

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD ON FRIDAY 30 AUGUST IN APEX HOUSE, EDINBURGH

Present: Willie Mackie, Interim Chair
Adrian Gillespie, Chief Executive
Karthik Subramanya
Dr Poonam Malik
Dr Sue Paterson
Professor Gillian Murray
Raymond O'Hare
Professor Richard Williams
Graham Soutar
Professor Stephen McArthur

In Attendance: Jane Martin, MD, Innovation and Investment
Gill McNeill, Chief People Officer, People, Digital and Communications
Douglas Colquhoun, Chief Financial Officer
Reuben Aitken, MD, Energy Transition and International Operations
Rhona Allison, MD, Productivity and Business Growth
Karen Hannah, Corporate Office

STANDING ITEMS**1. Minutes of the meeting held on 21 June 2024 – SE(M)347 & SE(M)347a**

The minutes of the meeting were approved.

2. Minutes of the meeting held on 26 July 2024 – SE(M)348

The minutes of the meeting were approved.

3. Matters Arising – SE(338)(MA)

The matters arising were noted.

4. Board Committee Updates/Minutes**Audit & Risk Committee, held 10 June 2024 – SEBAC(24)02**

The Minutes were noted.

Audit & Risk Committee, held 24 July 2024 – SEBAC(24)03

Graham updated on the actions completed and consideration of the forward planning for the Committee and revisions to the Terms of Reference.

Audit & Risk Committee Annual Report – 2023/24 – Final – SE(24)41

Willie commented on the paper which provided assurance on how risk was being managed and supplemented the assurance coming from the Annual Report and Accounts.

Board Urgent Approval Meeting, held 26 July 2024 – SEBUA(M)(24)04

The Minutes were approved.

5. Chair report

Willie sought approval from the SE Board for the Health & Safety Annual Report. This was approved.

Willie provided an update on the open and positive discussions with the First Minister on 28 August, confirming his support for what SE does, acknowledgement of the challenges and his appetite to be more directly engaged. The First Minister was scheduled to meet with an inward investment company in the coming weeks and Willie would accompany.

An update was provided on discussion with Barry Whyte, following the recent NSET Delivery Board, which focused on the refresh of NSET and the draft Programme for Government. The strong alignment of SE's missions and collaborative approach was highlighted.

6. CEO Report

Adrian updated on the Delivering Results Launch the previous day, which was aligned with a visit by the Deputy First Minister to Symbiosis, a drug manufacturing company based at its new site in Stirling. SE had been supporting the company since 2012 and the company had grown steadily since. They had made a significant investment in their new premises, and in state of the art equipment. SE had contributed £4.3m to the overall project. The company spoke openly with the DFM on their relationship with SE, which had helped with their growth.

Adrian thanked the Communications team, who had organised the launch and the subsequent activity through social media.

Adrian also updated on a discussion with the Deputy First Minister on investment, which had been prompted by some feedback from the First Minister. The DFM was keen to discuss what more could be done in the investment space.

The Board was informed of the sad passing of Denise Kerins, who had presented at a Board meeting earlier in the year. Denise had a 30-year career in Scottish Enterprise and was very much missed by colleagues. Willie offered condolences on behalf of the SE Board.

The All staff virtual conference on 3 December was highlighted, which had previously been an in-person event taking place every 2 years. Board members were asked to hold in their diaries, pending invitations. The theme of the conference would be focused on the missions, the People and Finance Strategies and plans for the future. The First Minister had also agreed to join.

Dinker Bhardwaj had been appointed as SE's Strategy & Performance Director, starting on 1 October. Dinker would be joining from Scottish Government where he has held a variety of policy and delivery roles, including Head of Trade Policy for Climate and Sustainability.

Adrian raised a recent letter from Scottish Government regarding in-year pressures on budgets and new guidance to achieve a balanced budget. Adrian had also had a subsequent discussion with the Director General. The parameters of the new guidance were outlined which applied to resource, capital and Financial Transactions and related to

all commitments of £1m or over, including constructive obligations and legal commitments, which would require to be included within the Accountable Officer (AO) process. Adrian outlined the challenges in relation to implications if projects were not approved, the potential impact on development of the pipeline, ambition and staff confidence on delivery of projects in development. In relation to resource spend, only necessary recruitment and travel was to be undertaken. SE had already taken steps to restrict recruitment and to approve only essential travel. Gregor Irwin had assured that Scottish Government would aim for timely decisions on projects coming through the AO process.

The Board discussed delivery against SE's Financial Strategy and impact on prioritisation and conveyed the need to maintain the levels of ambition and to feed back to Scottish Government practical examples and case studies to outline the challenges. Willie confirmed that discussions with the First Minister and Deputy First Minister would continue to seek solutions, particularly in terms of live business opportunities.

Adrian thanked Colin Cook and his team for their engagement, understanding on the challenges and commitments and their help in making the case, particularly on constructive obligations.

Adrian provided an update on his recent visit programme in London, which included meetings with investors, companies and a meeting with the new CEO of Innovate UK.

An update paper on Edinburgh Bioquarter was included within the meeting pack regarding the procurement process which had been brought to a close without appointment. It was the intention to bring a strategic discussion to the December SE Board meeting to discuss options for the future.

On Grangemouth, Adrian advised that the Petroineos Board was due to meet the following week on the future of the refinery and an announcement was expected. A commitment of £1.6m from Scottish Government and UK Government had been made to explore repurposing of the site and new economic opportunities. Ernst and Young (EY) had been brought in to lead an intensive programme of work expected to take 6 months covering technical, economic, regulatory, and social / community aspects of any plans. SE was represented. Once this had progressed into the Project Willow exploratory phase, the Board would be given further insight. Jane updated that recruitment was underway in SE for a Head of Grangemouth, to draw together various Grangemouth related activities from across the organisation. A kick off meeting with EY, Petroineos had been held and also a further meeting between EY and SE staff to help make connections. Adrian thanked Jane and Paul McCafferty for their work to date.

As mentioned previously, Adrian met with the Interim CEO of Innovate UK, Stella Peace, together with Indro Mukerjee, the outgoing CEO. A great deal of joint working with SE Account Managers had been undertaken, to join up support, develop close working relationships with Innovate UK. An early-stage joint event was scheduled for the end of September, which Stella would attend. On regional working, a similar piece of work to that done in Edinburgh was now being undertaken in the North East of Scotland. HIE and SOSE were also looking at taking a similar approach.

Adrian updated that five significant follow-on deals had been completed in less than a week at the end of July raising £29m, which was very encouraging given the difficult market over the past year.

SE had signed up to the Pathways Forward pledge, set up by Ana Stewart, to influence and shape a better future for women in entrepreneurship. This consisted of two main programmes: the Founders programme launched in August with wrap around support and grant funding, and a Diversity event in September for Investment in the eco system.

The Board discussed skills needed in Scotland for the future and the potential for SE, aligned with its core priorities, to work with universities to identify workforce planning and talent pathways needed for an innovative Scotland. Adrian confirmed that he would welcome a discussion with the Board.

7. Finance Report as at end July 2024 – SE(24)42

Rachel Ducker presented the Finance report which provided a review of the financial results to the end of July 2024 (Period 4) and an update on the latest full year forecasts for the 2024/25 financial year.

Rachel confirmed that the team continued to monitor and review future forecasts and commitments and highlighted that the overallocation continued to be effective with substantial savings in the first four months, with £20.6m above balanced budget remaining.

Income had increased by £2m since May, with the most significant factor in the increased income forecasts relating to £1.6m of additional grant in aid funding. The listed shares forecast had decreased by £1.2m due to revised valuations and fluctuations in market.

On Capital, the initial overallocation of £28.4 million had considerably decreased over the first four months and currently stood at £7.7 million. It was considered that the overallocation would reduce naturally over the next few months and there may be an opportunity to accelerate some projects.

The Financial Transactions (FTs) remained balanced and no over allocation had been made to FTs.

Resource had reduced to £12.9m at the end of July, mainly due to a decrease in planned expenditure of £1.9m and a key change related to the removal of £1.5m from the expenditure forecast for the “Unlocking Innovation for Scale” project as work was ongoing to shape how the project will be delivered.

Monitoring of legal commitments continued and remained below balanced budget position. Should a potential overspend emerge, focus would be placed on uncommitted planned expenditure and managed into 2025/26.

Following the recent announcements by the Scottish Government, a clear understanding was needed of commitments and which projects would need to go through the Accountable Officer (AO) process to help shape priorities. Potential delays may cause some slippage to delivery of outcomes. The team continued to seek exemptions to the AO template and discussions were ongoing on implications.

Expenditure was ahead of plan by £1.4m mainly due to timing and changes in forecast. There remained significant backloading, however, levers were in place to manage.

The Board commented positively on the clarity of the report and the evident success of the overallocation approach. A question was raised regarding breakdown of salaries within missions. Rachel advised that this was a challenge and required a manual process. It was estimated that 73% of the salary budget was allocated to front line.

A further question was asked regarding prioritisation of projects in the event of further budget reduction. Rachel confirmed that the Missions Board reviews allocation changes and projects for prioritisation. There were also other levers to control spend, including levers around income from property disposals and listed shares.

8. Performance Report as at end July 2024 – SE(24)43

Susan Moore presented the Performance report, which provided an update on progress on key areas of the business and the opportunity to reflect on delivery across the organisation.

On Measures, four of the six outcome measures were forecasting to meet or exceed the target range, with Capital Investment and CO2 savings forecasting above range. Planned new or safeguarded jobs and Planned Innovation were forecasting below range.

The Missions dashboards provided a summary of priority activity, and Susan highlighted the launch of two programmes which were critical to all three missions; the Manufacturing Property Challenge Programme and Workplace Transformation Support.

Other activities of note included the launch of an Economic Development Training Programme in partnership with Economic Development Association Scotland, and results for the recent International Customer Survey, with responses from over 350 international customers with baseline results obtained for sentiment and perception of both inward investment and trade.

The Corporate Risk Register was currently being refreshed and was not included.

In response to a question raised on capital investment and business innovation, Rhona and Jane provided an overview of activities underway including a potential for a new subsidy and control approach to support greater capital investment from companies. A new team had also been established to look at the global investment market and working with Richard Rollison's team in Scottish Government who were delivering on the First Minister's Investment Programme. Work was also continuing with companies demonstrating confidence to expand their growth plans. Jane mentioned that the Club Fund was instrumental in bridging gaps within the early-stage market. Engagements with the Scottish National Investment Bank and Scottish Funding Council were ongoing to examine the broader ecosystem in this sector. The significance of clusters was emphasized, particularly in relation to Scaling Innovation and the Capital Investment missions; efforts were being made to develop a comprehensive wrap-around proposition. Furthermore, the collaboration with Innovate UK on regional action plans was also contributing to connecting these elements.

A question was raised in relation to Techscalers and Jane confirmed that SE was not an investor, however, was working alongside and partnering to create a clear pipeline and wrapping around SE's services at an appropriate time. It was acknowledged that Techscalers were an important part of the eco system and discussions were underway on what more could be done to create further leverage.

The Board sought further information regarding the international customer survey in terms of comparison with other competitors. Reuben advised that work was underway to review the data further. Initial results were positive in relation to messaging within the energy transition space.

On measures and the two forecasting to not reach target, a question was raised on the approach to address. Adrian advised that the jobs numbers were similar to those at this

point the previous year. However, the key difference this year was the increased dependency on larger projects. Reuben commented that projects of scale were particularly relevant within the Energy Transition space and the uncertainty of whether these would land. A sensitivity analysis was underway to look at scenarios.

A question was asked in relation to the cyber narrative and influence of other parties. Susan would check and report back at the following meeting.

FOR DISCUSSION/APPROVAL

9. Five Year Property Portfolio Strategy 2024-2029 – SE(24)44

Victoria Carmichael and Garry Williamson joined the meeting to lead discussion on this paper which outlined SE's future role in driving economic growth through stimulating greater levels of capital investment in commercial property, and presenting operating model options for the property portfolio. This followed input from the SE Board at the meeting in February 2024 on SE's property portfolio and strategic acquisitions.

Garry highlighted the more creative approach to unlocking infrastructure investment, particularly in collaborating with partners to identify the key opportunities. The SE Board was asked to consider and endorse the strategic direction outlined.

The Board discussed timing and key differences in the approach; opportunities to identify strategic sites across Scotland aligned with missions; decarbonisation of public buildings; and, overall balance of investment.

Garry advised that it was a 5-year strategy and highlighted the challenges of being prescriptive on how many opportunities could be delivered. However, the pipeline of opportunities would be assessed for strategic fit and alignment with missions. The key ambition in approach was the increased acquisitions of strategic assets to help rebalance the portfolio.

Victoria confirmed that work was underway to look at transformative opportunities and to map out propositions across Scotland. Jane suggested that a paper could be developed for discussion with the Board on the greatest strategic opportunities, mapped with assets that SE owns, and those not owned, but which SE could help to unlock. Willie confirmed that this would be a good discussion for the Board Strategy session in December.

On decarbonisation, Garry advised that SE was working with Scottish Government colleagues on the decarbonisation scheme.

In relation to overall investment of the property portfolio, Jane confirmed that the SE Board had given a strong steer to rebalance a few years previously. Adrian highlighted the legacy properties and need to focus on disposal, as well as the reduction in resource within the team. Further thought was needed to appropriate resource given the new strategic direction, and he suggested it would be helpful to have a discussion with the Board on the future size and shape of the portfolio.

Willie thanked Garry and Victoria for the paper and the Board endorsed the proposal outlined. A further discussion would be scheduled for the Board Strategy Session.

10. Digital, Data and AI Strategy – Introduction – SE(24)45

Stuart Lewis, Tricia Nevitt joined the meeting to seek approval for the Digital, Data and AI Strategy.

Stuart updated on the process of engagement across the organisation and externally, and thanked Stephen and Raymond for their valuable feedback. The key pillars and elements of the strategy were outlined. Following approval, further work would be undertaken to develop more detailed delivery and action plans, measurement and KPIs, better articulate costs/resources, and internal and external engagement activity. The intention was to launch in October/November, together with the Year 1 action plan.

Willie thanked Stuart for the overview, acknowledging the challenges, particularly in relation to data and sought a view of SE's status on the journey. Stuart advised that SE were already part way through the journey with great progress being made in recent months with the implementation of the on-line grants system, changing ways of working and using learning to progress further.

The Board commended the team on the well-structured strategy, which was customer-centric, with a good understanding of business needs and opportunities. Discussion focused on timeframe for delivery; the use of AI; alignment and governance; and costs.

Stuart confirmed the considerations of evolution of SE as an organisation and of technology and data in determining the timeline for the Strategy. He also outlined the business uses of AI, advising of the pilot being undertaken of Co-pilot and the lighthouse approach which would be focused on more transformative activity.

In terms of alignment, Tricia confirmed that EIS were critical to the strategy and were aligned, with discussions being held across the EIS partnership. In relation to governance, a digital steering group had been formed, with Director-level representation from across the organisation to manage the various strands.

It was suggested that the Board could input to the Lighthouse projects e.g. in agreeing principles.

Stuart confirmed that there may be some temporary costs, e.g. to renew CRM which would need to continue to run until the new system was in place, however, there would be savings in the longer term. Adrian confirmed that the budget would be protected, in recognition of the criticality of the strategy in helping to deliver on the missions approach.

Willie commended the team on the strategy, acknowledging the alignment with the Finance and People strategies. The strategy was approved.

11. Club Fund – progress Update – SE(24)46

Kerry Sharp and Sarah Hume joined the meeting to present this paper which provided an overview on progress and key considerations to date and set out the key next steps to establish a new Club Fund model to help sustain and amplify the value we bring to the early-stage investment landscape in Scotland.

Kerry outlined the background to use SE's experience and connections across the investment and entrepreneurial eco-system and have investors follow SE's co-investment and Venture funds deals, and for commitment over the longer term, to enable continued follow on investment with a key focus on economic returns. A summary of the work done in Phase 1, focused on creating a viable opportunity to take to market, preparatory analysis of expenditure and returns, and creating a suitable legal structure to deliver on ambitions. Next steps (Phase 2) would involve finalisation of key investor engagement documents, finalisation of delivery mechanism, process and timing, formal engagement with key stakeholders and engagement with the market. Some early engagement had been undertaken with a number of parties as part of the consultation process and to seek

feedback. A discussion with the Board to report on further progress was anticipated in December.

Feedback was sought from the Board on progress to date, the proposition and the Pitch Deck.

The Board commented positively on the considerable amount of work undertaken to get to this point, and acknowledged the dependencies and risks, however, there was recognition of the significant transformational opportunity for Scotland. The Board also welcomed sight of the Pitch Deck and suggested using examples when in discussion with investors.

The key area of focus for discussion was the model and how this would work in practice. Kerry provided an overview, outlining the procurement process, investors funding alongside SE and relying on SE's model and processes. SE would provide scale across the whole market e.g. deals across sectors. The soft marketing in Phase 2 would enable feedback to help inform any adaptations needed.

On behalf of the Board, Willie thanked Kerry and the team for all of the work involved, acknowledging the next steps and looked forward to the update in December.

PROJECT APPROVAL

12. ZeroAvia – Hydrogen Fuel Cell Manufacturing Centre – SE(24)47

Mike Sinclair, Jonathan Simpson and Tasmyn Ewart joined the meeting to seek approval for expenditure of up to £9m towards ZeroAvia – Hydrogen Fuel Cell Manufacturing Centre under Section(s) 8(a) of the Enterprise and New Towns (Scotland) Act 1990 through a Regional Selective Assistance (RSA) grant. This will enable a £43.6m capital expenditure (capex) project which will create 364 new jobs and deliver £50.9m of innovation investment.

Mike provided an overview of the opportunity and the economic impacts, highlighting the contribution to Scotland's energy transition ambitions and the opportunity for further projects with the company. The key risks were highlighted in relation to technology, market and talent, however, SE considered that, on balance, the risks were limited in relation to the significant economic benefits.

The Board sought further detail on lessons learned from a previous similar project to mitigate risk; risk vs reward, and additionality.

The team outlined the rigorous appraisal process in relation to the RSA grant and the steps within the application process which ensured that the company was meeting investment targets and providing regular updates on strategy. Comfort was also taken by the ability of the company to raise finance and the confidence of the strategic and financial investors who had been involved in the various funding rounds. The commitment and capability of the company in terms of its vested interest in hydrogen, and steps taken to develop software tools to help companies in the production of hydrogen was also highlighted. The company had also consulted with the CAA to bring them on the journey to hydrogen approval for aviation, and the potential opportunities with Glasgow Airport were also outlined.

The team explained that the investment, alongside SNIB, was made on the condition that the company brings activities to Scotland. Without the investment, the company would target some activity within Scotland, but not of the scale that the build of the manufacturing centre would bring. The company had been looking at other options in the US and England,

and had been attracted to Scotland's academic skills, train links and existing companies which SE was working with. Due diligence had been undertaken on 17 sites and it was evident that the grant was required to help reduce the capital required. The RSA grant would help to fill the funding gap.

It was acknowledged that SNIB's investment would provide equity returns, however the team confirmed that the product would be commercially viable by 2026, and increased orders were expected not only from the Aviation industry, but also from Maritime and Auto Vehicle sectors.

The Board recognised the transformational opportunity and the potential to help drive new skills development and innovation. The project was approved.

FOR INFORMATION

The Board noted the following papers for information.

- 13. Scottish Enterprise's Approach to Best Value – SE(24)48**
- 14. Medium-Term Financial Strategy 2025/26 to 2027/28 – Design Version – SE(24)49**
- 15. Annual Health and Safety (H&S) Report 2023/24 – SE(24)50**
- 16. Edinburgh BioQuarter Joint-Venture Update – SE(24)51**
- 17. Economic Commentary – SE(24)52**
- 18. Approvals Within Delegated Authority – SE(24)53**
- 19. Testimonials & Complaints – SE(24)54**
- 20. CEO & Chair Summary of Key Activity – SE(24)55**

ANY OTHER BUSINESS

Chair Recruitment: Willie updated that recruitment would be advertised the following week.

Demonstration: Master Customer Record

Aileen Hotchkiss, Sheryl Crombie and Stuart Lewis joined the meeting to provide a demonstration of the Master Customer Record.

Willie thanked the team on behalf of the Board for the very informative demonstration.