

**MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD ON 30 JUNE HELD AT
AYRSHIRE COLLEGE, KILMARNOCK CAMPUS**

Present: Willie Mackie, Interim Chair
Adrian Gillespie Chief Executive
Karthik Subramanya
Dr Poonam Malik
Dr Sue Paterson
Carmel Teusner
Peter McKellar
Professor Gillian Murray
Raymond O'Hare
Professor Richard Williams

In Attendance: Jane Martin, MD, Innovation and Investment
Douglas Colquhoun, Chief Financial Officer
Neil Francis, MD, Digital and Major Projects, Scottish Enterprise
Reuben Aitken, MD, International Operations
Rhona Allison, MD, Business Growth
Colin Cook, Scottish Government
Karen Hannah, Corporate Office

Apologies: Maria Bradshaw, Interim Chief People Officer

STANDING ITEMS:

Willie Mackie welcomed everyone to Ayrshire College's Kilmarnock Campus, which would be followed by a tour of Halo. Gillian Murray, Richard Williams and Raymond O'Hare were welcomed to their first Board Meeting. Willie advised that Stephen McArthur and Graham Soutar would be joining in January 2024 and would also join for the strategy session later in the year.

Apologies were noted from Maria Bradshaw who was on annual leave.

Willie declared an interest in relation to an update which would be provided later in the agenda given his position on the Board of Prestwick Airport. There was however, no direct conflict in relation to the information contained in the update. No other declarations of interest were received from Board Members.

1. Minutes of the meeting held on 28 April 2023 – SE(M)338

Adrian clarified, under the update provided on industrial action, that the 10% referred to in the minute had been in relation to overall staff. The Minutes were approved.

2. Matters Arising – SE(332)(MA)

It was noted that the actions in relation to Cyber and Approvals within Delegated Authority would be coming forward to the August Board meeting.

3. Board Committee Updates/Minutes

3.1 Audit & Risk Committee, 19 April 2023 – SEAC(M)(23)01

3.2 Urgent Approval, 16 May 2023 – SEBUA(M)(23)05

The minutes of the meetings were noted.

4. Chairs Report

Willie updated on a Chairs Information Session on Public Service Reform which he had attended on 31 May. Key points of discussion included: commitment to collaboration and joint working, budget implications, clusters and establishing centres of excellence and alignment. There was a key focus on policy context, Scottish Government priorities and the contribution that Boards can make to the process.

Willie had also had the opportunity to meet with Scottish Government colleagues in relation to the conclusions of the Skills Delivery Landscape Review.

An update was provided on Willie's recent visit to Flotation Energy and Verlume in Aberdeen.

5. Chief Executive's Report

Adrian referenced the appointment of Gill McNeil as Chief People Officer, beginning in August, and thanked Carmel for her support in the interview process. As part of Gill's induction, one to one meetings with each of the Board members would be scheduled.

Feedback was provided on staff engagement sessions which Adrian had hosted on the Missions. Eight sessions had been held, with attendance from 106 People Managers from across the organisation, as well as a further six directorate sessions. Strong, positive feedback had been received on the clarity of direction and SE re-establishing its remit and leadership position in economic priorities. A further leadership meeting had been held which focused on capabilities implementing the change. Adrian had also attended the first Green Energy Mission team session, with 70 colleagues in attendance. This had also been a very positive session. Regular communications were scheduled over the coming weeks from mission leaders and colleagues involved.

Following the publication of the Skills Delivery Landscape Review on 7 June, an initial meeting had been held with Scottish Government, alongside HIE and SOSE to discuss the recommendations and implications. There were 15 recommendations, some of which were relevant for SE, particularly in relation to supporting business response and workforce planning. An initial response had been published by Scottish Government.

The Scottish Government Innovation Strategy had also been published on 9 June and shared with the Board. SE had been very involved in development of the strategy and Adrian was a member of the Steering Group. A fuller update would be provided, together with a formal report on Innovation and Investment, at the Board Meeting in October.

Adrian also highlighted the E&Y Survey results which had been published and shared with the Board, referencing the retention of Scotland's position as the most attractive location outside of London, and the record number of inward investment projects secured, despite the challenging economic conditions. Financial Services projects had also doubled, and Scotland had increased its share of the total inward investment projects attracted by the UK. Adrian congratulated the team, led by Reuben and Mark Hallan, advising that this was a cross-organisation effort, led by the Inward Investment Team. The team was also progressing well on the missions, seeing positive results, particularly in the Green Missions space, and seeing projects coming into the pipeline. Willie also commented on the outstanding results and conveyed his thanks to Reuben and the team.

Building on the SDI results, Adrian had joined Deputy First Minister, Shona Robison, to announce the £31m investment by Eurostampa in a new state-of-the-art facility in Cumbernauld. This was the largest capital investment the company had ever made across all its operations. Supported by a £2.5m SE grant, the new facility would create 90 new jobs and safeguard 12 jobs.

Adrian updated on the official opening by the First Minister of the National Manufacturing Institute for Scotland on 21 June, at which he also spoke on behalf of SE. SE took the opportunity to use the opening to undertake a series of activities and initiatives to raise the profile of maximising opportunities for NMIS to engage with, and support, SE account managed companies. This was also part of a successful Manufacturing Week, which included the Manufacturing Conference, which was attended by over 300 delegates, and a company visit to Diodes, Inverclyde.

Adrian had also spoken at the SFE summer event the previous week and provided an update on the positive session.

Neil Francis provided a brief update on progress on Cyber Security, advising that a fuller update would be provided in August. A key decision arising from the audit was increasing resilience on the management of SE's estate. The preferred option was to move to the EIS platform and work was underway on costings and time for implementation. Work was also underway on the Cyber Strategy which was scheduled to complete in August.

Adrian provided the following business updates:

Chemring Energetics UK Ltd, a major employer in Ardeer, was investing £40m to design, develop and construct a centre of excellence for the production of extruded double base propellant. SE was supporting the project with up to £4m R&D support, which would safeguard 300 high-value jobs, increase the international exports and position the company as a manufacturing world leader in the industry.

XLCC – Hunterston: Following SE Board approval for £9m funding support on 9 March 2023 for this cable manufacturing company, planning approval for the new facility had been granted by North Ayrshire Council on 24 May. A site start was planned for January 2024 assuming required funding is secured.

One Biohub: Richard Lochhead, MSP officially opened the new build Industry Innovation Hub in Aberdeen on 29 May. The project was led and co-funded by Opportunity North East with funding from the UK Government, Scottish Government and SE. SE's contribution of £2m, towards the capital build programme, had helped to fill a funding gap to allow the project to progress.

One Seed Pod: ground-breaking work had begun in May for this Food & Drink Innovation Hub which was a game-changer for the Food and Drink Industry. SE had contributed £2m towards the £27m investment.

Advanced Manufacturing Innovation District Scotland: Buccleuch Property had been appointed as the Joint Venture Development Partner and it was expected that this would lead to significant investment being secured in the site over the next few years.

A question was raised in relation to external communications regarding the missions based approach. Adrian confirmed that the missions would be launched through publication of the Corporate Plan in September/October. The Board would see a draft of the Corporate Plan in August. There had been informal discussions with partners but more formal engagement on the detail would not take place until publication of the plan.

Willie updated on the meeting with Mr Gray, Cabinet Secretary in May, where he had been very supportive of the missions based approach. Discussion also focused on removing duplication, and streamlining supporting infrastructure. Mr Gray would be joining the Board Meeting in August.

Willie also congratulated Poonam on her appointment as Co-Chair of the New Deal for Business Group.

Alan Maitland and Linda Murray joined the meeting.

6. Finance Report as at end of May 2023 – SE(23)20

Alan Maitland provided the Board with a review of the financial results to the end of May 2023 (Period 2) and an update on the latest full year forecasts for the 2023/24 financial year.

Alan advised that the 2022/23 audit of the Annual Accounts was progressing well with no issues raised. In April the main driver of the capital underspend had been the removal of the company project related £5m accrual with the caveat that there was potential for this to come back into the Accounts. Audit Scotland was being kept up to date on the position. A clearance meeting was scheduled for the following week and timescales for approval were on track for the meetings of the Audit and Risk Committee and Board in July.

Alan updated on the current forecast position, advising that there remained some pressures, however, advising that this was a healthy position and usual for this stage of the year. Slippage had been highlighted to the Board in April and the over-programming approach had been established to offset this, with further activity to maintain balance. A key part of the approach was monitoring of KPIs, tracking spend against full allocation and focusing on legal commitments and how these were building up through the financial year.

A summary was provided on the overall projected position across the funding streams, highlighting the backloading in C-Del and FTs and the continued Expected Credit Loss pressure in R-Del. The extent of the pressure would not crystallise until the half-year evaluation of assets. Discussions were ongoing with Scottish Government on funding beyond the initial allocation.

The Board discussed the International Marketing budget in comparison with previous years. Douglas highlighted the pressures on the resource budget and advised that it was acknowledged that the current budget allocation for international marketing was insufficient for delivery, however, there were plans to allocate further funding based on underspend from other areas. Discussions were ongoing with Scottish Government in relation to the resource budget.

A question was raised regarding the efficiency review and the Board were assured that this was underway. The Finance Strategy would form part of the documents aligned with the Corporate Plan and would help to achieve a better balance of pipeline expenditure.

7. Performance Report as at end of May 2023 – SE(23)21

Linda provided a summary of the Performance report, highlighting the spotlight on jobs analysis. An overview of the global context was provided at a UK, National and Scottish level. A Business Barometer report had been published earlier in the week which outlined the issues UK companies were experiencing due to a tight labour market. There was no feedback from companies which SE worked with that the situation had worsened. Scottish Government data had indicated that the Scottish economy had contracted for the

second month in a row in April. This contraction was being experienced not just by Scotland and the UK but also across key export markets, but there had been no evidence that inward investment or exporting was currently being impacted.

In relation to the Measures, the report outlined the measure ranges SE was working to in the current financial year, and Linda advised that at this stage in the year it was difficult to draw strong conclusions. Currently three out of six measures were forecasting to achieve target. On capex, one key project had been included in the forecast which had resulted in the forecast recording that it had exceeded target. Commentary from measure owners indicated a trend across the measures of a number of larger projects making significant contributions to achieving targets. This was being carefully monitored.

Linda provided a summary of the spotlight on jobs, highlighting the implementation of the conditionality for the Real Living Wage on 1 July. The previous year saw more safeguarding of jobs than newly created jobs. There was also a high proportion of jobs coming through from inward investment (60%) with five large projects in the job measures delivering circa 40% of the total. Linda highlighted the information on the return to the exchequer, advising that data was now being captured to identify returns over time and different models to capture the information were being considered.

Linda provided an overview of the People section in relation to the coaching pool and, in relation to SE's reputation, the changes to reporting. A recent session with MSPs was also highlighted. Updates on progress were provided on major projects previously approved by the Board and changes to the key risks.

A question was raised regarding the measurement of balanced/positive sentiments and Linda agreed to check the definition used. Also raised was mechanisms for staff to raise concerns, and the Board noted the existence of the Whistleblowing Policy and Employee Assistance and were assured that an independent member of staff would undertake any review or investigation of more serious concerns. Adrian also outlined SE's strong policy framework around respect and the opportunity for staff to feedback anonymously on confidence levels.

In relation to the Top 4 risks reported, the Board noted the change in wording and status of the leadership risk. Jane advised that this related to culture, with the wording of the original risk too broadly focused on responsibility for all employees. This was revised to reflect the role of leadership to embed across the organisation. A great deal of work had already been initiated to gain buy-in and involvement from the wider leadership, hence the reduction of the risk to amber.

A question was raised regarding the positive media coverage sentiments, referencing the reduction in the recent number compared to the first quarter. Adrian reflected that the summer months were often quieter, with more planned investment announcements scheduled for later in the year. The team was also using social channels more and seeing significant benefits. Jane also updated on the recent ELT discussion on the Corporate Affairs and Marketing plan which would focus on spot leadership pieces, and increasing advocacy, leadership roles. This was scheduled for discussion with the Board in the coming months.

In relation to the funding risks in terms of changes to decision-making relating to targets for the current year, the Board noted that development of measures and narrative in terms of the missions was underway. Work was also ongoing to look at projects in the pipeline to prioritise those of a transformational nature.

The Board discussed the proposed measures, noting the ambitious targets set for what will be a transitional year. Linda explained the process of setting the targets, in terms of reviewing external economic indicators, past performance, and assessment on deliverability. The measures reflected the ambition, particularly in relation to the missions. It was also noted that transformational projects would be multi-year in terms of delivery and there was a desire not to constrain the ambition.

Linda advised that there was a requirement to publish the measure ranges on SE's website in advance of publication of the Corporate Plan. Therefore, as the Corporate Plan and missions were developed, there may be a need to refine the measures further.

The Board approved the measures and would be advised of any subsequent changes.

Willie thanked the team for the very clear and informative report.

Alan Maitland left the meeting.

FOR DISCUSSION/APPROVAL

8. SE Corporate Plan Development and Missions Update – SE(23)22

Linda Murray presented an update on the development of the Corporate Plan and Missions approach, highlighting SE's focus on doing less things really well, and reflecting the discussions at the Board Strategy Session on transformation and the challenging economic environment. In terms of progress, Linda advised that the Portfolio Board had been established and more resource had been allocated to the Change Office.

A Timeline to launch of the Corporate Plan was included within the paper, with a near final draft due to come to the Board in August, with the aim to publish in late September/early October. An Island's consultation would also be undertaken following the August Board meeting.

Linda introduced the missions approach update, advising that a more detailed overview of the Scaling Innovation mission would be provided, as, due to timing pressures at the previous meeting, this had not been provided in detail.

Scaling Innovation

Jane Martin outlined the objectives for the Scaling Innovation mission to have Scotland recognised globally for the most innovative and fastest growing industries and clusters that are achieving scale. By targeting clusters this will determine a transformative increase in the number of companies trading, scaling, competing globally and creating high value jobs for the economy. Jane highlighted the slight shift in language with the addition of scaling of Scotland's entrepreneurial ecosystem. There was a need to consider the place of clusters within the overall entrepreneurial ecosystem and driving connections across ecosystems and SE's role in this space. Jane also referenced early discussions on the Innovation Strategy which would play a strong role in making connections and which was fundamental to the mission.

An overview of progress was provided, with a resource of 50 plus colleagues in seven developing workstreams looking at the evidence base of sectors and clusters in the Scottish Government Innovation Strategy and understanding the geography in terms of choices on future focus. The workstreams were also looking at best practice, different models and funding sources, particularly at UK level, and leveraging

international investment. A review of customer journeys was also underway in terms of existing interventions and how to ensure a clear pathway to high growth.

A brief overview of the five emerging programme areas was provided, which included: ecosystem and cluster development; Innovation districts and growth infrastructure; innovation investment; company engagement and support; and, strategic delivery partnerships.

In terms of next steps, Jane advised that a team had been mobilised behind the Space Cluster project to test the concept and ability to deliver quickly and at scale. A session had been arranged for SE staff to identify and assess big ideas in order to develop a pipeline of transformational projects.

Jane outlined what SE would do differently, referencing examples in relation to SE's regional engagement and partnership focus. Early discussions with partners had been held and there had been appreciation that SE could bring something different focused on innovation. Discussions were also ongoing on the balance of resources in terms of the early stage market and wrap-around services.

Capital Investment

Rhona outlined the mission's vision to drive a significant increase in capital investment in Scotland to meet UK levels by 2023. Key areas of focus included: attracting capital investment to create a new high performance business environment; game changing propositions to modernise and transform key sites into world class facilities, and, targeting companies that can attract and utilise capital investment to produce higher quality jobs and increase standards of living.

Work across the five workstreams (70 colleagues) included building on analysis to model the potential economic impact of capital investment from different sectors/company sizes, including looking at research and benchmarking internationally to identify areas of greatest economic return, to inform priority focus going forward.

Rhona outlined what would be different, highlighting a scale up path to investment efforts, which was being led by a small team currently, focused on building and attracting capital investment, driving a programme of sustained capital investment for the next 2-3 years. Additional skills were needed to work with investors, focusing on boosting capital by working in partnership, using connections and attracting skills. SE's work with companies would be focused on those companies currently contributing to delivering, or had the potential to deliver to mission objectives.

Green Energy

Reuben reminded the Board of the vision to support a just transition to Net Zero by 2045 and transforming Scotland's green energy industries and supply chains. An update on progress was provided, advising that a great deal of activity was underway across the six workstreams to produce a Green Energy Programme baseline and working with Scottish Government to refine collective evidence on the scale of green energy market opportunities. On the specific timebound opportunity for offshore wind, engagement with industry partners, particularly, with the Scottish Offshore Wind Energy Council (SOWEC), was underway to build the capital investment pipeline. The Cabinet Secretary had also established a joint working group on offshore wind to prioritise the framework to achieve the ambition in Scotland.

In terms of next steps, this included increasing resource on green energy across SE, focusing resources on the timebound offshore wind opportunity and being more proactive on energy low carbon work, while taking a more reactive approach in other areas. Across workstreams work was underway to identify the top priorities over the following month or two, to develop programme plans on how to take forward delivery.

In response to a question on workforce planning, Neil advised that an operating model for the whole organisation was being developed which would outline delivery on the mission mandates, and would include resources, skills and capabilities required.

Colin Cook welcomed the approach, particularly in the context of public sector reform and highlighted the need for consideration of the implications of the strategy for other public agencies. Adrian confirmed that discussions were ongoing with HIE and SOSE and other partners, however, there were areas of urgency around energy transition and capital investment that required attention to drive forward in the immediate term.

Submissions had also been made through the formal process of Public Sector Reform and the Comprehensive Spending Review and Adrian confirmed that he would be happy for SE to be represented in discussions more broadly.

The Board welcomed the update on progress. Further information was sought on the process of decision-making in terms of clusters. Jane advised that the Scottish Government's Innovation Strategy had identified key areas of focus and work was underway to identify key players, i.e. public and private sector partnerships, universities, etc; where investment was already being made, and what role SE could play to accelerate projects and infrastructure requirements.

Comments and suggestions from the Board included recognition of the importance of universities at a strategic level and the importance of bringing key players together; looking further at new innovation globally to embed into Scotland; and consideration of the change in culture both within SE and within business communities, necessitating clear workforce planning in innovation.

The Board welcomed the strategy and approach and acknowledged the complexity and challenges in terms of prioritisation and the need to be more proactive in some areas and reactive in others, stressing the need for clear communication and messaging.

9. Investment project – SE(23)23

Kerry Sharp, Paul Funnell and Craig Waterson joined the meeting to seek approval for expenditure of £200,000 as part of an £550,000 bridging loan being provided to the company under Section 4 (i)(d) of the Enterprise and New Towns (Scotland) Act 1990. This would take SE's total current commercial investment of debt and equity (which excludes loans of £345k which have been repaid) to £9.18m.

Paul provided the background, advising that SE had invested in the company since 2014 and highlighting that the company had met and overcome challenges over the years, most notably the withdrawal of UK Government support in 2017. The company had been let down by an investor at a late stage, leading to the current cashflow issue. Paul outlined the strong rationale to support with a small critically timed intervention to ensure valuations from prospective investors. SE had in the past provided short term bridging loans which the company had repaid.

The Board sought further information on the assessment of sales of the device and the team highlighted the USP of the device which was low cost of intervention and the opportunity for the business to have deployment sites to provide a strong pipeline in the future. Discussions were ongoing on how the devices could be used elsewhere throughout the world.

Peter raised the need for a broad search for investors and recommended evaluation of the holding value. Kerry agreed to consider, and if required, to follow up with Douglas on this point. Craig advised that the company had broadened its search and advised that a potential investor had come forward in recent weeks, with whom discussions were ongoing.

The Board also sought information on alternative planning should an investor not be secured, given the cashflow issues. Craig advised that the bridging funding should take the company to a decision-making point on development the project. Should this not be in a position to secure, development work would need to be paused to stretch cash funds.

Willie thanked the team for the clear paper and presentation, and acknowledged the progress that has been made. The Board approved provision of the bridging loan and looked forward to hearing how the investor search transpires.

10. Change Request – SE(23)24

Andrew Ingram, Denise Kerins and Iain Gemmell joined the meeting to seek approval for this change request to reduce the grant award to £8.85m to the company, for an R&D programme that ended in March 2023, which would allow SE to pay a £5.25m claim submitted by the company in March 2023 for work completed in the previous financial year. The SE Board had originally approved the grant award of £15m in November 2021.

Denise outlined that the original approval was to support an R&D programme and create 510 jobs. To date, payment of £3.6m had been made, with an accrual of £5.25m. There had been significant challenges to the operating environment and, as a result, the company announced a change to strategy to turn around to profitability, and a decision to reduce the R&D programme.

This change had impacted on the conditions originally set and SE had held payment of the accrued claim of £5.25m to allow a detailed evaluation to be undertaken to determine the impact of these changes to the business. An economic impact assessment has been completed, showing that whilst the overall GVA delivered from this revised project is lower than originally planned, through reduction in grant, the cost benefit ratio remains unchanged.

The £5.25m had already been factored into financial forecasts and without this support jobs would be at risk. Approval to reduce the grant award to £8.85m, for the R&D programme that ended in March 2023, would allow SE to pay a £5.25m claim submitted by the company in March 2023 for work completed in the previous financial year.

Denise highlighted that the company has a very good Management Team with a strong record of success, and referenced the potential for scale in the future.

The Board sought further information in relation to the company's place in the competitive market and any risks of relocations. Iain outlined the strong connection

with the Healthcare market and awareness of commercial viability of products. The company was also a market leader with the multi-test equipment. The Board was also assured that the Scottish sites were a key focus for the company and they had made lease commitments and capital equipment investment which signalled a strong indication of their focus to build success in Scotland.

Andrew also highlighted the continued support provided by SE through Account Management and grant support had helped to strengthen relationships with the company. The company had also moved the centre of gravity of the business to Scotland and there was a parental guarantee in place should the company choose to down-size.

The team was asked to make continued efforts in similar projects to secure an unconditional parent company guarantee to secure assets in Scotland.

The Board thanked the team for the presentation and very clear paper and the Change Request was approved.

FOR INFORMATION

The following papers for information were noted:

- 11. Notification of New Interest – SE(23)25**
- 12. Economic Commentary – SE(23)26**
- 13. Approvals Within Delegated Authority – SE(23)27**
- 14. Forward Events and Summary of Events in the past two months – SE(23)28**

ANY OTHER BUSINESS

SNIB - Adrian updated on recent engagement with the Scottish National Investment Bank, particularly with Al Denholm the new CEO, advising that there was an openness to collaboration in terms of investment deals, as well as at an economic level, e.g. in offshore wind and hydrogen. Feedback from the SE team on engagement had been very positive overall.