

**MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN RENFREW ON
30 JUNE 2017**

Present: Bob Keiller, Chairman
Carmel Teusner
Willie Mackie
Gavin Nicol
Alison McGregor
Professor Dame Anne Glover
Stuart Fancey

In Attendance: Adrian Gillespie, MD Operations, Company Growth, Innovation & Infrastructure
Jane Martin, MD Customer Operations
Iain Scott, Chief Financial Officer
Carolyn Stewart, MD People Services
Karen Hannah, Corporate Support

Apologies: Lena Wilson CBE, Chief Executive
Melfort Campbell OBE
Linda Hanna, MD Strategy and Sectors
Paul Lewis, MD SDI and International Operations

1 STANDING ITEMS

1.1 MINUTES OF THE BOARD MEETING HELD ON 28 APRIL 2017 – SE(M)299

The Minutes of the previous meeting were approved as an accurate record, subject to one minor amendment.

1.2 MATTERS ARISING

There were no outstanding matters arising from the previous meeting.

1.3 BOARD COMMITTEE UPDATES

Minutes of the Nominations & Governance Committee meeting held on the 13 June – SEBNGC(M)32

SE Board Nominations and Governance Committee Annual Report 2016/17 – SE(17)27

Minutes of the Remuneration Committee meeting held on the 13 June – SEBRC(M)40

SE Board Remuneration Committee Annual Report 2016/17 – SE(17)28

SE Audit Committee Annual Report 2016/17 – SE(17)29

All of the Minutes and Annual Reports were noted.

1.4 CHAIRMAN'S REPORT

The Chairman updated the Board on his thoughts on Board membership, advising that, with the publication of Scottish Government Phase 2 report, providing a clearer outline of governance going forward, he would be seeking to engage two further Non-Executive Directors to increase membership and to ensure the Board remained quorate. He asked the Board Members to consider the skillsets, expertise and experience required to enhance the skills of the current Membership.

Board Members provided some initial feedback and would follow up further directly with the Chairman.

The Chairman had attended the first meeting of the Interim Board on 27th June. The Interim Board would meet once per month until the Strategic Board had been established, which was anticipated to be by 1 October. The Chairman outlined the key areas of focus for the Interim Board, highlighting those which SE would be leading on.

The Board discussed membership of the Interim Board and the process for appointing members to the Strategic Board. Chairs of each of the agencies would be members of the Strategic Board, with CEOs in attendance at meetings, to ensure alignment.

Jane Martin highlighted the work in progress on Regional Partnerships, advising that a working group had been established to work on a new business model over the summer. A discussion would be scheduled with the SE Board in August.

Iain Scott provided a brief update on the ongoing work of the South of Scotland workstream. It was anticipated that the South of Scotland agency would be established by 2021 financial year. However, interim arrangements were currently being reviewed to ensure delivery in this area at the earliest opportunity.

The Strategic Guidance letter had been received from the Cabinet Secretary, copies of which had been circulated to Board members.

1.5 CHIEF EXECUTIVE'S REPORT

Adrian Gillespie provided this report in Lena Wilson's absence.

SE had been accredited as IIYP gold for the second time for the youth development programmes for graduates and apprentices. Positive feedback had been received from the assessor who had been impressed with the ongoing focus and efforts and by SE's commitment to Young People.

In partnership with Edinburgh Napier University, SE recently won the Outstanding Employer Engagement Initiative at The Times Higher Education Leadership and Management Awards in London for the Tourism Destination Leaders Programme.

Following the recent tragic fire at the Grenfell Tower Block, SE had been reviewing cladding and fire safety procedures for all properties within the portfolio. A detailed external review was being carried out on 7 July and testing of cladding/composite panels thereafter. Adrian confirmed that the fire evacuation procedure in SE buildings was for all occupiers to vacate the premises when the fire alarm is sounded.

Board Members requested further information on the controls over annual risk assessments and in particular on fire and evacuation drills. Adrian Gillespie undertook to collate further information and report back to the board.

The Board was alerted to three projects which would require urgent approval in July.

The Strategic Guidance Letter had been received on 7 June setting out expectations of SE. Significant actions in the letter were reflected in SE's Business Plan update. The Chairman had formally responded the previous week and an invitation had been extended to the Cabinet Secretary to meet with the SE Board on 26 October.

The 2017/18 SE Business Plan had been published on 20 June and this was the final year of the 2015-2018 plan. Strategic planning for 2018/19 and beyond had commenced. Discussion would be scheduled for the next Board meeting on challenges and opportunities.

Carolyn Stewart advised that a paper on people planning and resources would also be included in alignment with this work.

Adrian highlighted a number of recent project announcements since the previous Board Meeting.

- On 26 June, the First Minister had announced the opening of Computershare's new technology Centre of Excellence in Edinburgh which would create up to 300 new roles over the next 3-4 years. SE was providing £2m towards total project costs of £8.1m.
- The First Minister also visited HSBC's Edinburgh Park office on 20 June to announce further expansion of its Global Risk function and 500 additional jobs in Scotland.
- Michelin's Dundee manufacturing facility was visited by the First Minister on 20 June and announced £16.5 million investment, followed by a lunch and discussion on the themes of innovation and inclusive growth attended by representatives from companies in Dundee and Tayside operating in a range of business sectors to discuss opportunities and challenges for Scotland.
- The proposed new £8.9m Lightweight Manufacturing Centre was announced by the First Minister on 19 June during an aerospace supply chain event at the AFRC.
- The new £200m Scottish European Growth Co-Investment Programme was launched on 16 June by Derek Mackay during a visit with the EIF to Cellucomp.

Adrian also updated the Board on a previously approved project which had not gone ahead due to the parent company choosing France for the project. There was now the possibility that the project may be deployed back to the Bellshill site. The Board would be updated on progress.

A short-life project, involving all partners including SE, would develop proposals on how Scotland's Screen Unit (included in the last Programme for Government) will be taken forward. Linda Hanna was representing SE.

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

1.6 FINANCE & PERFORMANCE REPORT AS AT THE END OF MAY 2017– SE (17)30

Douglas Colquhoun presented this paper which provided the Board with an update on progress in finalising the 2016/17 Annual Accounts, a review of financial results for May 2017 (Period 2) and an update on the latest full year financial forecasts for 2017/18.

The Latest expenditure projections exceeded income forecasts by £0.9m on CDEL and £0.2m on RDEL.

Key risks in the latest plan were highlighted and these related to the generation of income from property and investment asset sales.

Expenditure profiled to the end of May totalled £28.4m, 93% of the Business Plan profile and representing 10% of the Business Plan budget of £291.5m and 10% of the revised expenditure forecast. The latest expenditure forecast totalled to £297.4m and represented an increase of £5.9m compared to the Business Plan.

A detailed review of the risks relating to SIB and Business Infrastructure asset disposal targets was underway with the aim of achieving a clear understanding of the challenges. This would be discussed with the Executive Leadership Team in July and an update would be provided to the Board at the next meeting.

1.7 SE PERFORMANCE REPORT FOR THE PERIOD ENDED MAY 2017 - SE(17)31

Linda Murray provided an update on SE's in-year performance for 2017/18 up to end May 2017 and a summary of overall performance against the 3 year business plan target ranges.

Three target ranges had already been achieved a year ahead of forecast: **Number of innovation active companies, Planned additional turnover from innovation and SIB leverage**. All remaining 3 year target ranges were expected to be achieved with the exception of one – the **number of companies assisted to become new or active exporters**.

Linda highlighted that the current pipeline of projects suggested that the in-year target range for **innovation turnover** would not be met, although it was acknowledged that the performance year was at an early stage and the situation may change. The full 3 year business plan measure had already been achieved.

Overall measures and milestones were on track and a more comprehensive review would be undertaken at the end of quarter 1.

Members discussed the innovation turnover measure and requested more detail in the next report to the Board.

1.8 ANNUAL REPORT AND ACCOUNTS 2016/17 - SE(17)32

Douglas Colquhoun presented Scottish Enterprise's Annual Report and Accounts for the year ended 31 March 2017. The Audit Committee had reviewed and discussed the accounts at its meeting on 26 June and recommended approval by the SE Board.

The indicative timing for laying the accounts in Parliament was early September and a Communications Strategy was in development

Two late changes had been made to the narrative and the details had been circulated to the Board prior to the meeting.

Willie Mackie, as Chairman of the Audit Committee, provided an update on discussions at the Audit Committee on 26th June, highlighting the pragmatic and positive approach by Audit Scotland and providing a summary of discussions including confirmation that Audit Scotland had provided unqualified opinions on the financial statements, the regularity of income and expenditure and in relation to the remuneration and staff report, performance report and governance statement. The Audit Committee was comfortable to recommend approval of the Annual Accounts.

Willie also highlighted the progress made in Risk Management in cascading the Board's risk appetite to the business.

The Board discussed some of the key elements of the Annual Accounts. Iain Scott undertook to circulate a copy of Audit Scotland's report to the Board. The Annual Report and Accounts were approved.

2. STRATEGIC DISCUSSION

2.1 SCOTTISH GOVERNMENT REVIEW

The main update and discussion had been covered earlier in the meeting.

3. FOR APPROVAL

3.1 R&D PROJECT – SE(17)34

Rhona Allison and Jonathan Simpson joined the meeting to seek approval for expenditure of up to £3,158,500 over 29 months towards a £12.6m R&D project to be undertaken by a Glasgow based company. The project would help to develop two new and distinct products allowing the company to diversify its commercial portfolio and safeguard 24 jobs.

Rhona outlined the key strategic objectives of the project and provided background to the company, highlighting the strong working relationship with SE and the commitment and importance of the company as an investor in Scotland.

Members discussed the parent company guarantee and were further assured by the strong presence of the company in Scotland and its investment in training and skills, as well as the strong links with the supply chain in Scotland. The project would secure the capability of the Scottish site and enable the company to be more competitive to successfully bid for more projects within the global group.

The Board was supportive of the project and this was approved.

3.2 CAN DO INNOVATION CHALLENGE FUND – SE(17)35

Alison Munro and Terry Hogg joined the meeting to seek expenditure of up to £9.2m over a four year period for a “Can Do Innovation Challenge Fund” (the fund). The Scottish Government had committed £4m to the fund and £700K of in-kind support had been confirmed from Innovate UK. Match funding of £3.6m from Scottish Enterprise (SE) was required along with £900K from public sector challenge sponsors.

Alison advised that this was the last strand of activity to complete the Innovation Strategy (2014) which had proved very successful, with a 77% increase in R&D activity in the first 2 years. Over the previous 18 months SE had led the work to establish the value of a national innovation fund and to design an approach that ensured maximum added value to, and integration with, the wider Scottish innovation support system. In March the Scottish Government endorsed the approach with an announcement of a £4M commitment to the fund and a request that SE lead the work to grow the fund. A public procurement model had been adopted which would match customers and market to deliver innovative products and services from Scottish SMEs.

The Board discussed the practical aspects of the model and ambition in relation to the funding available, and encouraged further contributions from other sources. Members also highlighted the need for a clear model and clear messaging to encourage businesses to engage. The Board was encouraged by the results of the two pilots undertaken and recommended approaching some of the businesses previously engaged in the pilot to provide testimonials on the experience. The board also encourage simplification of the landscape with fewer products and one access route.

The Board commended the team on the work to date and the project was approved.

3.3 CHANGE REQUEST – SE(17)36

Maggie McGinlay and Michelle Howell joined the meeting to seek to delegate approval to the Scottish Investment Bank (SIB) to negotiate a new repayment schedule for a company £2m bridging loan and to extend the repayment date. The loan, including rolled up interest and redemption premium, currently totalled £3.2m. Rescheduling the loan repayments would maximise the opportunity for the company to complete the first phase of a key project. Completion of this phase would provide a potential partial or full exit route for SE’s wider and more substantial debt and equity interest in the project.

The challenges were outlined to the Board and discussion ensued regarding the potential risks which were outlined as being low and more an issue of timing. Members were assured of the motivation of the company to pay back the funding at the earliest opportunity and that some of the loan had already been repaid.

The Board approved the delegated authority to SIB to renegotiate terms of the loan, extending the deadline for repayment of the £1.8m by one month and rescheduling of the remaining loan. The funding should be paid back at an appropriate rate without any increased risk or exposure to SE.

4. PAPERS FOR INFORMATION

The following information papers were noted.

4.1	Scottish Enterprise Strategic Economic Evaluation & Research (SEER) Plan 2017/18	SE(17)37
4.2	Late Payment And Late Payment Culture	SE(17)38
4.3	Health & Safety Update – April and May 2017 Update	SE(17)39
4.4	Global, UK and Scottish Economic Commentary	SE(17)40
4.5	Approvals Within Delegated Authority	SE(17)41
4.6	Testimonials & Complaints	SE(17)33
4.7	Forward Events and Summary of Events in past month	SE(17)42

Members discussed Item 4.7 Late Payment and Late Payment Culture. Further analysis was requested on the payment culture of companies receiving SE support.

In relation to Item 4.3 Health & Safety Update, the Board requested further information on the risk assessment procedures.

5. ANY OTHER BUSINESS

There was no further business.