

**EXTRACT OF MINUTES OF THE 145<sup>TH</sup> BOARD MEETING OF HIGHLANDS AND ISLANDS AIRPORTS LIMITED HELD AT HIAL HEAD OFFICE ON FRIDAY 3 FEBRUARY 2006 AT 10.00 AM**

**Present:**

<b>Mr A Matheson</b>	<b>Chairman</b>
<b>Mr I Lyon</b>	<b>Managing Director</b>
<b>Mr S Edmond</b>	
<b>Mr G Johnston</b>	
<b>Miss S MacLennan</b>	

**In Attendance:**

<b>Mr K Crawford</b>	<b>Representing Scottish Ministers</b>
<b>Miss J Thornton</b>	<b>Financial Controller/Company Secretary</b>

**Item 1 – Apologies**

Apologies had been received from Alastair Wilson. Ken Crawford was in attendance representing the Scottish Ministers.

**Item 2 – Approval of Minutes of 2 December 2005**

The minutes of the previous meeting held on 2 December 2005 were approved and signed by the Chairman.

**Item 3 – Matters arising from the Minutes**

There were no matters arising from the previous minutes.

**Item 4 – Finance**

**4.1. *Monthly Accounts, Outturn and Subsidy Provision***

The Board commented on the level of expenditure on electricity at Sumburgh given that a significant part of the terminal building was not in use. It was explained that heating, lighting and ventilation was still necessary to prevent further deterioration of the building fabric. The Board asked whether taking the terminal at Inverness into our ownership would result in a rates increase. Miss Thornton confirmed that the rates for the terminal building had always been included in the cumulo for Inverness and been HIAL's responsibility.

**4.2. *Traffic Statistics***

Board members were pleased to note the continuing upturn in passenger numbers. They questioned whether the recent reduction in Loganair schedules at Benbecula would have an impact on passenger numbers going forward. Mr Lyon explained that this was a seasonal adjustment which was likely to be temporary until the start of the summer season. The Board also commented that these passenger statistics focused attention when comparing levels of investment with passenger numbers at some of our airports.

#### 4.3. *Audit Committee Report*

The Chairman thanked the Audit Committee for its work and for this report to the Board. The Audit Committee on 2 December had been chaired by Mr Edmond in Mr Johnston's absence. The Board discussed the company risk register and the Board and Audit Committee's overview of the risk management process. Mr Lyon explained that CAA Safety Regulation Group (SRG) is moving towards devolving risk assessment responsibility to individual airports. This is linked to the Single European Skies requirements for HIAL to be accredited as an air navigation service provider (ANSP). SRG will be auditing our processes and will be able to look at the consideration of risk and safety management throughout the organisation from Board level downwards. HIAL already has a risk register and carries out health and safety audits. The management team will be working on consolidating all aspects into a common process. Clear definition of roles, responsibilities and accountabilities will be necessary. Corporate governance risk should also be part of the process. The Audit Committee's role is to understand the system and ensure compliance. This subject will be discussed in more detail at the away day on 16 May. On the Audit Committee terms of reference it was suggested that the sentence on risk should be amended to read "to advise the Board on the strategic process for the control and governance of risk and to review the adequacy of such processes."

The Board noted the minutes of the Audit Committee's meeting, approved the risk management policy statement, approved the Audit Committee's terms of reference subject to the amendments outlined above and noted the new requirement for a Directors' Statement in the Annual Report on disclosure of information to Auditors. The next Audit Committee Meeting would be held on 22 March.

#### 4.4. *Bank Signatories*

The Board approved the addition of Andy Rackham, Grant Dudgeon, Malcolm Hay and Bernie Moriarty to the list of authorised signatories. Approval was also given in advance for the two new Non Executive Directors to become signatories when they joined the business. Miss Thornton explained that following a meeting with the Royal Bank of Scotland earlier in the week it had been proposed that the limit for suppliers' payments be increased to £2 million. This will not affect HIAL's controls as our delegated powers will remain but this arrangement is between the bank and the BACS system. This proposal was approved. Miss Thornton also confirmed that Mr Matheson, as a Director of HIAL, should be classed as Type A signatory.

### **Item 5 – Corporate**

#### 5.1. *Health and Safety*

The Board noted the position.

#### 5.2. *Inverness Airport PFI: Regular Update*

The Chairman, on behalf of the Board, thanked Bob MacLeod, Inglis Lyon, Nat Anderson and Jane Thornton both personally and professionally for their work in connection with the conclusion of the purchase of IATL. He also formally thanked the Minister and colleagues in the Scottish Executive for their support throughout the process.

The immediate press response had been fairly positive in general. HIAL was now in a position to take Inverness Airport forward as a business. The Board would receive a

development update including a presentation on income and expenditure at each future Board Meeting.

The Board noted the position.

### 5.3. *Inverness Airport Business Park*

The Board was encouraged to note the support received from Stakeholders in respect of the proposal for a rail halt at the airport. Mr Lyon explained that in his view a working party may need to be formed which would meet more frequently than the IABP Board. As HIAL have a large stake in this project it would be useful for the HIAL Board to meet with the IABP Board. The Board noted the position.

### 5.4. *Inverness Airport Masterplan*

Mr Crawford asked about timescales and whether these were achievable. It was confirmed that the consultation period would commence in June for six weeks and we would hope to submit the plan to the Department of Transport by the end of August. The Board felt that the preparation of the Masterplan was a key feature in forward planning and Mr Lyon explained that, although not a regulatory requirement, we intend to prepare scaled down Masterplans for Stornoway, Kirkwall and Sumburgh. The Board approved the expenditure of £96,000 to enable the completion of the Masterplan.

### 5.5. *HIA Pension Scheme: Update*

The Board noted that the actuarial valuation at 31 December 2004 had now been finalised. The Company contribution rate would continue at 22%. The Board noted the minutes of the Trustees Meeting held on 5 December. The schedule of contributions was signed by the Chairman on behalf of HIAL and Mr Johnston on behalf of the Trustees.

### 5.6. *Estates Quarterly Report*

The Board were pleased to note the increase in rental income levels.

### 5.7. *Public Relations Brief*

The Board expressed their gratitude to Nat Anderson for the way he had handled the PR associated with the PFI buyout. The Chairman and Mr Lyon would be briefing 14 MSPs in Edinburgh on 7 February followed by a briefing meeting the following day with MPs in London.

The recent award of an OBE to Mr MacLeod, previous Managing Director of HIAL, was noted with pleasure.

### 5.8. *Corporate Plan (1st Draft)*

Mr Lyon advised that this was a first draft of the Corporate Plan which had already been redrafted since the board papers had been sent out. Certain key elements such as safety management system and health and safety have been omitted in this version. The draft plan has been distributed to the Board and Management team in parallel so that both have an opportunity to comment and to take ownership of the plan. The updated version will also incorporate setting of benchmarks and targets. Board members each commented on specific sections of the plan but were in agreement with the general thrust of the document. Mr Lyon would circulate the next draft to Board members immediately and invited comments with a view to finalising the plan at the March Board Meeting.

5.9. ***Kirkwall and Stornoway Terminal Buildings (6 monthly report on performance of Key Facilities Management)***

The Board was pleased to note the good performance of Key FM.

5.10. ***Regional Transport Partnerships***

Mr Crawford explained that the Scottish Executive Aviation, Ports and International Division would have liaison responsibility for three Regional Transport Partnerships – Highlands and Islands, Shetland and the North East. HIAL would not be a member of the RTP and the Board felt that they needed to establish a mechanism/protocol to ensure that HIAL is consulted where appropriate. As the RTP process was being overseen by Jamie Ross it was suggested that it might be valuable for the Board to discuss with Jamie on 21 March in advance of the next Board Meeting.

**Item 6 – Operations**

6.1. ***Operational Amelioration***

Mr Lyon updated the Board. Our in-house audits of Fire Service Training commence in February which is a positive step forward. The Board noted the position.

6.2. ***Inverness Radar***

Mr Lyon had been progressing the radar project. Marshalls are project managing the process which is a flexible approach initially tailored to HIAL's needs. Phase 1 involves procuring the radar data from RAF Kinloss and Lossiemouth and installing a radar console at Inverness to provide a full civil radar service. Once Phase 1 has been implemented we will then review the position to determine whether Phase 2 is necessary. The contract with Marshalls is for Phase 1 only. The Board approved Phase 1 of the project.

**Item 7 – Marketing and Route Development**

7.1. ***Commercial/Marketing Brief***

HIAL, in conjunction with BA CitiExpress, is meeting business leaders in Inverness on 9 February to discuss BA's future plans for the Inverness Gatwick service. This will be followed by a dinner with HITRANS representatives.

Aer Arran has confirmed it will commence a route from Inverness to Dublin from April 2006 operating an ATR72 four days per week.

Eastern Airways has confirmed its intention to commence Inverness Leeds Bradford.

Loganair has increased the number of schedules to Islay and is looking into additional frequencies on other routes such as Glasgow/Kirkwall, Edinburgh/Kirkwall etc.

The Board asked about plans for publicity for onward Inverness connections. Mr Lyon explained that the Chamber of Commerce is carrying out liaison visits with other city chambers. Alex Johnson is also working on a mail distribution on routes available from Inverness. The HIAL website is currently being reviewed and it might be possible to include such information on the website. The HIAL brand is also being developed and will be available for the next Board Meeting.

7.2. *Airport Consultative Committees Summary*

The Board felt that it would be helpful for the paper to include a list of attendees at each meeting. The position was noted.

**Item 8 – Capital Expenditure**

8.1. *Sumburgh Airport: Partnership Update/Runway 09/27 Extension Update*

The Board discussed the update on progress on the runway extension and the letter from George Henderson, chairman of the Sumburgh Airport Strategic Partnership Board (SASP). They also discussed George Henderson's letter of 27 January to Miss Thornton.

8.2. *Sumburgh Airport: Resurfacing of Existing 09/27 Runway*

The Board noted the position.

**Item 9 – Any Other Business**

Mr Crawford updated the Board on the Scottish Executive's progress in introducing lower air fares in peripheral areas of the region. The Chairman thanked Mr Crawford and colleagues in Scottish Executive for their important work in progressing this scheme.

**Item 10 – Dates of Next Meetings**

- 9.1. Wednesday 22 March 2006 at 10.00am at HIAL Head Office, preceded by Audit Committee meeting at 09.00am.
- 9.2. Friday 28 April 2006 at 10.00am at the Scottish Executive, Edinburgh
- 9.3. It was agreed that the meeting originally planned for 28 July 2006 be rescheduled to Friday 4 August at 10.00am followed by AGMs