

**MINUTES OF THE 230TH MEETING OF HIGHLANDS & ISLANDS AIRPORTS LTD
("HIAL") BOARD HELD AT HEAD OFFICE, INVERNESS ON 29TH NOVEMBER 2016
AT 09.00AM**

Present	Dr Mike Cantlay Mr Inglis Lyon Ms Gillian Bruton Ms Lorna Jack Mr Jim McLaughlin Mr David Savile Mr Tim Whittome	Chair Managing Director Finance Director Non-Executive 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 Mr John Nicholls.

Item 1 – HIAL Board Minutes

The minutes from the HIAL board meeting on 4th October 2016 were noted and approved subject to some minor amendments.

Item 2 – Matters Arising

There were no matters arising from the previous minutes.

Item 3 – HIAL Monthly Accounts

Ms Bruton confirmed that a £1m - £1.2m overspend had been forecasted however as winter approached, this would be monitored closely to account for any unbudgeted spend on de-icer for example. The additional spend relating to the review of HIAL's IT department would also be incorporated into the final forecast. At present, the budget was circa £1m ahead of forecast however as detailed above, the next few months would be critical. Ms Bruton confirmed that all airport managers would be reviewing their budgets regularly.

With regard to capital, Ms Bruton confirmed a forecasted overspend of circa £1m.

(Redacted under FOISA Section 33 (1)b)

Item 4 – Airport Charges

Ms Bruton advised that in arriving at annual airport charges, the company looked at both RPI and CPI rates as a basis for agreeing any increase to HIAL's charges. She advised that for the current year, the CPI increase had been 0.169% however, HIAL's company pay increase

as well as additional operational costs would need to be accounted for and on that basis, she recommended a 2.5% increase for 2017.

(Redacted under FOISA Section 33 (1)b)

The Board approved a 2.5% increase in airport charges for 2017 and also to progress discussions with Loganair on that basis.

Item 5 – Procurement Strategy

Mr MacRae advised that in line with government legislation, HIAL was required to publish its procurement strategy which the Board was now invited to comment on. He added that the overall aim of the strategy was to simplify whilst embed procurement within the organisation but that this needed to be devolved to the airport locations. As such, the corporate restructure had identified clear lines of responsibility and the appropriate tools had been provided so that airport managers could manage autonomously. There would also be measurable targets allowing teams to identify the inherent benefits thus acting as an incentive to the airports.

Ms Jack asked whether the Board would have sight of regular updates regarding targets and Mr MacRae confirmed the targets would be monitored and shared with the Board.

The Procurement Strategy was approved by the Board and would be brought back periodically to the Board for review.

Item 6 – NDPB Status

Ms Bruton confirmed that this had been looked into previously and that it was not necessarily a straightforward process and would take some time to work through. Ms Jack asked if there were any examples of other public sector organisations who managed the process and Mr Lyon confirmed that Scottish Canals had successfully done so. He suggested inviting an external consultant to review HIAL's current position and provide detail on what would be required to close the gap.

Mr Whittome asked what the Scottish Government view was and Mr Cox confirmed that a move for HIAL towards NDPB status did not cause any issues for Transport Scotland, indeed the status would provide greater flexibility and maintain Transport Scotland oversight. There was some discussion regarding ONS classification and also how depreciation would be managed. Ms Jack raised concern regarding the potential approach to depreciation which would need careful consideration going forward.

Item 7 – Spending Review

ASMs

Mr Lyon confirmed that ASMs would go live in January and that the trade unions were intending to object to the measures on the bases of “compromising national security”. HIAL’s press statement had been agreed in line with all the relevant parties.

Revenue Streams

Mr Lyon confirmed that HIAL’s existing and new revenue streams were doing well and that the new training courses were live and on sale. HIAL was doing as much as it could in terms of generating revenue.

(Redacted under FOISA Section 33 (1)b)

The Chair noted the significant impact Inverness Airport had had on HIAL’s overall income, opening up a number of revenue streams for the Company. He suggested that particular focus be placed on maximising the airport’s capital programme in order to strengthen its infrastructure and ensure that the airport could build on its potential. He suggested reviewing the airport’s car park pricing structure noting that whilst it should always be below the charges levied at Aberdeen Airport **(Redacted under FOISA Section 33 (1)b)**. Mr Stuart commented that plans for a potential redesign of the terminal had been drafted at a previous date however these had not been taken forward. The Chair suggested looking into the footprint of the terminal rather than a redesign. Mr Lyon would take forward for review.

Finally, Mr Cox advised that the next spending review would be a one-year review and was being worked on at present. It was hoped this would be published within the next few months.

(Redacted under FOISA Section 33 (1)b)

Item 9 – HIAL ICT

Mr Lyon confirmed that 75% of the work being carried out by Fujitsu had been completed and was on target and on budget. Alternative ICT models were now being investigated which would look at the appropriateness of appointing either a third party to manage HIAL’s ICT, a Scottish Government framework or keep in-house. Mr Stuart confirmed that he and Ms Bruton were speaking to a number of organisations including HIE, The Highland Council and SNH to understand how other companies managed ICT and through these conversations had understood that HIAL was not alone in the issues it faced however were perhaps slightly behind the curve in finding a solution.

Historically, HIAL had underinvested in its ICT systems (circa 1% spend vs a benchmark of around 4%-5%) but this had been identified and accounted for going forward. Ms Bruton noted that there would be significant expenditure and resource required and recognised that once Fujitsu had completed their work, it would be a challenge to maintain the current level until a way forward had been agreed. HIAL had employed an external consultant to

understand the requirements in terms of service delivery and on that basis, identify the different models available to HIAL. Mr McLaughlin commented that whichever model was decided on would impact on the recruitment of the IT Manager in terms of their areas of expertise.

Finally, Ms Jack suggested investigating the Scottish Business Resilience Centre who manage Cyber Essentials for the Scottish Government. Mr Stuart confirmed that he was in contact with Cyber Essentials and would take forward post-Fujitsu.

Item 10 – Commercial Report

KLM

Mr Lyon advised that KLM were very impressed by the performance of their Highland product and understood the significance of the service to the area. As such, discussions were underway to provide an early morning service from Inverness for Summer 2017.

BA

The route had performed well thus far but Mr Lyon suggested that it would be another 2 years before the route was increased (**Redacted under FOISA Section 33 (1)b**).

EasyJet

The airline was 14% ahead year on year for its Inverness routes and was celebrating 20 years of flying out of Luton to Inverness. The airline was also operating flights from Inverness to Geneva for winter 2016/17.

Eastern Airways

(Redacted under FOISA Section 33 (1)b)

Eastern had recently purchased two Embraer 175 aircraft which he suggested was a big commitment and it would be interesting to watch developments over the coming months.

Dundee – Flybe

HIAL had met recently with Flybe and provided a presentation to the airline.

(Redacted under FOISA Section 33 (1)b)

Mr Lyon confirmed that all the necessary mitigations would be provided by HIAL and it was now over to Flybe to make a decision regarding the continuity of the Amsterdam service.

Oil and Gas

Mr Lyon confirmed that the consultant's report had outlined the benefits of a Sumburgh / Scatsta consolidation.

(Redacted under FOISA Section 33 (1)b)

Item 11 – Risk Management

Mr MacRae confirmed that the review of HIAL's risk management processes and structure had been completed and the proposed new methodology had been articulated to the airport managers. He advised that the airport managers would now have dedicated risk management sessions, discussing control measures as well as risks. These sessions would provide the basis for a condensed Risk Oversight Group (ROG) and the report from these meetings would be shared with the Audit Committee and if required, the Board.

Ms Jack asked if Mr MacRae required any assistance from the Audit Committee to ensure it aligned with the new process, referring specifically to the decision making process. Mr MacRae confirmed that if there were any issues which the ROG was not comfortable with, it would action immediately rather than waiting for an Audit Committee meeting. Ms Bruton confirmed that best practice was for the Audit Committee to meet 4 times a year but if additional meetings were required this could be looked at. Ms Bruton and Ms Jack would discuss further.

Furthermore, the existing Corporate Risk Register would be replaced with a new report and the Board would be given access to RIVO, the risk management software used by HIAL.

Ms Jack asked about internal auditor involvement and Mr MacRae advised that the auditors had not been part of ROG meetings for some time.

Mr Whittome said he would like to see the top risk for each category and if the top risks all lay within the same category, take the top risk from each of the remaining categories in order to provide an idea for the kind of risks being managed.

Item 12 – Operational Support

Ms Jack asked for an update on the SEPA meeting which had taken place on 25th November. Mr MacRae advised it had provided useful direction with the emphasis being placed on an Inverness focus.

(Redacted under FOISA Section 33 (1)b)

Mr Lyon confirmed that the meeting had ended well advising that the Enforcement Undertaking would be the first in Scotland and HIAL had agreed to have this signed off in the New Year.

Item 13 – Dundee Airport

David Martin from Dundee City Council joined the meeting by conference call.

Dundee City Deal

Mr Martin provided an update on the progress of the city deal advising that over 100 bids had been submitted for funding applications. The deadline for submissions was February 2017.

From these, 80 proposals would be put forward for consideration. Mr Martin said he would like to touch base with Mr Lyon and his team to look at what was being proposed and to ensure this aligned with what HIAL's potential requirements were.

Flybe – Amsterdam

Mr Lyon confirmed that HIAL would be meeting with Flybe on 21st December to discuss **(Redacted under FOISA Section 33 (1)b)** the Amsterdam service out of Dundee. Mr Lyon added that HIAL had spent much time developing the mitigations and that the decision would now lie with the airline as to how to proceed. Mr Martin thanked Mr Lyon and his team for their efforts and suggested that if there was a favourable outcome, a cohesive PR strategy should be agreed as soon as possible. Ms Bruton noted that Dundee Airport's turnover was up against the previous year, due largely to revenue from the Amsterdam service.

Stansted

Mr Martin confirmed that discussions were on going and Mr Cox advised that informal feedback from Loganair was that they would submit a proposal for Stansted and London City operations. There was some discussion regarding the viability of Stansted as a destination however it was noted that a good amount of thought was being put into the tender.

Mr Martin thanked the Board and left the meeting.

(Redacted under FOISA Section 33 (1)b)

Item 14 – Airport Operations

Mr Stuart summarised the results of the recent airport quality survey which was a one-off survey carried out at Inverness Airport. The overall satisfaction scores reflected well on the airport with security in particular comparing well to other categories. The results highlighted that more focus on eating facilities and value for money was required going forward. There was some discussion on landside vs airside facilities and whether Inverness should be focussing more on its airside provision. Mr Lyon suggested this would form part of the overall review mentioned earlier.

Mr Stuart confirmed that the Airport Development Manager, Andy Gower had recently had a knee operation and would be out of the business for 3 months. Recruitment for a Sumburgh Airport Manager was underway and Mr Stuart was looking at additional resilience in the meantime.

Item 15 – Infrastructure Services

The paper was noted.

Item 16 – Airport Management Services Ltd (AMSL)

Ms Jack raised concern that the overall success rate was just over 50%. Mr Stuart confirmed that HIAL had adopted a more rigorous form of testing which was being seen in the results. However, HIAL's success rate did not compare badly against the CAA.

(Redacted under FOISA Section 33 (1)b)

Mr Savile asked whether there was any pressure from the regulator for HIAL to review its security equipment and Mr Stuart confirmed that HIAL reviewed its equipment on a regular basis, taking into account the customer service aspect as well as detection capabilities.

Item 17 – Alternative Security Measures (ASMs)

Ms Jack raised the issue of PR and asked that the Board be provided with an official briefing to be used in the event board members were asked to comment. Mr Lyon confirmed that he would send out a note to the Board with the information required.

Item 18 – HIAL Pension Scheme

Mr Lyon would invite Barnett Waddingham to a HIAL board meeting in the New Year.

Item 19 – Any Other Business

Strategy

Mr Lyon made reference to the presentation Pat Nolan had given at the strategy meeting the previous day which had focussed on the long term air traffic management strategy for HIAL.

(Redacted under FOISA Section 33 (1)b)

HMRC Audit

Ms Jack asked for an update following the recent HMRC audit and Ms Bruton confirmed the audit had raised the issue of staff relocation costs with regard to tax and also interview costs.

Item 20 – Date of Next Meeting

The next meeting would be held on 17th January 2017 at the MacDonald Holyrood Hotel in Edinburgh.

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