

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD ON 28 APRIL 2023 held at Barclays Glasgow Campus

Present: Adrian Gillespie Chief Executive
Willie Mackie, Interim Chair
Karthik Subramanya
Dr Poonam Malik
Professor Dame Anne Glover
Dr Sue Paterson
Carmel Teusner
Peter McKellar

In Attendance: Maria Bradshaw, Interim Chief People Officer
Douglas Colquhoun, Chief Financial Officer
Neil Francis, MD, Digital and Major Projects, Scottish Enterprise
Reuben Aitken, MD, International Operations
Rhona Allison, MD, Business Growth
Richard Rollison, Scottish Government
Colin Cook, Scottish Government
Karen Hannah, Corporate Office

Apologies: Gavin Nicol
Jane Martin, MD, Innovation and Investment

1. Update on Barclays

Willie welcomed Koral Anderson, Head of Transformation, Barclays UK and Scotland Site Lead.

Koral recognised SE's support to assist Barclays UK in realising its ambitions in Scotland and outlined that Barclays' aims to boost the economy, help business and the country in a sustainable way aligned well with SE's own values.

Koral provided an overview of the campus, highlighting its investment in the business community via Eagle Lab which was an ecosystem designed to partner small tech start-ups with local government and the banking eco system to help entrepreneurs grow their companies. This was the largest tech eco system in the UK, with 38 labs, four based in Scotland and had to date helped 4000 businesses grow.

An outline of Barclays contribution to the community was provided, from investment in people, and more than doubling the company's headcount in Scotland, and building partnerships with education establishments to help with life skills and money management.

On behalf of the Board, Willie thanked Koral for the very insightful overview and for hosting the Board Meeting at the campus.

Willie welcomed Maria Bradshaw to her first Board Meeting as Interim Chief People Officer.

Apologies were noted from Jane Martin, MD Innovation and Investment.

Willie also highlighted that this was Anne Glover's last Board meeting, commenting that she had been an outstanding board member and referring to her commitment, passion,

creativity, and innovative contributions to Board discussions over the time of her tenure. On behalf of the Board, he thanked Anne for everything she had done to support the Board and the Executive Team and wished her well for the future.

Anne responded to say that it had been an enormous pleasure to be part of Scottish Enterprise, working with staff who had passion and creativity, and she would miss them and her board colleagues.

This was also Gavin Nicol's last board meeting, and Willie would contact him separately to convey the Board's thanks for his passion and contribution over the years.

Willie asked the Board members if there were any conflicts of interest. None were noted.

STANDING ITEMS:

2. Minutes of the Meeting held on 24 February 2023 – SE(M)337

The Minutes of the previous meeting were approved, subject to an amendment in Item 10.

Sue asked about timing for the Single Strategic Communications and Marketing Plan, and Adrian advised that this was scheduled for the August Board Meeting.

3. Board Committee Updates/Minutes

The Minutes of the following meetings were noted.

3.1 Remuneration Committee, 18 January 2023 – SEBRC(M)(23)50

3.2 Urgent Approval, 20 February 2023 – SEBUA(M)(23)03

3.3 Urgent Approval, 09 March 2023 – SEBUA(M)(23)04

3.4 Audit & Risk Committee, 19 April 2023

Carmel provided an update on discussions at the recent Audit & Risk Committee meeting, which included the timetable for the Annual Report and Accounts, noting that an additional meeting had been scheduled for review. The Internal Audit Progress report had been discussed which had provided details of four audit reviews which had been undertaken, two of which had been graded 2 and two graded 4, these being Business Growth and Cyber Security, the latter audited by EY. Carmel provided an update on the key findings on both grade 4 reports, advising that the key issue in relation to Business Growth was in relation to the business case and the Committee had been assured of action being taken to address.

In relation to Cyber, the Committee was assured that the findings and recommendations did not relate to system vulnerability, but data and disaster recovery, strategic alignment between owners and decisions on what will be managed internally and what outsourced. This was high on the Executive Leadership Team's (ELT) agenda. The Committee had noted the progress made in cyber security around penetration testing and maintained accreditation. The Team was working through agreed actions proposed by Internal Audit and the Committee would be updated on progress being made. The Committee had also requested a discussion at Board level on cyber security and this would be scheduled following discussions at ELT.

Neil confirmed that this was a top priority to make progress in the coming months and a paper was scheduled for discussion at ELT the following week. He advised that all

companies were facing increased risks in terms of a greater volume and increased complexity of cyber security threats, and this was receiving priority attention.

The Board sought further information on resilience testing and Neil updated on plans for full fail testing in the coming months. Adrian also advised that a test scenario across the partners was also being considered.

It was agreed that regular reporting on progress would be scheduled for future Board meetings.

4. Chairs Report

4.1 Board Register of Interest Annual Review – SE(23)11

Willie thanked the Board for completing the Registers of Interest and noted the new interest declared by Poonam. The Registers were formally approved.

An update was provided on the Board Recruitment which had now completed. Willie updated that there had been an unprecedented number of applications, which were of a very high quality. There had initially been the intention to recruit four new members, however, given the quality of applicants, it had been agreed that five members would be appointed. There had been one further applicant who was not successful, but given their skills and experience, options were being considered to work with them in other ways. Willie conveyed his thanks to the Public Appointments Team and Karen McAvenue for their support throughout the process.

Anne and Gavin's terms had been extended to the end of May and three new Board Members would take up appointment at that point, with the further two in January 2024. Willie would share details with the Board once formal acceptance had been received from the candidates.

Willie also advised that he had been asked to extend his term to the end of March 2024 to continue as Interim Chair, which he had agreed to do.

Willie reflected on the session with the former Deputy First Minister and Mr McKee and advised that a meeting had been scheduled with the new Cabinet Secretary, Mr Gray, to ensure momentum and to update him on SE's missions approach and make recommendations on decluttering.

Colin Cook advised that the strategy set out the previous year would remain, highlighting the strong focus on the economy and the emphasis on the role of the economy in creating wealth to be deployed to help with social challenges. The need to realign with businesses was high on the Scottish Government's priorities, as well as the need to attract investment.

Richard Rollison confirmed that there was strong focus on the economy on the policy prospectus, particularly in relation to investment from net zero and business growth and, more broadly, town centres and infrastructure.

5. Chief Executive's Report

Adrian updated on his recent meeting with Gregor Irwin, Director General Economy, advising that this had been a very positive meeting, with support for SE's direction of travel, new approach and focus on investment. There was an appetite to work closely with SE and SNIB and discussions on opportunities in Offshore wind were featured throughout the discussion.

On the industrial action being taken that day by PCS, Adrian advised that the Trade Union was in dispute at a UK level on pay settlement and T&Cs. There was no specific dispute with SE, however, there were SE employees with PCS membership, with around 10% taking industrial action. There had been progress with the offer from the Scottish Government, which may resolve the issues, however this did not complete in time to avert the industrial action. SE's settlement was within the boundaries of Scottish Government's new offer, with the addition of a renewal of no compulsory redundancies to 2025. Guidance had been received from Scottish Government on the pay deal for 2023-24 and options were being developed by Maria's team for ELT to review.

Adrian highlighted the news of Sumitomo Electric establishing a subsea cable factory at Nigg port, advising that SE had been engaging with the company for 12 years, initially with Hitachi Metals which had been bought over by Sumitomo. SE contributed £0.5m of the total package of support. Mr Gray was in Japan to meet with the Chair and President and participate in a press conference.

The Board commented that this was a compelling picture for the area as a place of choice, given the previous investment in Hunterston, the Energy Transition Zone and floating wind innovation centre.

Richard highlighted the massive contribution by Stephen Baker and the team in Japan to securing the inward investment opportunity. Willie advised that he had written to congratulate them.

Adrian also updated on another inward investment opportunity in progress.

An update was provided on positive discussions with Scottish Government on consolidating funding available to business. David McIntosh, who had been seconded into Scottish Government from SFT, was leading on the approach. There had been strong buy-in from the DG Economy to take steps to result in more access to capital funding.

Adrian updated the Board on issues in relation to the Zero Emission Mobility Innovation Fund, jointly developed by Transport Scotland and SE, and funded by Transport Scotland.

The Board expressed concerns regarding the unintended consequences in terms of barriers to delivery. Adrian advised that the wider solution in terms of access to wider funds may provide a solution to manage over future years.

On international, SE had made its first major Scottish delegations into the low carbon/offshore wind space to Australia and Japan, offering Scottish supply chain companies the opportunity to further explore market expansion in the offshore wind, hydrogen, and decommissioning sectors, and included wrap around meetings with the Department for Business and Trade Japan and Mitsubishi. Early evaluations as a result of the delegation estimated international sales of £25m from connections in Japan and from the AOG Energy Trade Mission (Australia) estimates of £77m planned international sales.

Reuben had also joined Tartan Week with Angus Robertson, Cabinet Secretary for Constitution, External Affairs and Culture, who was very pleased with the programme. There was a strong focus on Trade and Investment, with good connections made with investors in hydrogen and an event undertaken with a Global Scot leadership group. Reuben updated that the Global Scot event was to establish a new Eastern Seaboard. There was great enthusiasm from the group who now want to bring a delegation to Scotland with a strong Trade and Investment focus.

Adrian updated on positive discussions with Innovate UK to develop a stronger strategic partnership around Scotland's innovation capabilities, as well as the products, services and funding we each provide. Jane had attended a session with the team, focused on pooling expertise and resources on the innovation system, with the potential to deliver on Innovate UK's behalf. A strategic partnership MoU between SE and Innovate UK was in development to formalise in July.

Adrian also highlighted the appointment of Al Denholm as the new CEO of the Scottish National Investment Bank.

Alan Maitland and Linda Murray joined the meeting.

6. Finance Report as at the end of March 2023 – SE(23)12

Alan presented the paper which provided an update on the anticipated outturn position for 2022/23 and information on the timetable for finalising the 2022/23 Annual Accounts. The paper also included a review of the year highlighting major movements on income and expenditure compared to the original business plan. It was highlighted that the projected outturn figures were still in draft subject to final accounting adjustments and finalisation of the consolidated group accounts in May.

Alan reminded the Board that the previous update had shown a broadly balanced position across C-Del and Financial Transactions, with a slight underspend projected for R-Del. This was caveated by the heavily backloaded plan position, which had crystallised, resulting in an underspend position across all budget headings. A number of actions were in place to improve the position for the 2023-24 financial year.

An overview of each of the budget headings was provided:

There had been general slippage in C-Del particularly in relation to grant projects, and primarily due to the removal of a planned year end accrual of £5.25m for a company grant claim. The company had announced a major restructure early in April. Discussions continued with the company who were working through the implications of whether to proceed.

In FTs, there were a large number of deals to conclude in the final months, with some slippage emerging. In relation to Investment and loans there was a further reduction expected due to one deal which did not complete by 31 March.

There had been expected slippage in R-Del in the final two months due to high volume, low value changes, which had resulted in a £5.1m underspend. In relation to Expected Credit Losses, work was ongoing and it was expected this would be finalised soon, which could result in a slight change to the overall R-Del position.

Adrian reiterated the key issues, highlighting the challenges in the first half of the previous year to build co-investment cases with companies, and the small project pipeline at the beginning of the year. ELT had a recent session to discuss the issues and actions required.

The Board discussed the ECL position and risks associated with over-programming. Douglas confirmed that discussions had been held with Scottish Government on Liberty Steel and this was already included in the figures. In terms of the restructure of the other company mentioned, this had been unexpected. Adrian advised that the over-programming would provide opportunities to flex timing of projects and mentioned that an acquisition pipeline was being developed to provide more options.

Willie thanked Alan for the update. He acknowledged the final figures, but recognised the activity and delivery which had been undertaken throughout the year.

7. Performance Report – SE(23)13

Linda presented the year end report, highlighting the refreshed dashboards and the addition of a heatmap for risk.

On measures, there had been significant changes in some areas, particularly in Growth Funding and Capex. Overall, there were three measures within target range and three above. In February five measures were forecasting above range. Those above, were Jobs Capex and export sales, with jobs delivering half of the full year's total in quarter 4. There had been an increase in the number of safeguarded jobs (53%), with six large projects equalling 40% of the measure. On Capex this was forecasting £626m against the top of the range of £320m. 35 projects had contributed to half, with the top three projects delivering 61% of the measure. Export sales was forecasting £1.67b against the top of the range of £1.5b, with the top 20 projects driving 50% of year to date achievement. There had been two significant successes of £150m. Growth funding had previously been forecasting above the range, and was now forecasting within.

Measures for the coming year were in development and scheduled to go to ELT for sign off on 16 May. These would be shared with the Board off-line to meet publication at the end of June. Adrian advised that the overall measures were unlikely to change but there would be changes to the milestones. Linda confirmed that the measures remained fit for purpose and aligned with measures on NSET and the National Performance Framework.

Year-end highlights included the launch of the new recruitment website, the pension website, a number of training sessions on GDPR and cyber security were in progress, as well as other training on the back of policy changes in relation to climate literacy, menopause and disability training.

Linda highlighted the update in the Corporate Affairs and Marketing section which provided a summary of recent Committee appearances and the launch of Brand Scotland BBC storyworks.

In relation to media coverage, the team had been trying to make more of an impact on less volume of posts, therefore the numbers were down in terms of posts, but engagement had increased. Maria confirmed that this was part of a more targeted approach to social media. The team was monitoring the results and following intelligence received.

The Key Projects section included in the report focused on Michelin Scotland Innovation Parc.

In relation to the slides on Risk, there had been a couple of changes, with the inward investment pipeline risk now removed from the Top 5 risks and additional risks included on SE's change in focus and cyber security.

Carmel suggested inclusion of a timeline on publication of the results which measured the lead time to delivery. Reuben advised that the International team used something similar and a recent sample suggested an average time of 9 months, however, the range was much longer.

Colin referenced the significant risks around digital and IT and recruitment into key positions vs the level of investment available to make changes. He had seen similar risks

in other enterprise agencies and suggested there may be something which could be done centrally to help convene capacity.

Adrian reflected that there had been a huge amount of effort made in a difficult year and was particularly pleased on the job creation figures.

Willie thanked Linda for the update and the well written report.

FOR DISCUSSION/APPROVAL

8. Progress on SE's Mission-Based Approach – SE(23)14

Neil Francis provided an overview, outlining the major change to the way SE operates and the need to ensure that the approach to governance and assurance was appropriate and proportionate. This was supported with a real time audit. A portfolio management model had been established, and a Programme Change Management Office was in place to coordinate work across the three missions while focusing on cross cutting workstreams, to manage communications internally and externally, and to monitor performance management. A new Targeted Operating Model was being developed to deliver the missions and to lead and manage the organisation.

The Board asked about learnings taken from previous transformation, particularly in relation to buy-in from staff, and whether these had been incorporated into the new governance structure. Neil confirmed that these had been taken into consideration and a number of change models had also been reviewed. SE had opted for the 3 phase approach and was in the preparatory work phase, preparing for change.

Adrian advised a great deal of time was being invested in engagement with staff. He and ELT had been undertaking engagement sessions with every directorate on the new approach and a communications plan had been developed. Leadership conferences had also been focused on the change approach and would be rolled out to the wider organisation.

Green Energy Mission

Reuben provided an overview of the Green Energy mission, highlighting the huge potential for Scotland's economy, referencing, as an example the supply chain benefits from the Scotwind investment of 14,000 jobs and £25b of investment. The need for a sharper focus and delivery to meet the scale of the ambition was acknowledged and the need for increased resource in this area.

Reuben detailed the six workstreams and their focus: Ambition raising – working with industry to ensure the opportunities are understood and shaping opportunities by drawing companies together; International – which was a core part of SE's strengths and unique offering, with FDI critical to realising the mission; Stimulating Investment – which was a fundamental building block to enable the infrastructure required, involving a number of partners; Driving Green Innovation - with SE's unique role of bringing together partners in a Team Scotland approach and a unifying purpose to deliver greater value; Strengthening supply chains - this was already happening but needed to be increased in collaboration to compete; and, Policy and Governance – working with Scottish Government and partners to understand barriers and promote and measure growth.

It was acknowledged that by increasing the focus on the mission, other activity would need to be reduced, and Reuben provided some examples.

Willie asked about timeframes for more visibility of the activities which SE would be stopping or doing less of. Reuben advised that this would be discussed at the next Board Meeting.

Sue asked about the focus on new technology, and the potential for other levers, such as reducing waste, energy efficiency and nature positive. Adrian advised that SE's focus was on opportunities for offshore wind, hydrogen and renewables, with other agencies focusing on the other levers, and SE would work in partnership with them. Reuben confirmed that this would include commercialising existing technology, as well as new technology.

Productivity Mission

Rhona provided an overview of the Productivity Mission, acknowledging the challenges of the wide scope and the need to focus on those areas which would be truly transformative. A key focus for SE would be on capital investment, recognising that Scotland's businesses had historically under-invested in comparison to other OECD countries. Scotland also had few propositions of scale for capital investments and low ambition. To drive transformational capital investment there were two main areas of focus: 1. Businesses that will have the biggest impact, e.g. manufacturing, space, scientific and information, communications and automation, and helping to move job opportunities up the value chain to secure jobs, increase wages, and have less people in poverty. 2 Game changing projects to ensure the capture of capital investment, e.g. – building up propositions, working with partners to attract patient capital, and working with banks.

Key differences in approach included a strong focus on leadership ambition, reducing focus on wider workplace innovation and ramping up support of leaders to raise ambition.

Rhona touched on some of the emerging trade-offs.

The Board sought further information on the criteria for companies and communicating the messaging. Rhona outlined some of the characteristics which included ambitious companies, size of market they are working in, percentage of use of supply chain in Scotland and business to business activity. Work was underway to understand more about the companies that SE account manage and who they work with. Development of marketing campaigns were also underway.

In response to question raised in relation to the move from capital intensive to labour intensive in some sectors, and how to get companies to be more ambitious, Rhona advised that it was critical to build the right propositions to raise ambition. For those labour intensive sectors, work was being done to look at the areas and companies where there would be the biggest impact, as well as responding to the wellbeing economy. This would involve working with partners to identify individual targets and to be clear on the target markets. Adrian confirmed that the focus was on scaling up of the Global Capital Investment Plan and looking at scaling up the creation of high value jobs.

Peter added that the value-add was matching the companies with the investment opportunity, speaking to potential investors to understand their goals.

Willie thanked the team for the presentation and acknowledged the progress to date.

FOR INFORMATION

The following information papers were noted.

- 9. Joint Letter from Willie Mackie and Adrian Gillespie to First Minister and Cabinet Secretary – SE(23)15**
- 10. Notification of New Interest – SE(23)16**
- 11. Economic Commentary – SE(23)17**
- 12. Approvals Within Delegated Authority – SE(23)18**

Carmel suggested a change to the presentation of the paper, grouping the projects by value or by sector, or aligned to missions, in order to see the shift over time in the nature of investments and how they align with SE's focus.

- 13. Forward Events and Summary of Events in the past two months – SE(23)19**

Any Other Business

There was no further business.