

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD ON 23 JULY 2021 by MS TEAMS

Present: Lord Smith, Chair
Linda Hanna, Interim Chief Executive
Willie Mackie, Deputy Chair
Dr Poonam Malik
Professor Dame Anne Glover
Gavin Nicol
Karthik Subramanya
Dr Sue Paterson
Carmel Teusner
Peter McKellar

In Attendance: Jane Martin, MD Business Services and Advice
Carolyn Stewart, Chief People Officer
Douglas Colquhoun, Chief Financial Officer
Neil Francis, Interim MD, International
Kerry Sharp, Interim MD, Scottish Economic Development
Karen Hannah, Corporate Office
Irene Adams, Advisor

Annual Report and Accounts 2020/21 – SE(21)46

Douglas presented Scottish Enterprise's Annual Report and Accounts for the year ended 31 March 2021 for consideration and approval.

Douglas highlighted that paragraph 2 of the covering paper provided an update on the final outturn and concentrated on the net position required for Parliamentary accountability and scrutiny. Douglas outlined the final outturn in terms of gross cash expenditure, excluding Ring-fenced Resource, Non-Cash Costs and Annually Managed Expenditure, which had resulted in underspend of £13.5m (2.2%) against a budget of £595m. The final budget of £595m was the highest budget that SE had received in its current form.

Total cash expenditure for the year amounted to £581m, with £217m being directed to Covid grant and investment support programmes. SE's expenditure on business as usual economic development activity totalled £365.1m. The Board was reminded that the original Business Plan had been set at £342m when the full impact of the pandemic was beginning to be understood and it was expected that SE would move to a reactive mode. The impact of the dual focus: responding to economic impacts of the pandemic and focus on longer term was set out in the Performance Report within the Accounts. This showed a fantastic range of outputs during the course of the year and represented an exceptional year for performance and delivery against an unprecedented backdrop.

Douglas highlighted a number of key points from the accounts:

- Income from operating activities was significantly higher this year, with the key contributor being the exceptional return from Fastball Holding LLC.
- Property, Plant and Equipment - had reduced by £8.3m in year to £148.8m. The annual valuation of land and property assets produced no significant valuation movement and instead the decrease in value has primarily resulted from the continuing

programme of land and property disposals. The top ten assets in the property portfolio amounted to £65m of total value. There had been no significant valuation movement from Montagu Evans' independent valuation report.

- The value of Financial Assets (investments) had increased significantly by £137.2m during the year to £462m, driven by new investments additions and the scale of support to the Early-Stage Investment market. There had also been a large increase in value of the investment portfolio with valuation adjustments adding £48m to the book value of the assets. Two companies in particular accounted for 53% of the uplift in value.

The Financial Performance Section included graphics representing the financial position. Analysis of non-current assets increased by £92.1m and financial assets represent 70% of the asset base.

The valuation of the Retirement Benefit Scheme undertaken by Isio had reflected a reduction in the surplus from £81.9m in 2019/20 to £52.8m at 31 March 2021. There had been some significant volatility over the period. However, over the past 4 years the average surplus on the Pension Scheme has amounted to £72m.

The details of claims abandoned or waived was set out at pages 46 – 48 of the accounts and during 2021 there had been 95 cases with a value of £7.9m. By value most of the write offs related to financial investment assets whilst most of the cases related to property debt. The amount written off during 2020/21 was the lowest amount since 2011/12. Douglas highlighted that one large outstanding debt had been fully provided for during 2020/21 and might potentially be written-off during 2021/22.

The Audit had concluded satisfactorily and had been conducted well. The Communications Team was developing the communications strategy for public launch in line with laying of the Accounts in the Scottish Parliament.

Douglas conveyed his thanks to teams across SE who had helped in the Accounts process, with particular thanks to Clair Alexander and the Accounting Services Team of Anne Ferguson, Tom McGowan and Nicole Mulholland; Susan Moore for her input to the Performance Report and Maxine Nellany for the Governance Statement, including the co-ordination of the Certificate of Assurance process.

Willie Mackie confirmed that the Audit and Risk Committee reviewed accounts in detail earlier in the week and had been joined by Gordon Smail from Audit Scotland, who had responsibility for auditing of all agency financials across Scotland and by Doug Gillon, Wyllie & Bisset who had provided the external audit across SE's subsidiaries.

The Audit & Risk Committee had recognised the remarkable achievement throughout the year and the strong evidence of outstanding financial stewardship in very challenging times, not least the response to the Covid pandemic, with support delivered at pace, and this was highly commended by the Committee. Acknowledgement was also given to Douglas, Clair, and the Finance team and Gordon Smail had commented that SE's was the most complex set of financials in the public sector and commended SE on how the business had run and reacted in unprecedented times.

The issues raised in the Audit Scotland report were mainly minor, which required more detail and Audit Scotland was satisfied with the commentaries.

Audit Scotland had provided a very good and fairly written report and Willie commented on the positive relationship that had developed between the Finance and Audit teams and Audit Scotland.

An unqualified opinion had been provided by Audit Scotland and Wyllie and Bisset had provided a clean audit opinion on the audit of the subsidiary companies. The Audit & Risk Committee had reviewed many excellent and very focused internal audit reports throughout the year, as well as an intensive programme scrutinising the Covid related funds.

In summary, Willie confirmed that the Audit & Risk Committee was very comfortable and assured that SE was delivering the right level of risk and controls across the business. The Committee was content to support presentation of the Accounts for final approval by the Board.

Anne Glover highlighted an amendment to the notes of the accounts to include her interest as Chair of the Industrial Biotechnology Innovation Centre.

Douglas outlined the next steps, which included formal sign-off by Linda Hanna as Interim CEO and final review by Audit Scotland. The intention was to lay the Accounts in Parliament before the end of August, co-ordinated with colleagues in the Scottish Government Sponsor team, and to work with the Communications Team to develop the strategy for launch.

The Board encouraged proactive and targeted communications of the results and requested that highlights of the performance results were shared with Board Members.

The Board also requested that a communication was sent to staff to convey their thanks.

Linda Hanna commented on what had been SE's best performance for many years, in what had been a very complex year in terms of the economic position, which required the creation of new funds and solutions and commended staff for delivering while working from home. Linda conveyed her thanks to the SE staff, the Executive Leadership Team and the SE Board for the outstanding performance.

The Board thanked Linda for her outstanding achievements in leading the organisation throughout a very difficult year, particularly maintaining staff morale through regular engagement.

The Board approved the Accounts subject to the amendment raised by Anne Glover.