

**MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN GLASGOW ON
24 FEBRUARY 2017**

Present: Bob Keiller, Chairman
Lena Wilson CBE, Chief Executive
Melfort Campbell OBE
Alison McGregor
Carmel Teusner
Gillian Watson
Professor Dame Anne Glover
Willie Mackie

In Attendance: Adrian Gillespie, MD Operations, Company Growth, Innovation & Infrastructure
Linda Hanna, MD Strategy and Sectors
Paul Lewis, MD SDI and International Operations
Jane Martin, MD Customer Operations
Iain Scott, Chief Financial Officer
Carolyn Stewart, MD People Services
Karen Hannah, Corporate Support Manager
Stuart Fancey, Scottish Funding Council

Apologies: Gavin Nicol

1.1 MINUTES OF THE BOARD MEETING HELD ON 25 NOVEMBER 2016 – SE(M)297

The Minutes of the previous meeting were approved.

1.2 BOARD COMMITTEE UPDATES

1.2(a) Minutes of the Nominations & Governance Committee meeting held on 25 November 2016

1.2(b) Minutes of the Remuneration Committee meeting held on 25 November 2016

1.2(c) Minutes of the Investment Committee meeting held on 25 November 2016

1.2(d) Minutes of the Audit Committee meeting held on 15 December 2016

The Minutes of the Committee meetings were noted.

Willie Mackie, Chair of the Audit Committee highlighted the external assessment of SE's Internal Audit team, which had concluded that the performance of the function was outstanding and one of the best they had seen.

The Board echoed their congratulations to Alan Browne and the team.

1.3 CHAIRMAN'S REPORT

The Chairman advised members that this was Gillian Watson's last meeting as she was stepping down from the SE Board at the end of March. On behalf of the Board, the Chairman conveyed his thanks to Gillian for her contribution and wished her good luck in her future endeavours.

As a result, the membership of the SE Board was below the statutory minimum and discussions were ongoing with Scottish Government to seek a temporary solution.

The Chairman would also review the memberships of the Board Committees to ensure an even spread.

Members were advised that the annual review and sign off of Registers of Interest was scheduled for the April Board meeting. Current registers would be issued to Board Members in the coming weeks for review.

The Chairman provided some feedback from the recent Ministerial Review Group meeting held on 23 February. A draft report on Governance by Lorne Crerar had also been published, with the proposal that agency Boards were retained, and an overarching supervisory board established. A Ministerial decision was awaited. The Ministerial Review Group had discussed the possible representation on the supervisory board. The idea of a common plan to encourage more joint working was welcomed.

1.4 CHIEF EXECUTIVE'S REPORT

Lena provided an update on her recent visit to India, which included a meeting with a potential inward investment company; a meeting with the British High Commissioner; and spending time with staff in the India office.

On 9 March, Lena Co-hosted a company round table with Mike Russell, Minister for UK Negotiations on Scotland's Place in Europe. SE continued to work closely with companies to gather intelligence to share with Scottish Government on the potential impact of Brexit.

Lena advised members of a change to a contract with BAE Naval Ships (Clyde yards). In 2014 the SE Board approved a support package of £10.5m to BAE Naval Ships (Clyde yards) comprising 2 elements - RSA and Training Plus. Due to continued uncertainty in the industry the company had been prevented from committing to capital investment to date. In view of the delay in capital investment, the RSA grant component of the approved package had, in effect, become untenable, necessitating the change to the contract.

Lena highlighted two pieces of company news; one in relation to the potential relocation of an account managed company to South Wales affecting 70 jobs; and secondly, a potential site acquisition which would safeguard 120 jobs.

Two change requests had been approved by the Chief Executive on behalf of the Board: 2B (Methil) – extension of repayment date of the £3.16m convertible loan from December 2016 to June 2017 and Atlantis - extension of repayment date of the £2m loan from December 2016 to July 2017.

Lena advised that, as planned, the Scottish Loan Fund was coming to a close for new investments on 31 March 2017. To date SLF had invested £68.9m into 31 companies. One further new deal may conclude before 31 March and follow on funding may be drawn down over a period of up to five years.

Adrian Gillespie updated the Board on a potential investment which would require urgent Board approval.

1.5 SCOTTISH GOVERNMENT ENTERPRISE AND SKILLS REVIEW UPDATE

This had been covered within the Chair update.

Douglas Colquhoun and Linda Murray joined the meeting for the following three agenda items.

1.6 FINANCE AND PERFORMANCE REPORT AS AT THE END OF JANUARY 2017– SE (17)01

Douglas outlined the financial performance against Business Plan targets to January 2017 (Period 10), and an update on the latest forecasts for the year. Expenditure to the end of December totalled £206.2m against the Business Plan profile of £230.8m (89% of profile). This represented 66% of the adjusted Re-based Business Plan budget of £314.4m and 69% of the revised expenditure forecast of £298.1m.

Douglas highlighted the strategic priorities with a variance greater than £0.5m. This included Equity, Investment and Loans, SIB and Business Infrastructure which had resulted in a reduction in the full year forecasts.

Income had reduced by £3.8m in period with the greatest contributor being the clawback of £3.2m for the Scottish Recycling Fund.

The latest expenditure forecast was £16.3m lower than the adjusted re-based business plan budget of £314.4m.

Douglas outlined the proposed steps to balance the funding streams that support the Business Plan.

The Board noted the expenditure to date; the latest income and expenditure forecasts; and the plans in place to achieve a balanced outturn position and the risks against this.

1.7 SE PERFORMANCE REPORT OCTOBER 2016 – JANUARY 2017- SE(17)02

Linda Murray highlighted the change in reporting timescales to align with the Finance Report. Of the 15 measures, 13 were on track to achieve their targets. Three measures had achieved their full year target: *Number of businesses supported to become innovation active; number of companies developing their leadership through SE support; and, number of entrepreneurs increasing capacity to create international early stage ventures.*

Two measures were forecast to be below range:

Planned capital investment by supported companies. This reflected a weak RSA pipeline. However, work continued to identify other contributing projects including from SIB, environmental aid and training aid.

Assisted companies becoming new or active exporters. Actuals to date were lower than expected in part due to longer than anticipated conversion rates with companies.

Of the 10 measures forecasting to be within their range, four were projecting to fall towards the bottom of the range and these would continue to be closely monitored.

In relation to the Inward Investment measures, there was confidence that the bottom of the range would be achieved and Linda highlighted that the current forecast was in a stronger position than the previous year.

Seven milestones had been achieved and two were on track. Two milestones would not be achieved in-year; the Brussels Hub which would be included in the next Business Plan and the Scottish Business Development Bank as some aspects of the plan may continue into the next financial year.

Kenny Richmond joined the meeting for the following agenda item.

2. BUSINESS DISCUSSION

2.1 SCOTTISH ENTERPRISE 2017 – 18 BUSINESS PLAN – SE(17)03

Linda Murray presented the draft Business Plan. It was noted that the Strategic Guidance letter from the Scottish Government was awaited and the plan would be reviewed to incorporate any guidance arising from this.

This was the final year of the 2015 – 18 Business Plan and the format had been structured to provide an update on progress. The plan would be revised to incorporate discussions from the Board meeting and would be shared with Scottish Government prior to sign off by the CEO and Chair before submission to the Cabinet Secretary, with an aim for on-line publication in April.

The Plan set out the measurement framework for 17/18 and the targets and measures remained unchanged, as endorsed by the Investment Committee. One new measure had been included on Inclusive Growth.

The SE Board commented that the draft was very well written and suggested the use of case studies. Board members were advised that links to case studies would be included on publication.

Members discussed the measurement of the Inclusive Growth measure and it was noted that a monitoring and evaluation framework had been developed to test performance. A discussion ensued on the reasoning behind the balance of the budget against priorities. It was agreed that ELT would consider how best to make information available to enable greater clarity and transparency to allow Board members to undertake comparative analysis.

The Board thanked the team for the work to date and commended them for the level of detail included within the Business Plan.

3. FOR APPROVAL

3.1 PILOT FUNDING MECHANISM WITH THE EUROPEAN INVESTMENT FUND – SE(17)04

Kerry Sharp and Michelle Kinnaird joined the meeting to seek approval for a bespoke funding mechanism under which SE would invest up to £50m investment capital over three years into scaling Scottish companies to support their growth ambitions, and up to £4.75m fees (cumulative approval of £54.8m including £50k development funding pre approved). SE's investment would leverage significant investment from the European Investment Fund of up to £50m and European private sector Venture Capital funds of up to £100m thereby creating a £200m+ investment mechanism. Additional funding from the Scottish Government would be required and initial discussions had taken place regarding this.

Members discussed the challenges of demand stimulation and Michelle outlined the work done to date which included discussions with account managed companies; working with the Company Growth team; developing a joint survey with EIF to reach UK wide companies; and working with other partners to build demand. Discussion ensued on the ability to influence the types of investments made. Mitigation of this issue would be pursued at an early stage through discussion with partners.

The Board recognised the challenges involved but considered that these were outweighed by the economic benefits. The Board commended the team for an innovative and creative approach and approved the project in principle, subject to a positive response from Scottish Government.

3.2 ADVANCED FORMING RESEARCH CENTRE – NEW FORGING CAPABILITY – SE(17)05

David Smith and Jon Moore joined the meeting to seek approval for expenditure of up to £2.523m towards a £13,442m project to create a new forging capability 'High Integrity Validated Engineering Space' (HIVES) at the AFRC at Inchinnan. Together with previous SE support to AFRC and project development funding of £50k, the cumulative approval was £21.923m.

Jon Moore outlined the advantages of the project which would ensure new capabilities and new opportunities not only in Aerospace but also to enable diversification into new sectors, such as Energy and Subsea. This would extend Scotland's Advanced Management capabilities and directly secure 34 jobs. The project would also anchor key companies and enhance Scotland's inward investment proposition as well as deliver £49m of business expenditure and net GVA of £60m.

The Board was very supportive and the project was approved.

3.2 GENPACT (UK) LTD: BPO INWARD INVESTMENT – SE(17)06

Tricia Willcock and Sarah McConnel joined the meeting to seek expenditure of up to £3.1m of RSA grant support towards the cost of establishing a new office centre in Glasgow focussing on Business Process Outsourcing (BPO) and associated activities by Genpact (UK) Ltd. SE support would be capped at 10% of 2 years' salary costs, based on Aid for Job Creation regulations. The project would create 322 new permanent jobs by 2021, of which 222 qualified as high value based on expected salary levels.

Tricia provided some background to the project and the company, including the positive relationship that had been built up via the sector team and the India team with the company.

Members acknowledged the opportunities for the Fintech industry and for inward investment. The Board was supportive of the project and this was approved.

4. PAPERS FOR INFORMATION

The following information papers were noted.

4.1	Health & Safety – November 2016 to January 2017 Update	SE(17)07
4.2	Global, UK and Scottish Economic Commentary	SE(17)08
4.3	Approvals Within Delegated Authority	SE(17)09
4.4	Testimonials & Complaints	SE(17)10
4.5	Forward Events and Summary of past Events	SE(17)11

5. ANY OTHER BUSINESS

City Deals – Anne Glover highlighted the opportunity for SE to help with links between the various city deals. The Board was advised of current work in this area, in relation to the Enterprise & Skills review, which would see a new model for regional engagement.