

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD IN ON 24 APRIL 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
Stuart Fancey, Scottish Funding Council
Mary McAllan, Scottish Government
Stuart Clarke, Company Secretary
Karen Hannah, Corporate Office
Irene Adams, Advisor

The Chair welcomed members to the meeting and asked if there were any conflicts of interest. None were declared.

STANDING ITEMS:

1. MINUTES OF THE BOARD MEETING HELD ON 28 FEBRUARY 2020 – SE(M)316

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

CEO Report: To read “Emergency board” not “Energy Board”.

2. Matters Arising

There were no matters arising.

3. Board Committee Updates/Minutes

The minutes of the following meetings were noted:

3.1 SE Board Budget meeting held on 19 March 2020

3.2 SE Board Urgent Approval meeting 24 March 2020

3.3 SE Board Audit & Risk Committee meeting held 15 April 2020 – *Verbal Update*

Willie Mackie provided a summary of discussions from the Audit & Risk Committee meeting held on 23 April. A helpful and wide-ranging discussion had taken place with Gordon Smail, Audit Scotland, particularly in relation to the proposed timetable for the Annual Accounts and the challenges in the current situation. Audit Scotland

was receptive to discussions to streamline the process and undertook to work in partnership with the Finance Team.

Willie highlighted the People and Culture Audit Review which had been graded 2 and the Audit & Risk Committee had commended Carolyn Stewart, Maria Bradshaw and the team for delivering high standards, particularly in the current circumstances.

A discussion was held with Audit Scotland on minor issues within the small grant process and contract management and a wider discussion had taken place on the delivery of the new funds in response to covid-19 and the potential risks involved.

Risk Management was discussed and Carolyn Stewart had given a summary of how SE was looking at the migration process controls which had been introduced to track and provide a detailed audit trail on decisions being made in response to covid-19. The Audit & Risk Committee had offered to support the repositioning of the Risk Registers and the process of revised reporting through to the Audit & Risk Committee and the wider Board. The Committee had been impressed with initial scope of work outlined.

4. Chair Report

The Chair updated on recent business meetings and the video to staff, which had been well received.

4.1 Registers of Interest

The annual review of the Board Registers of Interest had been completed and Board Members were asked to confirm, by exception, that their individual registers were an accurate record.

The Registers were approved.

Melfort Campbell highlighted the retirement and rotation rates for the Board, and it was confirmed that the Chair and Steve Dunlop would review.

5. CEO report:

Steve Dunlop highlighted the tremendous efforts of SE staff to respond to the current covid-19 emergency and outlined the intensity and complexity of the work involved.

Carolyn Stewart advised that to date there were four members of staff absent with Covid symptoms and ten members of staff were self-isolating but continuing to work from home. This had reduced from 29 members of staff. There were no capacity issues at the current time and this was being monitored daily in order to redeploy staff to priority areas. Over 100 members of staff had volunteered to bolster resource in EFRS.

To ensure the welfare of staff, a range of staff surveys had been carried out and additional communications to staff had been introduced. A dedicated covid-19 staff site had been developed which included daily welfare hints and tips and weekly bulletins. Internal communication channels were being utilised for regular communications and the Executive Leadership Team was hosting weekly all staff webinars, which had received excellent feedback from staff. HR had also introduced regular check-ins for people managers and leadership. A very positive response had been received from staff, commenting that they felt fully supported.

Inward Investment Opportunity/Strategic Site Acquisition

Linda Hanna provided an update on progress, the company was working closely with SE to share information on site investigations and a further meeting with them was scheduled in the near future and an open dialogue continued with senior level management. Work was progressing to review the demolition works contract and technical details and Linda confirmed that there were no issues to date.

Charlie Smith updated that the inward investor was keen to get HOT on the purchase of the site. The trajectory remained good and relationships with the UK MD were strong. Work was still ongoing on the option agreement and the company's desire to adjust the purchase price. The UK MD was liaising with lawyers to review options and in discussions with the CEO. A further discussion may be needed between Lord Smith and the CEO.

6. Finance and Performance Report as at end of March 2020

6.1 Letter of Guidance 2020/21 from Scottish Government

Mary McAllan advised that the guidance letter received had gone to all Enterprise and Skills agencies. This reflected the focus on Covid-19 and the challenges around clarity in the aftermath in terms of priorities.

Douglas presented this paper which provided an update on the anticipated outturn position for 2019/20 and information on the timetable for finalising the 2019/20 Annual Accounts. Douglas highlighted the outturn position for all three budget headings, compared with the previous position, outlining that Capital had largely remained the same, there was a significant improvement in Resource and the FT position showed a further increase in underspend due to three deals, one of which was a particularly large deal which would not proceed as planned due to the impact on the equity markets affected by covid-19. The overall projected under-spend across the funding streams totalled £7.0m

It was noted that the final cash outturn position for 2019/20 would not be established until the consolidated group accounts have been finalised in late May.

The Annual Accounts Timetable was included in the paper and was in line with previous years, however this pre-dated the Covid crisis and lock-down, with restriction of access to offices. As reported to the Audit & Risk Committee, it was estimated that the timetable could slip by up to 4 weeks. Douglas outlined the contributory factors for the slippage which included: Audit Scotland finalising their approach to a remote audit; remote working of key Finance staff; and, slippage of the property evaluation. The team would endeavour to work to the timetable as far as possible.

2020/21 Budget: As confirmed by Mary McAllan, the Interim letter of guidance had been received, which focused on response to covid-19, however, it also recognised that where there are contractual legal commitments, these should be honoured as far as possible. Douglas reminded the Board that the pre-covid budget had been approved on 19 March and which was highly committed. However, it was recognised at that time that operational elements would be affected by Covid and it was estimated that 50% of grant commitments would be likely to be stopped or deferred, releasing budget to reprioritise. An Interim review had been completed to review income forecasts, grant commitments and the unfunded project pipeline. Douglas confirmed that the income forecast had dropped by 37% due to loss of property income from

requests to defer payment of rental, and a significant drop of 35% in anticipated exit activities due to economic conditions and volatility in equity markets. These factors had a significant impact on overall budget, particularly on C-del and R-del. The unfunded pipeline remained strong, particularly in relation to large capital grant expenditure and strong R&D and RSA opportunities across the full range of the budget which were focused on economic recovery activity. A submission had been made to Scottish Government for any surplus capital for these activities.

The Executive Leadership Team had agreed to proceed on this basis, recognising the risks. However, it was anticipated that, as the normal business planning process progresses, and Project Managers engage with companies, this would result in pausing and deferral of commitment and expenditure to bring the budget back to a balanced position.

In response to a question on commitments and the ability to repurpose funding going forward, Steve confirmed that the Letter of Guidance had iterated that funding across the public sector, if not applied to legal commitments, would be re-invested in economic recovery and resurgence. A further discussion with the Board to seek their input would be scheduled on the weekly call.

Willie Mackie conveyed the Audit & Risk Committee's acknowledgement of the work by the Finance Team to reach this budget position in the current unprecedented circumstances.

Members discussed the volume of companies seeking deferred payments and Douglas confirmed the current situation, advising that monthly monitoring was underway.

A question was raised on planning for a potential secondary peak and Steve confirmed that the funds being implemented at the current time were focused on immediate needs and discussions were underway focused on the next phase of recovery. Mary McAllan also confirmed work underway within Scottish Government to plan for the next phase.

7. Performance Report

Linda Murray presented the performance report, highlighting the changes to format. The report continued to include a series of dashboards reflecting reporting against year-end forecasts, performance, major projects, risks and people. Work was progressing to include a Finance dashboard for end June.

The report also included dashboards to highlight the significant work over the past five weeks on SE's covid-19 operational response.

All performance measures had been achieved and final validation was scheduled for end May / early June and would be published in the Annual report. The final annual forecast outcome for sustainable and inclusive economic growth measures was highlighted, advising that there had been a slight downturn. An explanation of the potential contributory factors was provided.

Linda also highlighted the Risk dashboard which provided a summary of risks against major projects approved during the course of the year.

Willie Mackie commented on the evolution of the reporting and views presented.

Papers for Information

The following papers for information were noted:

Notification of New Interest – SE(20)19

SNIB – SE(20)18

Linda Hanna confirmed that discussions were ongoing with SNIB and an introductory discussion had been held with the new CEO. The first part of the paper focused on an update on the transition as well as marshalling resources to respond to covid-19. The latter part of the paper outlined the activities which were continuing. A draft Operating Model would be submitted to the next Programme Board.

South of Scotland – SE(20)20

An MOU was being developed and was expected to be signed in the coming weeks. This would outline what SOSE will deliver, what activities they would draw on from SE and which activities would be done jointly. Due to the current situation, the recruitment and induction of staff had been impacted, therefore, SE had continued to help support customers in South of Scotland.

Health Safety and Wellbeing Quarterly Board Report	SE(20)21
Global, UK and Scottish Economic Commentary	SE(20)22
Approvals Within Delegated Authority	SE(20)23
Testimonials & Complaints	SE(20)24
Forward Events and Summary of Events in past month	SE(20)25

Strategic Discussion – Covid-19 Update

Introduction and Context – SE(20)28

Steve introduced the strategic discussion and outlined the elements and format of the discussion.

Update from Scottish Government – SE(20)32

Mary McAllan updated on the work being done to interpret the likely shape of the impact on the economy which was being modelled by Gary Gillespie and the Office of the Chief Medical Advisor, leading to the publication of the State of the Economy earlier in the week. GDP had fallen by 25%-30% and the critical question was on the likely length of time that the current circumstances will sustain.

Mary referenced the UK policy response to date to assist businesses to hibernate, payment of wages, mortgage holidays, rent protection and welfare, as well as the significant funding made available by way of grants and loans. It was acknowledged that the extension of the circumstances beyond three months would have a more detrimental effect on the economy.

The First Minister had published a paper the previous day to stimulate discussion on the country's response. The paper outlined the health dimension, the importance of lockdown and explained the limitations of testing and the importance of monitoring the Replication rate in order to make judgements on releasing requirements. Mary outlined the three lenses for impact: Health, Economy and Social. The process to look at the next stage was underway to

consider the conditions required. Work was underway working with sectors, particularly with the Construction sector, on safe working and input was being sought from the sector, public health and Trade Unions. A similar review was underway for manufacturing and others in the Scottish Government were working on retail.

Board members asked about scenario planning, in the absence of a vaccine, for a potential second resurgence of the virus. Mary outlined the work done to equip hospitals and the work on a UK level to get experts working on a vaccine across the country. Mary also highlighted the willingness of the Life Sciences and Manufacturing communities in Scotland to assist in the response to manufacture ventilators, vaccines, testing, PPE, sanitisers, etc. and SE was very involved developing the supply chain.

In response to a question on additional financial support, Mary confirmed that the Scottish Government was working closely with the UK Government, feeding in intelligence from SE, to outline further requirements.

The Board asked about intel gathered from the timescales on recovery from other countries and Mary confirmed that this was reviewed and monitored. Scottish Government was looking at the implications in terms of the economy and Scotland's competitiveness, should other countries open.

Scottish Government and SE Interface

Charlie Smith outlined the close collaboration between SE and Scottish Government in response to Covid-19 to support companies and outlined the background to the creation of two funds: the Hardship Fund and Pivotal Enterprise and Resilience Fund. Charlie also detailed the work underway to look at the next phase of recovery of the economy, including the creation of a pipeline of opportunities and activities which would stimulate economic development.

Linda Hanna advised that Board of the work underway to identify those companies within Scotland of national importance and to assess their needs currently and in the future.

Charlie highlighted the collaboration across the partner agencies to develop and design the end-to-end process to deliver the new funds.

SE's Role in New Fund and Grant Management – SE(20)29

Jane Martin took the Board through the process of delivery, highlighting the scale and pace involved. A paper had been circulated which sought approval for delivery of the funds, which the Board was asked to consider. Jane outlined the process, highlighting the key role for Enterprise Agencies to ensure that the funding was distributed to those companies most in need. A delivery partner had been identified, We Are UMi, to assist with the volume of applications anticipated. A common process and clear criteria would be adopted for both funds, with Enterprise Agencies involved in the diligence process. Modelling on numbers and the operational model had been carried out and approximately 130 SE staff had been deployed in the process and to provide wrap-around support. An Operational Working Group had been established to include all agencies and Scottish Government which would meet three times a day to take decisions. A representative from Scottish Government Audit would also be in attendance. SE's Internal Audit Team would also be involved at an operational level from a risk perspective. A Steering Group represented by CEOs of each of the agencies had also been established and would meet twice per week.

The Board asked about consistency of decision-making in awarding of grants of evaluation. Jane confirmed that there was clear criteria for each of the funds and an Appeals and

Complaints process was being developed. A measurement framework was also being developed to track the spread of funds delivered across Scotland, and an Evaluation Framework would be implemented to track over the longer term.

At the end of the presentation and discussion, Jane highlighted the paper which had been issued to seek approval for expenditure of up to £65 million pounds of direct funding to Scottish businesses and up to £4 million of associated delivery and administrative costs.

The SE Board approved the expenditure and associated administrative costs to deliver the funds.

Anne Glover left the meeting.

Priority Company and Sector Support – SE(20)27

Linda Hanna briefly outlined the work underway to review the current situation across all sectors and to identify the needs and SE's role in both the response to the Covid-19 crisis and restarting the economy. A paper focused on the Oil & Gas sector had been circulated which outlined the opportunities to accelerate activities post Covid-19, e.g. business support, diversification and supply chains.

Mary McAllan highlighted the work being led by Benny Higgins, acknowledging that sectors would be an important part.

Linda also outlined some of the considerations being given to acceleration of cross sector opportunities to protect strategic companies, and the assets, policies and investments required to facilitate. Linda highlighted the need for investment in start-up and early stage companies. Skills profiling for the Oil & Gas Industry was underway and it was acknowledged that focus on the skills-base more generally was required, particularly in relation to young people graduating from university and the difficulties in the current circumstances in coming into the workplace.

It was agreed that a more in-depth discussion would be held on the Oil & Gas sector at the next weekly Board call.

Mary McAllan asked that the work being undertaken is fed through to Scottish Government when complete as this would help to guide the options being considered for recovery.

Melfort Campbell referred to the three key groups within the Oil & Gas sector: corporate, enterprise and local trade and highlighted the need for bespoke support for each.

Board members raised points in relation to changes to public transport and dependencies on long supply chain, referencing a recent study and the success of Germany in terms of ventilator capacity. Linda confirmed that discussions were underway with Scottish Government and the NHS on next steps in relation to onshoring the supply chain back to Scotland and the procurement policy required and the repurposing opportunities to create capacity now and in the future.

The importance of local business and reference to the Preston Model was raised. Mary McAllan advised that a pilot project in Ayrshire was underway based on this model.

SE's Corporate and Organisational Response – SE(20)30

Carolyn Stewart outlined the organisational structure and governance to support SE's response. This included an expanded Covid Response Team with workstreams leading the various operational areas, with objectives and milestones for each. Governance included

daily meetings of the Executive Leadership Team and joint meetings with the Workstream Leads twice weekly. A Programme Management Office was in place to support the workstreams and to provide regular reports on progress. Each of the key meetings was being supported with decisions and actions recorded and a decision repository had been established for off-line decisions. A covid-19 Risk Register had been developed and this was a live document which would be updated regularly.

The Business Continuity Silver Team was meeting weekly to deal with the crisis as well as business as usual. Real-time audits were also being conducted to help highlight and resolve issues.

The Board commended the Executive Leadership Team on all of the work done to respond to the crisis and were reassured by the rigour of the processes.

Communications – SE(20)31

John Booth outlined the key focus of communications externally and internally and advised that SE was part of a multi-agency response with Scottish Government and partners.

This highlighted some of the outputs, referencing the views of the Findbusinesssupport website; subscriptions to the daily newsletter and the numbers of customers being reached through social media channels. Internally, the range of content produced through internal channels and staff webinars was well received by staff and feedback from the Pulse surveys had been very positive, with staff feeling informed and supported.

John detailed some of the areas of focus going forward, including: engaging and mobilising businesses through to recovery/restart phase; reputation management and international.

The Board asked about temperature testing prior to release of communications and John advised of the approach taken, particularly in relation to sharing messages with partners and enabling operational staff with information to respond to questions.

The Chair thanked the team for the content of the presentation and the thoroughness of the work done to date.

The Board meeting was concluded, and the Chair left the meeting.

SE Board Approvals Committee

Willie Mackie took over as chair for the following approvals.

Change Request: SIB Equity Fund – SE(20)17

Kerry Sharp and Joan Gordon joined the meeting to seek approval to increase the Scottish Co-Investment Fund (SCFIV) and the Scottish Venture Fund (SVFIV) project approval level by £35m for the final year of the existing approval period. This would increase the Funds cumulative approval to £110.6m up to the end of March 2021. There would be no change to eligibility parameters and operational delivery arrangements as set out in the April 2018 SE Board approval. This change request is sought to ensure that there is SE Board approval in place to continue to deliver the Funds during the final year of the current 3-year approval period to end March 2021. The proposed increase to the approval limit would be subject to budget availability and ongoing prioritisation in response to COVID 19.

Kerry explained the increased demand over the approval period which had resulted in the approval level being reached earlier. While it was difficult to predict future demand, investors

were reporting that the crisis was likely to place increasing pressure on investors to make more funding available to their portfolio companies and to support transition through this difficult period. For companies seeking equity funding for the first time, it was likely that investors will look to greater risk sharing to manage their exposure.

The role that SE has played in the market to date was outlined, highlighting the need to respond flexibly to market needs.

In response to a question regarding the impact of an increased level of activity, Kerry confirmed that the funds would continue as they had been but would flex to tailor specific deals. Work was currently underway to review the early stage needs, taking into consideration investment strategies and UK Government support mechanisms.

The SE Board approved the change request.