.