

**MINUTES OF THE 222nd MEETING OF HIGHLANDS & ISLANDS AIRPORTS LTD (“HIAL”)
BOARD HELD AT HEAD OFFICE ON 15TH DECEMBER 2015 AT 11.45AM**

Present	Mr Grenville Johnston Mr Inglis Lyon Ms Gillian Bruton Ms Lorna Jack Mr Jim McLaughlin Mr David Savile Mr Tim Whittome	Chairman Managing Director Finance Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
In Attendance	Mr Mark Stuart Mr Robin Macrae Mr Gary Cox Mrs Kirsteen Adams	Director of Operations Head of Operations Transport Scotland Minutes

Item 1 – Apologies

There were no apologies.

Item 2 – Minutes of the Previous Meeting

2.1 The minutes of the meeting held on 3rd November were accepted as a true reflection of the meeting.

2.2 The redacted minutes of the meeting held on 3rd November were approved.

Item 3 – Matters Arising from the Minutes

There were no matters arising.

Item 4 – Corporate

4.1 Risk Management

(Redacted under FOISA Section 33 (1)b)

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Out of Hours Operations

Mr Stuart advised there had been an amendment to the out of hours operating permit but that this had now been closed off the airport risk assessment and would be closed off the corporate risk assessment in due course.

VCCS

(Redacted under FOISA Section 33 (1)b)

Task and Resource Analysis

Mr Lyon noted that the Board should be aware of the associated manning level implications.

Difficult Environs

Mr Stuart confirmed that the final recommendations from the Company were imminent, and he was hopeful that the paper would highlight the hazards and conditions that the Company staff were exposed

to, and the mitigations introduced by the Company which minimised the risk. Mr Savile said this was important but it did seem to be taking a long time.

Funding

Ms Jack then noted that it was important to discuss funding for the business and the associated risks of a cut in funding or increased costs. Mr Lyon agreed and highlighted the circa £6m generated from commercial workstreams which are being invested back into the business, specifically to the Sumburgh project works. He noted that the Company was working hard to generate income streams to balance the restrictive economic environment in which it operated.

However, the Company had now reached a point where there were insufficient funds to run the business, and it was now operating off the back of mild winters and wise investment in capital expenditure over the previous ten years. It was an unsustainable model.

At this point, Mr Cox shared with the Board the forthcoming spending announcements which would be made later that week. He confirmed that HIAL's revenue budget for 2016/17 would be £18.9m which was a reduction of £1m on the previous year. HIAL's capital budget for the year ahead would be £10.6m which included £4.6m ringfenced for the Sumburgh runway project. He added that up to £600k would be made available from the route development fund for year one of the BA Inverness to London Heathrow service, which would begin in May 2016.

Ms Bruton expressed concern at the £1m cut in the revenue budget and Mr Lyon indicated that the increasing financial constraints were making it difficult to operate the business with any kind of financial certainty, which impacted upon decision making throughout the organisation.

Mr Cox advised that the Minister fully understood the issues faced by HIAL. The Board then discussed that better understanding the impact of the cuts on the organisation would be helpful, as would the proposed steps taken to address the short-fall. The political context of these cuts and the proposed mitigations were also discussed and it was agreed that a paper pulling the strands together would be useful. Mr Lyon asked when all of this would become official, and Mr Cox advised that it would be the following day as part of the Spending Review; Mr Lyon advised that this would be useful as time was very much of the essence in terms of making up the short-fall.

The Board noted the position.

4.2 Safety Management

Safety Incident Investigation Review Board

Mr Stuart advised that the review board was working well but was conscious of the risk of complacency and to that end would be investigating ways to reinvigorate the group.

The Board noted the position.

4.3 Operational Report

Fire Appliances

Mr Stuart advised that the after-sales service being delivered by the company providing the new fire appliances was less than satisfactory and it was important HIAL hold the company to task for outstanding snagging items. That said, following their visit to Inverness things had improved, but there was still a long way to go.

Ab Initio Training

Mr Stuart confirmed that the ATS training and recruitment was going well and on target for completion.
(Redacted under FOISA Section 33 (1)b)

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(Redacted under FOISA Section 33 (1)b)

4.4 Regulatory Report

GNSS

Mr Macrae confirmed that the next airports to receive GNSS would be Campbeltown and Barra in March 2016.

(Redacted under FOISA Section 33 (1)b)

The Board noted the position.

4.5 Environmental Management Systems

The Board noted the position.

4.6 (Redacted under FOISA Section 33 (1)b)

4.7 Infrastructure Services

Mr Lyon noted that the taxiway at Stornoway Airport was due for repair, budgeted at £1.3m. However, detailed engineering inspections have provided more clarity, and three different options. Option 1 - £1.3 million with a projected lifespan of 5 years; Option 2 - £2.7 million with a projected lifespan of 8-9 years; Option 3 - £3.3 million with a projected lifespan of 15 years. Mr Lyon advised that the Infrastructure Services team had some further work to do to better understand the scale of the challenge, including the potential rationalisation of some of the infrastructure.

The Board noted the position.

4.8 Southern States

Mr Macrae confirmed that the new PSO route was doing well but that there had been no significant increase in Barra's load factors as a result. He believed more could be done in terms of advertising for the route and Ms Jack agreed that there were opportunities being missed with potential social media campaigns. Mr Macrae commented that Loganair had been doing little in terms of advertising which Mr Cox advised had been noted by Transport Scotland. He would be reminding the airline of their contractual obligation to advertise the route. Mr Cox also advised that it had been agreed to drop 2 of the services over the Christmas period for Tiree. The local stakeholders had been consulted and approved of the decision.

The Board noted the position.

Item 5 – Business

5.1 Commercial Report

KLM - Amsterdam

The Board noted the recent announcement of the forthcoming Air France KLM service from Inverness to Amsterdam which would begin in May 2016 which was extremely positive for the Highlands.

(Redacted under FOISA Section 33 (1)b)

The Board noted the position.

5.2 Loganair Update

Mr Lyon confirmed that the operational issues were still of concern, not only to HIAL but to the wider community. He raised the point that winter was approaching and this placed an additional burden on the aircraft. Mr Cox confirmed that the Minister was fully aware and that he had met with Stewart Adams of Loganair on two separate occasions. Loganair was now providing regular updates to the Minister but the airline had admitted that it would be some time before any noticeable impact could be seen from the changes being made. A lack of qualified engineers was one of the main issues and it would take time to train new engineers.

Mr Savile then raised the provision of the PSO service and asked whether Loganair's deficiencies were contravening the service. Mr Cox advised he would need to look into further but believed that as long as Loganair continued to provide the service, albeit with delays, that there was no issue in that respect. In reference to the delays, Mr Whittome asked whether the majority could be classed as acceptable. Mr Lyon advised that 90% would be a good benchmark to achieve in terms of on schedule flights. In 2014, Loganair was achieving a rate of 86% which dropped to 77% in 2015. He confirmed that the Saab 340 was the aircraft causing most of the issues.

The Board noted the position.

5.3 Inverness Airport Business Park

The Board noted the position.

Item 6 – Finance and Legal

6.1 Monthly Accounts

Ms Bruton advised that the current position was circa £500k ahead of budget but HIAL was forecasting an overspend of circa £400k, due mainly to the renegotiated terms and conditions for AMSL employees. She confirmed that the team would work to reduce the overspend as much as possible.

She advised that the cash position remained at circa £3m / month and that by the year end, HIAL's cash spending would be circa £19.9m. On top of this amount, circa £18.2m was for capital expenditure and she confirmed that the McLaughlin & Harvey monies were included in this amount.

Ms Bruton noted that the finance team was working closely with the airport managers to scrutinise their budgets before the year end. She confirmed that £500k had been ringfenced for the expansion of Inverness terminal and that discussions on the matter were ongoing. Mr Lyon stressed that the expansion was overdue, that the building was already operating at capacity and with the London Heathrow and Amsterdam services beginning in early 2016 the airport would be stressed even further. Consequently, the expansion would need to be completed before May 2016.

The Board noted that position.

6.2 Projects Update

Ms Bruton advised that she working with Iain Thain on various Inverness projects and accuracy of costs. Good progress was being made.

The Board noted that position.

6.3 Procurement Report

With reference to the actions against the Procurement and Commercial Improvement Programme, Mr McLaughlin asked whether the timescales were achievable. Ms Bruton was not convinced that they were in fact achievable but added that there needed to be deadlines given to each action so that there was something to aim for. Mr Lyon added that the system was still very cumbersome and that the Company would look at improving in the new year.

6.4 (Redacted under FOISA Section 33 (1)b)

6.5 Car Parking Charges

The proposal was discussed in the context of the forth-coming cuts, as was the potential timing when set against the political background. It was agreed that this, along with the other measures which HIAL proposed to make up the short-fall, would be discussed further once more information was available.

The Board noted the position.

6.6 (Redacted under FOISA Section 33 (1)b)

Item 7 – Human Resources

7.1 HIAL Pension Scheme

Pension Trustees

Mr Lyon provided an update regarding pension scheme trustees **(Redacted under FOISA Section 33 (1)b)**

Mr Lyon also advised there was one vacancy for a member nominated trustee with the retirement of David Hamilton.

Post meeting note: David Swift, Inverness ATCO would be replacing David Hamilton as a member nominated trustee.

Investment Strategy

Barnett Waddingham had provided some analysis to the Pension Trustees which demonstrated that adopting a Liabilities Driven Investments (LDI) style strategy would help towards balancing the fluctuations between assets and liabilities. The Trustees had discussed the strategy at their last meeting and whether this would be an appropriate strategy for the HIAL pension scheme. Barnett Waddingham would be providing more information in due course and the Trustees were keen to take any advice from the HIAL Board. Noting the complexity of such a strategy and the technical knowledge required therein, the Chairman suggested that this was a lot to ask of the Trustees and Mr McLaughlin agreed adding that the Board would need some comfort that the Trustees would receive a sufficient level of

Redacted Minutes

support in order to make the decision. Ms Bruton suggested that the Company did need to look at the option of an LDI strategy and that it would also look into obtaining additional support for the Trustees.

The Board noted the position.

Item 8 – AOB

There was no other business to attend to.

Item 9 Dates of Next Meeting

The next Board meeting will be held on Tuesday 19th January 2016 in Edinburgh.

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