

**MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN GLASGOW ON FRIDAY
24 JUNE 2022**

Present: Lord Smith, Chair
Adrian Gillespie Chief Executive
Willie Mackie, Deputy Chair
Karthik Subramanya
Dr Poonam Malik
Professor Dame Anne Glover
Gavin Nicol
Dr Sue Paterson
Carmel Teusner
Peter McKellar

In Attendance: Jane Martin, MD Innovation and Investment
Douglas Colquhoun, Chief Financial Officer
Neil Francis, Interim MD, International
Rhona Allison, Interim MD, Business Growth
Karen Hannah, Corporate Office

Apologies: Carolyn Stewart, Chief People Officer

STANDING ITEMS:

1. Minutes of the meeting held on 29 April 2022 – SE(M)331

The Minutes of the previous meeting were approved subject to a minor amendment.

2. Matters Arising – SE(329)(MA)

There were no matters arising.

BOARD COMMITTEE UPDATES/MINUTES

3. SE Audit & Risk Committee, 20 April 2022 – SEAC(M)(22)01

The minutes of the meeting were noted.

4. Chairs Report

The Chair updated on discussions at recent meetings, including a meeting with the Cabinet Secretary for Finance and the Economy and agency Chairs, and a quarterly meeting with the Cabinet Secretary and Mr McKee.

Lord Smith thanked the Board members and Executive Leadership Team for their contribution and support throughout his tenure and conveyed his best wishes for the future.

5. Chief Executive Report

Adrian acknowledged Lord Smith's imminent departure from SE and personally thanked him for his support, and the leadership and contribution he has made to SE.

An update was provided on the operations review being undertaken over the summer months to put SE on a strong footing to respond to Programme for Government, Resource Spending Review (RSR) and National Strategy for Economic Transformation (NSET). As a result, and with the uncertainty around resource budgets, SE was not in a position to publish its 3-year plan. The plan would be available internally at this stage to provide staff with clarity around SE's strategic direction and longer-term ambitions, while further clarity was awaited from Scottish Government on the future outlook. An external version of the plan would be published later in the year ensuring implications of RSR and NSET are fully reflected in SE's strategic direction. Prior to publication, material will be published on SE's website, including annual targets and budget and using the messages from the plan as part of ongoing engagement with stakeholders and partners.

The NSET delivery board had been established, with the first meeting held on 8 June. The Portfolio Board had met on 25 May and included agencies and Director Generals from across Scottish Government, initial discussions had focused on Terms of Reference and scope of the Board. Feedback had been provided on engagement in the process and, as a result, a number of sessions had been scheduled to take place the following week focused on thematic areas across Scottish Government and agencies.

Adrian had met with Sarah Roughead, Interim CEO, SNIB and updated on the positive discussion.

Positive announcements over recent months were provided:

- MiAlgae – On 18 May, Cabinet Secretary, Kate Forbes, and Adrian visited the SE portfolio company as a backdrop to announce that, since 2003, SE has unlocked more than £2bn of private sector co-investment in early-stage companies operating in Scotland. More than 600 innovative young companies had benefitted from the growth funding activity.
- The World Forum for FDI had been hosted in Scotland for the first time with over 300 visitors from across the world. There had been tremendous engagement from Ministers and companies, and a new virtual reality demo had been launched which featured Scotland's strategic investment assets, including Michelin Scotland Innovation Parc, the Advanced Manufacturing Innovation District and the Arrol Gibb Innovation Campus.
- The EY Attractiveness Survey 2022 had confirmed that Scotland's FDI had increased by 14% and Scotland had maintained its position as best location outside London. The UK had increased by 1.4% and European inward investment projects had increased by 5.4%. Scotland's investment destination attractiveness rose to its highest level, with 15.8% of investors rating the country as the most attractive location in the UK for FDI, more than double the 2019 figure (7%).
- Arjo Wiggins – an update was provided on the current position.

Adrian had hosted a surgery with elected members earlier in the week, which offered an opportunity to discuss SE's priorities and future direction, and to take questions on areas of interest from the MSP/MPs in attendance.

Interviews for the two MDs positions had completed and it was hoped to conclude the following week.

A new Director of Corporate Affairs & Marketing had been appointed, Jacqueline Anderson, who would join SE on 1 September.

SE was working as part of the Glasgow City region team set up to develop the investment case for the Glasgow Innovation Accelerator, chaired by John Howie, Babcock, and included partners from universities, the City Council and strong engagement from industry.

Anne Glover suggested using renewable energy as part of Scotland's offering in relation to attractiveness to locate. Adrian advised that low carbon and hydrogen was coming through strongly in the inward investment pipeline.

The Board raised a question on the constitution and expectations of SE and Adrian advised that guidance from Scottish Government had been requested.

Alan Maitland and Linda Murray joined the meeting for the following two discussion items.

6. Finance Report as at end of May 2022 – SE(22)22

Douglas Colquhoun introduced the paper, advising that this outlined the most recent position, highlighting the unfunded pressures on the Resource budget and the expected credit losses (ECL), which Scottish Government was treating as an unfunded cost pressure against current year budget.

Douglas updated on a recent commission from the Scottish Government which sought modelling of the impact of a 2% reduction against the Resource budget, identification of options to increase income, and an assessment of SE's capacity to absorb the ECL cost pressure.

In addition, the scope of the Accountable Officer process had been expanded and would now require Scottish Government approval to proceed with any uncommitted project with planned spend of more than £1m in current or future years even if the planned expenditure was covered within existing budgets.

Douglas provided a summary of SE's response, outlining the implications.

Alan Maitland provided an update on the budget, highlighting the continued pressure on R-Del, and confirming the balanced position in terms of Capital and Financial Transactions.

Key areas of risk were outlined, including difficulty in forecasting the timing of equity exit income, and backloading of expenditure.

The Resource Spending Review was announced on 31 May and Adrian had received a notification from Scottish Government on the indicative budget covering the enterprise agencies. Alan provided an overview of the available budget for Enterprise, Tourism and Trade which showed a reduction from the 2022-23 Budget in each of the four years of the Spending Review period.

Initial modelling for SE, based on a proportionate cut, showed a significant reduction in the resource budget, which by 2025/26 would not be enough to cover SE's fixed costs. The Spending Review had also referenced the fact that overall public sector

employment had risen considerably. It was noted that SE's headcount was less than it was in 2019.

The Board raised concerns on the ability to deliver projects aligned with the National Strategy for Economic Transformation and encouraged continued feedback to Scottish Government on the implications.

Adrian advised that the review over the summer would look at how SE delivers its services to achieve more efficiency.

7. Performance Report as at end of May 2022 – SE(22)23

Linda Murray presented the report, which was the first report of the 2022-23 performance year. The dashboards were being reviewed to provide the best information on performance against the corporate plan and there were likely to be changes in the following reports.

Linda highlighted the outcome range summary which provided target ranges and comparisons with the previous year. The information reflected the impact of covid in 2021, however, 2021/22 had been a good year, despite covid and Brexit and appeared to be back to pre-covid levels. The only area doubly impacted had been export sales. Linda highlighted that the ranges for 2022/23 had gone through a rigorous challenge panel at ELT and reflected a review of the pipeline.

In terms of measures, the current forecast was showing achievement of four of the six measures, with Real Living Wage and Capital Investment forecasting at the bottom of the range, the former as a result of a tight labour market and ability to generate jobs at Real Living Wage, and the latter as a result of complexities in the jobs mix.

Additional information had been added to the People slide, based on the discussion at the previous board meeting on exit data. There had been 127 leavers since May 2021 of which, 52% were retirements. Turnover was increasing and providing opportunities to recruit a more diverse workforce through strategic resource planning.

The Health & Safety dashboard replaced the previous Health & Safety paper, and updates were provided on Global Trade and FDI through the Corporate Affairs and Marketing content. Updates were provided on National Programmes and Finance. Linda highlighted that the risk dashboard was currently in draft subject to finalisation of the clean sheet exercise.

The Board requested information on jobs, e.g. per unit cost, and detail behind the current ranges for Investment Capital and Growth Funding. Linda agreed to look to incorporate more detail for the next report.

The Chair thanked Linda and Alan for the updates.

FOR DISCUSSION/APPROVAL

8. Zero Emission Mobility Innovation Fund (ZEMIF) – SE(22)25

David Currie, Andy McDonald and David Garry joined the meeting to seek approval for expenditure of £28.5m over 4 years, under Section 8(1) (a) (i) of the 1990 Enterprise and New Towns (Scotland) Act, to operate a Zero Emission Mobility Innovation Fund (ZEMIF) in partnership with Transport Scotland (TS).

David Garry provided the background to development of the programme with Transport Scotland, and would be a key tool in supporting net zero ambitions by driving the decarbonisation of Scotland's transport sector, by providing discretionary grant support towards defined projects aimed at the development, manufacture, and deployment of zero emission Heavy Duty Vehicle (HDV) systems and components as well as niche zero emission HDVs. The programme was also a key element of SE's developing Zero Emission HDV (ZEHDV) National Programme. ZEMIF is a pan Scotland programme and will be delivered with the input and support from Highlands and Islands Enterprise (HIE) and South of Scotland Enterprise (SOSE) alongside Scottish Government and Transport Scotland. The application process will ask companies to demonstrate consideration of zero emission inclusive journeys and cover diverse user groups, geographies (rural and urban) and localities (mainland and islands).

The key objectives and benefits were outlined, including: attracting between 100 to 120 project applications and engaging 80 to 110 businesses and organisations in new zero emission RD&I projects; increasing business investment in R&D by up to £70m; and, achieving CO₂e savings of up to 400k tonnes. David advised that, at the current time, there was little detail on specific company projects, and as such, SE's Evaluation and Appraisal team have advised that it would not be sensible to carry out an economic impact assessment at this time; however, evidence gathered from previous funding programmes provide an indication on the likely outputs and benefits that could be accrued and will be further reviewed as individual projects are appraised.

David provided detail on the Governance structure, which included a Programme Board to ensure key public sector partners are involved in the strategic oversight, promotion, and delivery of the fund, and a Programme Advisory Board, consisting of key business and academic representatives, to provide external and expert perspective on trends in the marketplace and provide advice on how the programme can be best targeted to maximise its value to Scotland. Programme delivery will be managed within SE and will apply SE's existing grant appraisal and management processes. Independent technical and financial due diligence will be carried out to confirm the eligibility of project activities and ensure financial viability.

The programme was due to be launched by the Transport Minister the following week at the Scottish Zero Emission Mobility Manufacturing Conference at the Michelin Scotland Innovation Park.

The Board sought further information on the appraisal process, specifically in relation to independent, expert advice. The team outlined the current process, advising that where specific technical expertise was required, this would be sought from external sources. A discussion followed on the use of forums as required.

Discussion focused on measurement of success. It was agreed that a review would be undertaken after the first year of operation and a report produced for the Board, summarising activity in the first year and including progress towards specific KPIs.

The project was approved.

Adrian advised that this was Andy McDonald's last Board meeting, as he was due to leave SE the following week. On behalf of ELT and the Board, Adrian thanked Andy for his contribution to SE, which had spanned many industries throughout his career.

9. Satellite Manufacturing Opportunity – SE(22)26

Russell Stevenson and Jemma McNellis joined Neil Francis to seek approval for cumulative expenditure of £89.2m (inclusive of recoverable VAT) over 5 financial years towards a Satellite Manufacturing Opportunity under Section(s) 8 (1) (j) of the Enterprise and New Towns (Scotland) Act 1990. This is an increase of £57.55m on the SE Board approval in October 2021. This approval is contingent on securing a partner contribution of £29m and the satisfactory completion of due diligence on the company's updated financial model.

Neil provided an overview of the background, advising that this was a strategic opportunity to build an internationally competitive centre for the Space industry in Ayrshire. The project risks and mitigations in place were outlined, as well as the company background.

Neil advised that there remained a funding gap and the team had been working with Richard Rollison, Scottish Government and South Ayrshire Council to secure funding of £29m through the Ayrshire Growth Deal. Good progress had been made and the proposal would be considered by South Ayrshire Council on 29 June and the Ayrshire Economic Joint Committee in early July.

Further due diligence on the company's business model was underway.

Board members sought further information on SE's liability should the project not proceed. Neil advised that SE was working with the company to co-design the property. However, should the project not proceed, SE would retain ownership of the building, with rights to sell. The strategic rationale for the site and alternative opportunities was highlighted.

The contingency on the building costs was also discussed, and Neil outlined the mitigations in place, e.g cost overruns to be met by the company, pre-tender options of not proceeding, and flexibility across funding components.

The Board appreciated the challenges and commended the team on the mitigations in place. The joint working between SE, Scottish Government and Ministers around the opportunity was also acknowledged.

The project was approved.

FOR INFORMATION

The following papers for information were noted:

- 10. Corporate Plan – SE(22)24**
- 11. Economic Commentary – SE(22)27**
- 12. Approval within Delegated Authority – SE(22)28**
- 13. Forward Events and Summary of Events in the past two months – SE(22)29**

ANY OTHER BUSINESS

There was no further business.