

**EXTRACT OF MINUTES OF THE 144<sup>th</sup> BOARD MEETING OF HIGHLANDS AND ISLANDS AIRPORTS LIMITED HELD AT HIAL HEAD OFFICE ON FRIDAY 2 DECEMBER 2005 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>Ms S MacLennan</b>	<b>(Present for items 1 to 6.3 inclusive)</b>

**In Attendance:**

<b>Mr J Ross</b>	<b>representing Scottish Ministers</b>
<b>Mr A Wilson</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 Grenville Johnston. Jamie Ross was in attendance representing the Scottish Ministers. The Chairman welcomed Alastair Wilson to his first HIAL board meeting. Alastair would be taking over from Jamie as the Scottish Executive Assessor and the Board looked forward to working with him. The Chairman also read a letter of thanks sent by Mr Brackenridge to all his colleagues in HIAL following his retirement from the Board..

**Item 2 – Approval of Minutes of 21 October 2005**

The minutes of the previous meeting held on 21 October 2005 were approved and signed by the Chairman.

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

**3.0. *Sale of Land at Wick Airport***

Miss Thornton advised that since the last Board Meeting HIAL had received a letter from the former owners of the land at Wick confirming that they had withdrawn their interest. Tesco would now be in a position to progress their planning application.

**4.3. *Inverness Airport Masterplan***

Enquiries had been made to Highland Council seeking guidance on the planning requirements for 24 hour opening. Despite earlier informal advice to HIAL that there was no approval required we have now been asked to write to Highland Council setting out our requirements for their consideration.

**Item 4 – Finance**

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

The Board was content with the new format for the monthly accounts reporting. Mr Ross enquired about the company's forecast year-end position. It was confirmed that repairs and maintenance is the major variable within operating costs and it may be that HIAL will not draw down our full revenue subsidy for the year ended 31 March 2006.

4.2. ***Traffic Statistics***

The Board noted the significant increase in aircraft movements at Campbeltown due to military exercises. It was noted that such exercises cannot be forecast and may become more infrequent following the MOD's disposal of the airfield. HIAL will continue to encourage the military to use other HIAL airports such as Benbecula and Stornoway.

4.3. ***EYF Confirmation 2005/06***

The Board noted the successful EYF application for £1.8m. This funding carried over from 2005/06 for three capital projects would be separately identified in the Annual Report.

4.4. ***Budget 2006/07***

Mr Lyon explained that the main increases within operating costs were in utilities and materials, repairs and maintenance and runways. Although HIAL's capital expenditure has been significant over the last 10 years it was noted that this was to catch up from a low base level. In terms of Efficient Government the Scottish Executive's aim is that HIAL's operating costs should be controlled.

The Board approved the budget for 2006/07 subject to presentation aspects being acceptable to the Scottish Executive, particularly in relation to operating costs.

4.5. ***Review of major expenditure items in months 10-12***

The Board noted that end year flexibility may be necessary for a proportion of the Inverness airport access road and for the Sumburgh runway resurfacing project.

**Item 5 – Corporate**

5.1. ***Inverness Airport PFI: Regular Update  
Status of Negotiations with Infrastructure Investors (I<sup>2</sup>)***

It was reported that negotiations were now at an advanced stage with Infrastructure Investors ("I2") in respect of the purchase of IATL.

The Board considered the financial and legal aspects of concluding a deal and agreed the steps necessary to achieve this.

5.2. ***Inverness Airport Business Park***

The Board noted the update from the IABP Board meeting held on 17 November. The Board was disappointed to note that IABP had been unable to recruit a business development manager but noted that the current intention was to take a secondee from the HIE network. It was felt that this was a satisfactory interim solution provided the secondee had all necessary attributes and skills including substantial external business experience. The suggestion that the new access road be named "Inverness Airport Drive" was endorsed.

5.3. ***Inverness Airport Masterplan***

A query was raised as to the nature of the work still to be carried out. Miss Thornton advised that these were items such as surface access and environmental considerations. It was important that the master plan was an integral part of any Performance and Financial Management Review (PFMR) considerations.

The Board endorsed the actions set out in the paper and noted that the draft master plan would be presented to the April meeting for approval.

5.4. ***Health and Safety Report***

Mr Lyon advised that senior managers had attended a three day Health and Safety course earlier this week. He wants all managers to take ownership of the Health and Safety at their airports and for this to be inherent throughout the company's processes. The low reportable accident figure was noted and the Board suggested that it was likely that this was as a result of the cessation of certain keep fit activities.

The Stress Management Policy was considered and the Board gave approval for this to be issued.

5.5. ***IIP***

Mr Lyon and Miss MacLennan have yet to meet to discuss the IIP process within HIAL. Miss MacLennan felt that it might be possible to postpone the accreditation to a date later than the current date of 31 December 2006 given that the company is going through a period of change. Mr Lyon would investigate that possibility.

5.6. ***HIA Pension Scheme: Update***

The next HPS trustees meeting is on 5 December and the notes of that meeting will be tabled at the February Board meeting.

5.7. ***Public Relations Brief***

The Board noted the update in respect of the Corporate Plan, the first draft of which would be presented to the February meeting. The external relations programme for 2005/06 was noted. It was suggested that the Health Boards should be added to the list of target audiences. There would be a briefing for MSP's in Edinburgh on 7<sup>th</sup> February followed by a briefing for MP's in London on the 8<sup>th</sup>.

5.8. ***Awayday outcome – Airport Charges***

The Board approved the airport charges proposals for 2006/07 which will take effect on 1 April 2006.

**Item 6 – Operations**

6.1. ***Operational Amelioration***

Mr Lyon advised that HIAL's proposal to remove the fast rescue craft at Kirkwall is still under discussion with the CAA. HIAL's proposal to extend Air Traffic Controllers' quiet time derogations currently available for off-peak periods to normal operations will be reviewed in consultation with the regulator.

The Board noted the position

6.2. ***Single European Sky***

The Single European Sky regulations came into effect in European Community law in March 2004. The government is currently developing policies on how these rules are to be implemented in the UK. In order for HIAL to continue to provide air traffic services, it will need to be certified by the CAA as an Air Navigation Service Provider (ANSP). To achieve and maintain this accreditation, HIAL will need to meet certain economic, financial and operational (via the introduction of the new Safety Management System) requirements. The CAA's current intention is to implement the accreditation process by December 2006.

The regulations also provide for the introduction of a common charging regime across the EU but the implementing rules on this are still being drafted. The most recent version proposes a derogation for airports with less than 50,000 commercial air transport movements. If that derogation remains, none of HIAL's airports will fall under the common charging requirements. There will still, however, be a requirement for HIAL to separately identify the costs of providing the air traffic service within the company's accounts which is not currently done.

The Board noted the position.

6.3. ***Inverness Radar***

Mr Lyon outlined the process to date. The rationale behind pursuing a radar at Inverness is that the radar coverage from Lossiemouth is not ideal at the current time and we need weekend cover which Lossiemouth is unable to provide due to staff levels. Radar is not a statutory requirement but HIAL's customers and Air Traffic Controllers are advising that the system is under pressure as traffic volumes increase. HIAL had originally invited three suppliers to tender for the contract to install radar at Inverness airport. The project is separated into two elements – phase one, which is to take the radar feed from Lossiemouth and set up a consol in the Inverness control tower with HIAL trained controllers, and phase two, to install a dedicated HIAL radar. One of the suppliers had taken no account of HIAL's long term view so was discounted. One of the remaining two suppliers then advised that it was not interested in continuing with discussions. The Board asked about the costs involved with phase one. Mr Lyon explained that the budget for 2006/07 provided for costs of £500,000 for phase one. This comprised costs for a project manager, staff costs for training, radar feed from Lossiemouth and capital costs of creating a consol in the control tower. The Board asked whether we would be able to recharge the cost to operators but was advised that this was unlikely. The Board requested a further paper which clearly outlined the costs and risks so it could consider in more detail.

Miss MacLennan left the meeting at this point.

**Item 7 – Marketing and Route Development**

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

Mr Lyon commented on the routes currently under discussion.

7.2. ***Airport Consultative Committee***

The Board noted the salient points of the Kintyre initiative working group meeting held on 29 October 2005.

**Item 8 – Capital Expenditure**

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

The paper included a briefing on the rationale behind the proposed reinvestment of savings currently forecast. The Board discussed the position and agreed that it was for the Sumburgh Strategic Partnership to present the case to the Scottish Executive. The chairman asked Mr Lyon to discuss the matter with the SASP Board. SASP should write formally to the Scottish Executive outlining the savings forecast and the amount already committed. It was agreed that the project has been well run but that there should never have been a presumption that the contingency should be spent.

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

The Board asked whether this runway resurfacing had been identified in the corporate plan and it was confirmed that this was the case. It was agreed that it was sensible to

take advantage of savings available due to the synergies of carrying out the resurfacing at the same time as the extension.

The Board approved the runway resurfacing at a cost of £975,000.

8.3. ***Benbecula Airport Terminal Building Extension***

As previously advised, the extension to the terminal building at Benbecula was necessary due to Department for Transport security requirements. The Board approved the appointment of Macinnes Bros to carry out the extension at a total cost of £668,275.

8.4. ***Inverness South Apron Extension***

The current South apron is at capacity and scheduled aircraft are unable to park on the North apron as it is not of sufficient strength. Inverness is also the fourth busiest airport in the UK for executive aviation traffic and the apron is heavily congested during the summer period. It is necessary to extend the South apron to provide two additional 737 aircraft bays. The extension to the apron is part of the planned development of Inverness airport. As the expenditure is in excess of £1m, Scottish Executive approval will be necessary to comply with the requirements of the Financial Memorandum.

The Board approved the appointment of HQC to carry out the South apron extension at a cost of £1,642,635. Miss Thornton would write to seek Scottish Executive approval.

**Item 9 – Any Other Business**

- 9.1. The Chairman reiterated his comments from the start of the meeting that as a result of a re-organisation within the Transport Group at Victoria Quay, Alastair Wilson had taken over the aviation remit from 1<sup>st</sup> December and therefore would become the Scottish Executive Assessor to HIAL in place of Jamie Ross. In paying tribute to Jamie for his substantial contribution to the Board over the previous four years the Chairman said that whilst the Board looked forward to working with Alastair we were very sorry to lose the encouragement and support so consistently given by Jamie.

**Item 10 – Date of Next Meeting**

- 10.1. The next Board Meeting will be held on Friday 3 February 2006 at 10.00 am at HIAL Head Office.