

MINUTES OF THE 229TH MEETING OF HIGHLANDS & ISLANDS AIRPORTS LTD (“HIAL”) BOARD HELD AT
HEAD OFFICE, INVERNESS ON 4TH OCTOBER 2016 AT 10.30AM

Present	Dr Mike Cantlay Mr Inglis Lyon Ms Gillian Bruton Mr Jim McLaughlin Mr David Savile Mr Tim Whittome	Chair Managing Director Finance Director Non-Executive Director Non-Executive Director Non-Executive Director
In Attendance	Mr Gary Cox Mr Mark Stuart Mr Robin MacRae Mrs Kirsteen Adams	Transport Scotland Director of Airport Operations Director of Operational Support Minutes

Apologies

Apologies were received from Ms Lorna Jack.

Item 1 – Strategy Minutes

The minutes from the strategy meeting on 30th August 2016 were noted and approved.

Item 2 – HIAL 2025

Mr Lyon began by summarising his paper which highlighted the need for strategic reform within the organisation which would align with the Scottish Government’s agenda for change within the public sector. He underlined the need to recognise that what he was proposing would incur significant change and that discussions now needed to move towards conclusion.

Mr McLaughlin suggested the vision for 2025 should be clearly defined before understanding how to get there. He also suggested centres of excellence and building expertise as part of an organisation transformational plan. He asked whether the strategy was perhaps too ambitious but stressed the importance of good communications with HIAL’s staff to avoid the proposed changes being perceived as a threat.

Mr Savile was encouraged by the paper and believed it was the right direction for HIAL. He suggested that if a strategic vision was not put in place, the organisation risked becoming stagnant. He also suggested considering a phased introduction of the proposals to allow for an easier transition period.

Mr Whittome mentioned the difficulties inherent in an organisation with 11 separate sites and how this potentially made discussions more challenging. He agreed that it was important to establish what HIAL wanted to become and whether this aligned with the Scottish Government’s strategy. He also highlighted the future of air transport and what it might look like.

(Redacted under FOISA Section 33 (1)b)

Mr Stuart suggested that a “2025 roadmap” be established which would guide HIAL and its employees throughout the strategic process. This would identify key milestones and achievements within the overall vision, ultimately securing buy-in from employees and avoiding potential apathy.

(Redacted under FOISA Section 33 (1)b)

Ms Bruton commented that HIAL’s employees were generally very loyal and that if the corporate message was that HIAL wanted to build a financially sustainable business and in order to do so, needed to make a number of strategic changes that the vast majority of people would be sympathetic to this. She continued by saying that support from the Scottish Government was key to making it work. HIAL needed appropriate financial investment for the future.

Mr Cox then explained the background to a recent air services scoping study which had been produced by the Western Isles Council.

(Redacted under FOISA Section 33 (1)b)

The Minister saw HIAL as having a leadership role in the future of transport in the Highlands and Islands and broadening its horizons in terms of its operating model.

Mr Cox confirmed that for the next few years, there would be no improvement in terms of HIAL’s subsidy offer and the long term objective was to increase commercial revenues whilst reducing reliance on subsidy. Mr Whittome asked if there were any boundaries to consider when pulling the scope together and Mr Cox confirmed that at this stage there were none and all options would be considered.

Mr Stuart raised a query regarding funding noting that HIAL’s existing budget was committed mainly to repair and maintenance projects and asked if any additional funding would be made available for strategic purposes. Mr Cox encouraged HIAL to submit strong business cases linked to HIAL’s 2025 vision which would be looked at by Transport Scotland and would help in arguing the case for potential funding.

(Redacted under FOISA Section 33 (1)b)

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Mr Savile commented that passengers were not interested in aircraft type but were instead seeking a service which provided Ryanair fares and frequency. **(Redacted under FOISA Section 33 (1)b)** It was easier to argue affordable vs low cost. The Board agreed that the language used would need careful consideration. It was also agreed that discussions with the local communities were important to establish customer needs but also to explain HIAL’s position and its vision for the future of travel in the Highlands and Islands.

The Chair invited the Board to consider what aviation would look like in 2025. **(Redacted under FOISA Section 33 (1)b)** Mr Savile commented that the airlines would not be interested in strategic

discussions as the motivation for them was generating revenue. Mr Lyon agreed but insisted that it was important for HIAL to have the conversation with the airlines and offer them the opportunity to work with HIAL to provide a more sustainable service for the future.

There was some discussion about the various strengths and weaknesses of airline operating models including whether HIAL should consider becoming the aircraft operator itself. Also discussed was the difference between types of PSO arrangements and Mr Lyon explained the PSO concept and its applicability to the Highlands & Islands.

Mr Whittome asked whether the move towards Brexit would offer any opportunities and Mr Cox advised that HIAL should continue to assume that state aid restrictions would apply for the time being.

(Redacted under FOISA Section 33 (1)b)

Mr Lyon was due to meet with Jonathan Hinkles the following day and a dinner with Stephen Bond, Jonathan Hinkles and Scott Grier had been organised for the beginning of November.

It was agreed that four separate workstreams would be developed for the next board meeting:

1. The opportunities and constraints of a smart PSO offering & alternative Models;
2. Aircraft type including cost element;
3. Software, i.e. customer interface, booking systems etc;
4. Transport futures (navaids etc).

Each workstream would have a paper for the next strategy meeting and a 30 minute discussion surrounding it.

Mr McLaughlin suggested that it would be helpful to have terms of reference for each workstream and Mr Lyon agreed to look into this.

Item 3 – HIAL, DAL and AMSL Minutes

The minutes from the above board meetings held on 30th August 2016 were noted and approved subject to a minor amendment on the DAL minutes.

Item 4 – Matters Arising

4.6 Alternative Security Measures

Mr Lyon advised that the trade unions were unhappy with the forthcoming changes to security arrangements.

4.7 Infrastructure Services

Ms Bruton confirmed there would be no impact to HIAL's accounts if the cross runway at Benbecula were to be closed.

4.10 SEPA

Arup had been appointed as technical specialists with regards to the workstreams which had been established following the discussions with SEPA.

Item 5 – Dundee Airport

Mr David Martin from Dundee City Council joined the meeting at this point via conference call. The Chair welcomed Mr Martin to the meeting and summarised the discussions he had had with Mr Martin during his recent visit to Dundee including the potential hive up project as well as the Dundee City deal. Mr Martin had welcomed the opportunity to discuss these matters with the Chair.

Mr Martin then provided some background to the city deals and talked of the opportunity to develop individual city deals, tailored to the specific needs of each location. He gave the example of Glasgow where a number of infrastructure deals in particular had been negotiated as part of its city deal but stressed that this should not set the tone for other locations, in particular Tayside. The deadline for business case submission in Tayside was March 2017. As it stood, Mr Martin suggested that the city deal structure was not particularly supportive of organisations such as HIAL but that the Council very much saw HIAL as a strategic partner within the Tayside deal. There was some discussion about the opportunity to think strategically and with a longer term perspective, using examples such as the purchase of aircraft. Mr Martin asked that HIAL submit a proposal for consideration and Mr Lyon confirmed that Derrick Lang would liaise with the Council on this.

(Redacted under FOISA Section 33 (1)b)

Mr Lyon explained that Dundee was not necessarily worse than other airports however on this particular route, there was a lot of space in the operating day which caused issues when an aircraft was used elsewhere, potentially accumulating delays as the day progressed.

(Redacted under FOISA Section 33 (1)b)

Mr Savile asked for load factor trends on the Dundee – Stansted route.

Finally, Ms Bruton advised that DAL's annual accounts would be posted on 14th October.

Mr Martin left the meeting.

Item 6 – Corporate Risks

Mr Stuart talked through the company's top risks adding that these would evolve and develop over the coming months.

Bird Strikes

Mr Stuart confirmed that a working group would look at the whole gamut with regards to wildlife management. As several of HIAL's airports were maritime locations, there would always be an inherently higher risk for bird strike / activity but that corporately and locally, the company was taking all the necessary steps to investigate further mitigations. The outcomes from the working group and how the mitigations were being progressed would be taken forward to the next board meeting with the ultimate aim of removing bird strikes as a top risk going forward.

ICT

Mr Stuart spoke of HIAL's plans to strengthen its network and how these plans were progressing. Parallel to this, HIAL was also looking for a long term solution, e.g. outsourcing. Digital Transformation Scotland were being consulted on the matter.

Difficult Environs

(Redacted under FOISA Section 33 (1)b)

HR

Mr Stuart highlighted the risk regarding a lack of management expertise in terms of succession planning. The Chairman suggested the Board needed assurance that succession planning was in place and Mr Lyon agreed to discuss further with the Board at a later date.

Customer Service

Mr Stuart circulated Inverness Airport customer service results which were encouraging. However, it was noted that the performance of the onsite car hire companies was disappointing and was in danger of significantly affecting the overall customer service experience. Mr Lyon advised that feedback from the car hire companies had indicated a lack of resource and management but that a number of promises to add resource had been made. The situation would be monitored closely by Graeme Bell and his team and the Chair suggested that a solution must be in place by the 2018 season.

Item 7 – HIAL Accounts

Ms Bruton noted a number of improvements in terms of revenue however stressed that the focus on revenue and capital spend would continue into the winter period.

(Redacted under FOISA Section 33 (1)b)

Mr Cox advised that there was the possibility some of the amount would be used to cover HIAL's capital and revenue overspend but that he would be discussing the matter with the Minister the following day and would recommend the full amount be carried forward. The Chair noted that were HIAL a public corporation, it would not be in this position. He believed that HIAL should progress with its aim of regaining public corporation status.

Ms Bruton advised that the HIAL accounts would be posted on 14th October and it was agreed that no PR surrounding this was required.

Finally, Ms Bruton advised that there was an HMRC tax audit at head office today.

Item 8 – HIAL IT

The paper was noted.

Item 9 – Commercial Report

Air Passenger Duty

The Chair pointed out that many Highlands and Islands passengers did not realise that the KLM Amsterdam flight was exempt from APD and that this was something which should be communicated to HIAL's customers rather than leaving it to the airlines.

Item 10 – HIAL Operational Report

Mr Stuart provided an update on the Sumburgh and Wick works projects. Mr Lyon advised that the Minister was happy to be involved in PR activity for Sumburgh when the time came.

Item 11 – Airport Management Services Ltd

Mr Stuart spoke of a recent customer complaint relating to Sumburgh security search procedures. The staff involved had followed the correct procedure however the customer service / personable element had been missing. Senior airport management had subsequently met with the customer and listened to her concerns with a view to incorporating these into training modules going forward.

Ms Bruton advised that the annual accounts for AMSL would be posted on 14th October.

Item 12 – HIAL Operations Restructure

Mr MacRae summarised the paper adding that the move would provide greater focus and clarity for all.

Item 13 – HIAL Pension Scheme

(Redacted under FOISA Section 33 (1)b)

Mr Cox promised a formal response following a discussion with the Minister.

Item 14 – Promoting Attendance

(Redacted under FOISA Section 33 (1)b)

Item 15 – Inverness Airport Business Park

(Redacted under FOISA Section 33 (1)b)

Item 16 – Any Other Business

(Redacted under FOISA Section 33 (1)b)

Item 17 – Date of Next Meeting

The next meeting would be a strategy meeting on 28th November followed by board meetings on 29th November, both in Inverness.

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