

**HIAL Board Minutes – Thursday 23 February 2023**  
**Head Office Inverness Airport**

**Board Attendees:** (LJ) Lorna Jack (Chair)  
(IL) Inglis Lyon (HIAL, Managing Director)  
(JM) Jamie Manson (HIAL, Finance Director)  
(LS) Loraine Strachan (Non-Executive Director)  
(CH) Chris Holliday (Non-Executive Director)  
(IT) Isabel Todenhoefer (Non-Executive Director)  
(LC) Lynne Clow (Non-Executive Director)

**In Attendance:** (DS) Denise Sutherland (HIAL Head of Communications)  
(DM) Darren MacLeod (HIAL Acting Director of Corporate Operational Support)  
(MB) Michael Bratcher (Transport Scotland – Policy)  
(AS) Andrea Sillars (HIAL, Director of HR)  
(FP) Fran Pacitti (Transport Scotland)  
(JC) Jackie Clark (HIAL Executive Assistant – Minutes)  
**09:45 – 10:15** (LJo) Lynda Johnston (HIAL Head of Business Development)

**Apologies:** (GF) George Farquhar (HIAL, Director of Airport Operations)

**HIAL Board Meeting commenced at 09:30**

**Apologies**

Apologies were received from George Farquhar.

**Declaration of Interest**

The Chair took as read the usual declarations of interest unless advised of any change. No changes were advised.

The Chair asked for the board minute to record the note she had circulated to the Board about Opulus Financial recently acquiring Wylie Bisset (WB), HIAL's internal auditors. As the HIAL Chair also Chairs the Opulus Board, the HIAL Chair will remove herself from any discussions on WBs performance or where any future HIAL audit contract is being awarded to ensure there is no conflict of interest.

**Minutes and Matters Arising**

The Board approved the minutes of the 15<sup>th</sup> December 2022.

19.10.22 SATE – Update JM is to circulate via email a breakdown of the £650K spent to date on the SATE project.

### **Chair's Report**

The Chair discussed the response from the Minister to the letter sent in September 22 with regards to HIAL's future funding. **Withheld Information No 4.**

Local authority calls continue and are very productive with the new leader of the Western Isles and the new Chief Executive of the Orkney Islands Council (OIC) now attending the calls. It was noted that the Shetland Islands Council (SIC) are now back in attendance on the calls. She and IL had also met with both OIC's CEO and the CEO and Leader of SIC one to one in the past month.

The Chair advised the Board that the new Barra Terminal was near completion and on time ready to open in the summer. DS advised she was in discussion with Transport Scotland about who will be attending to open the terminal.

The Board were reminded that the Risk Awareness Workshop was being held on the 14<sup>th</sup> April at the Holiday Inn, Glasgow Airport and board attendance was mandatory.

Following a question on the PSO contracts FP advised no decisions had been made yet.

### **Managing Directors Report**

Following the news received from Prospect on industrial action IL updated the Board on the dates for strikes in March at each of the HIAL airports. A meeting is scheduled with the trade unions on the 27<sup>th</sup> February. **Withheld Information No 4.** If HIAL and the trade unions can agree a pay award for 2022/23, IL would like to offer to set up a team dedicated to work with the trade unions over the next 6 months to discuss the other issues raised. IL advised for everyday of strike, revenue is being lost.

Tenders have been received for the new Islay runway resurfacing. There have been some concerns raised by a guest house adjacent to the airport in relation to the resurfacing works.

Following the letter sent to SEPA asking for a delay to Phase 3 of the Inverness Surface Water Drainage, SEPA has accepted the delay for this Winter, however, will not accept any further delay.

Sustainable Aviation Fuel (SAF) is available from Inverness Airport from May 2023.

Due to staffing issues at the café concession in Kirkwall Airport and Stornoway Airport only vending machines are available to acquire food and drink.

**Withheld Information No 4.**

The ARC C-600 made by ARC Aerospace will be trialled from Wick Airport in April or May 2023.

**Audit Committee Feedback**

LS provided an update on the Audit Committee which had been held on Monday 20<sup>th</sup> February 2023. **Withheld Information No 4.** IABP management accounts were reviewed. External auditors' contract has been extended to end of October 23 and Internal auditors until end of September 23 with the open procurement process starting imminently.

JM advised a paper on company insurance will be brought to the April Board.

**Papers for Approval**

Item A – Commercial Strategy

**LJo joined the meeting at 09:35**

LJo advised she would cover the findings within the CAS report, how it has been interpreted and how negotiations with commercial airlines will be completed going forward. The CAS report was commissioned to review existing routes **withheld Information No 4.** A key message from the report was HIAL had a complex network of routes with route profitability being varied by route and by airline with demand for air travel not yet recovered from the pandemic. The Board were shown a slide for future route demand on all routes. It was noted that the three main busiest routes based on demand are all south of the border.

**ACTION:** JC to circulate the Commercial Strategy presentation to board members

LJo advised the Board on current charging mechanisms and any support deals and her recommendations for the future.

**Withheld Information No 4.**

The Board discussed the requirement to ensure the correct charging mechanism was built into the Commercial strategy for Oil and Gas customers.

**Withheld Information No 4.**

The Board discussed charges for the O&G industry, and it was agreed there would be a separate O&G charging mechanism based on the different service offered at Sumburgh for the O&G customers.

*Decision: The Board did not approve the first draft of the Commercial Strategy. More detailed information is required for the longer-term commercial strategy to be approved. The Board asked for the O&G charges to be included within the strategy.*

#### Item B – Budget Proposal 2023/24

JM provided an overview of the board paper confirming a balanced budget based on expected revenue generated based **withheld information No 4**. The 2023/24 budget is based on a revenue grant of up to £41.87m and if approved would provide positive headroom of **withheld information No 1**.

The Board discussed the impact of industrial action on airline revenues and felt it would be best to defer any increased charges from 1<sup>st</sup> April to 1<sup>st</sup> July while industrial action was ongoing. JM provided details of revenues lost **withheld information No 4**.

*Decision: The Board made the decision to defer increasing charges for HIAL's commercial airline customers who are impacted by industrial action until 1/7/23 however will increase the General Aviation customers as planned from 1<sup>st</sup> April 2023.*

The Board suggested the business model for the company had changed and it would be worthwhile looking at the cost base to identify the changes. Forecasting of costs were questioned. JM explained the reason behind the increase in costs and specifically detailed the increase on staff costs. FP took the opportunity to thank JM for the improved forecasting that was provided to Transport Scotland.

Following some further questions on costs and income JM advised it was a prudent forecast based on information gathered from airport managers with challenges on some assumptions. The Board discussed the current inflation rate and the Consumer Price Inflation (CPI) rate **withheld information No 4**. JM explained that HIAL had recently just increased their aviation charges and there was an expectation that the CPI would reduce down from 10.1 percent to 2 percent, by the end of the year. **Withheld Information No 4**. The Chair added that it was imperative that the commercial model was complete before October 23 to ensure a decision on fees and charges for April 2024.

*Decision: **Withheld Information No 4**.*

#### **LJo left the meeting at 11:45**

The Board raised further questions on the overhead costs in the budget for staff recruitment. JM provided an explanation of each of the positions and advised they would be going to the People Committee for discussion and added there was provision in the budget for the new roles. The Chair proposed that the Board approve the cost within the budget to cover succession planning and age profile of HIAL staff and added that the People Committee would

review the requirement of the individual roles and advise the Board at its next meeting if the provisional costs in the budget need to be amended.

JM reminded the board that the detailed capital plan had been approved in December against the capital budget of £17.6m for 2023/24. Changes may be required to the capital plan if the Dundee PSO continues. The Islay runway rehabilitation tenders have been re-evaluated with potential for some capital to be released and re-allocated to other projects.

*Decision: The Board approved the proposed 2023/24 Budget subject to the People Committee reviewing the increased staff costs and the proposed new staff positions.*

#### **The Board broke for coffee at 11:44**

#### **The Board re-convened at 11:52**

##### Item C – Audit Committee TOR

LS updated the Board on the discussion held at the Audit Committee on the TOR.

The Board asked for an amendment to the TOR to include the oversight of IT and Cyber security. The Chair asked the Chair of the Audit Committee (LS) to advise the Board on what additional actions the Audit Committee will take when reviewing IT and Cyber security. The Board agreed that the Cyber security report would still be provided to the Board for their information.

*Decision: Subject to the amendment to the Audit Committee TOR to include IT and Cyber security the Board were content to approve the Audit Committee TOR.*

**ACTION:** JM to update Audit Committee TOR to include IT and Cyber Security

##### Item D – Code of Conduct

The Chair advised that even though the HIAL Board Code of Conduct was not covered by the Ethical Standards Commissioner it was necessary to have a code to comply with TS's Framework. A question was asked whether a paragraph on NXD's behaviour outside of HIAL should be included. DS advised there may be a paragraph on role of board in the Communication and Engagement strategy which could be included in the Code of Conduct if related to Director behaviour.

The Chair advised the two areas highlighted in the document on allowances and accountability were areas to be clarified and confirmed.

*Decision: The Board were happy with the content within the Code of conduct. The Chair will update and forward to Ministers for review and following this will be published on the HIAL websites.*

#### Item H – Pay Award Update

AS advised that Prospect had announced additional strike action from the 8<sup>th</sup> March to 17<sup>th</sup> March, with an indefinite work to rule from the 18<sup>th</sup> March and updated the Board on the outcome of the latest meeting with the Union where pension and pay and grading were highlighted. **Withheld Information No 4.** The Board discussed both the current industrial action and the need for progress on the Pay & Grading work. JM added that there was some funding identified in the budget if unused could be repurposed towards updating work on pay and grading. The Board agreed that the People Committee after reviewing the staff individual roles highlighted in the budget, should then determine whether there is funding to update work on pay and grading.

*Decision: The Board were content for the People committee to decide if there would be funding available to update the work on pay and grading following their review of staffing requirements highlighted in the budget.*

#### Item E – Facilities Management

DM reminded the Board of their feedback on the previous facilities management board paper. Operating models of other facilities management organisations were reviewed, and new options were drawn up for board approval. The Board were supportive of option 2 however were concerned about the number of headcount and commented about the way HIAL could be more efficient and look at consolidating future contract management. Following a question on specification DM advised that once the Board approves the option the next steps will be to draw up the specification and take a paper to board to approve for tender.

*Decision: The Board approved option 2 Blended approach.*

#### Item F – Strategic Plan (Revised)

IL advised the revised strategic plan now included comments from stakeholders and HIAL teams. The Chair added it is the best, most consultative strategy process that has been completed in HIAL. The Board raised a question on whether there was enough emphasis on safety within the plan. DS advised all the comments fed back on the plan regarding safety were amended where necessary with agreement from Airport Managers.

The Board asked if at a future board they could be briefed on the Scottish Government carbon neutral island initiative and have a discussion on HIAL's single point of failures.

FP reminded the Board that the final draft strategy plan should be passed by the Ministers prior to publishing to ensure it aligns with the Ministers strategic priorities.

**ACTION:** DS to send the final draft strategic plan to MB to forward to the Minister for comment.

*Decision: Subject to a small amendment within the Foreword section the Board approved the final draft of the Strategic Plan 2023-28.*

### **The Board broke for lunch 13:08 – 13:39**

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| <b>Papers for Discussion</b> |
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#### Item G – HIAL Pension Scheme

IL and JM's interest as members of the HIAL Pension Scheme were noted.

IL briefed the Board **withheld information No 4.**

Board members also asked about the trustees and who represented the employer observing that except for the independent Chair the other trustees all appeared to be scheme members. It was agreed that a briefing on the trust deed and scheme rules should be provided to the Board via the People Committee.

*Decision: The Board noted the update from IL and approved IL & LC to discuss with Hymans **withheld information No 4.***

**ACTION:** IL to discuss with Hymans and invite them to the next Board meeting in April 23.

#### Item I – Flexible Early Severance

AS advised a new business case for flexible early severance has not been submitted to Transport Scotland as the number of people in the supernumerary pool has reduced due to a number of resignations within the company which have been backfilled by staff from the supernumerary pool. The Board asked what the cost of the supernumerary pool was.

**ACTION:** AS/JM to provide the Board with the current cost of the supernumerary pool

*Decision: The Board noted the update*

#### Item J – HIAL Company Accounts

JM provided an overview of the paper highlighting the strong performance to date and advising of some deviations to budget with stronger than expected income and with lower than budgeted costs. **Withheld information No 4.**

*Decision: The Board are comfortable to approve an additional **withheld information No 1** on top of the **withheld information No 1** previously approved to help resolve the pay dispute.*

JM advised the Capital forecast has changed and is showing an underspend of £1.35m and updated the Board on the details of the underspend. FP advised it undermines HIAL's negotiating ability with Transport Scotland when Capital grant is underspent.

#### AMSL Company Accounts

JM provided a brief overview of the paper.

#### Item L – HIAL Medium Term Financial Outlook

JM provided an overview of the paper which shows a picture of where HIAL may be based on a range of different scenarios. JM advised he would keep the model updated and would bring it to the Board strategy day in November before budgets are set or earlier if required. The Board asked for a scenario based on reduced operating hours to be included in the model and asked if a model could be produced that overlays the commercial strategy. JM added the model would be refined over time taking in changes to fees and charges and environmental factors.

**ACTION:** JM to add reduced operating hours as a scenario to the HIAL Financial Outlook and look at producing a model for covering the commercial strategy.

#### Item M – Cyber Security

DM provided an overview of the paper highlighting the key threat to the business is ransomware. He added that a Technology Cyber strategy is planned for next year and will be brought to the Audit Committee and the Board for approval.

#### Item N – Environmental

DM provided an overview of the board paper and highlighted the positive relationship with SEPA.

Good feedback has been received internally on the sustainability strategy. The Board asked about HIAL's readiness for the deposit return scheme. DM advised a lot of preparation has been done to ensure we are on top of it and all concessionaires have been engaged with it.

**Withheld information No 4.**



#### Item O – Corporate Operating Plan

The Board noted the update on Q3 of the corporate operating plan 2022/23.

#### Item P – ATC Resource

IL provided an overview of the paper which highlights the amount of front loading required to attain the volume of ATC staff required. The Board noted that 23/24 funding had been set aside for this in the 23/24 budget paper signed off earlier.

### Company Risks

DM provided an overview of the company strategic risks. The Board discussed the risk on Financial challenge and how the scoring has not reduced even with mitigations. FP provided some comfort on where Transport Scotland fitted into the risk. DM explained the reason behind the two dashboards produced from the CROG.

**ACTION:** Bring to next Board for review risks scoring under 12.

**ACTION:** Future Board spotlight session to be held on safety risks.

### Papers for Note

#### Item 1 – AMSL Operations Update

Noted

#### Item 2 – HIAL Operations Update

The Board discussed the length of this report and agreed that Board input (CH) would be provided to better tailor it for Board member use.

**ACTION:** DM and CH to review and update the level of information within the report which should include trends.

Noted

#### Item 3 – Commercial Update

The board discussed the Sale of land at Tiree. The Chair raised a query about whether the executive had any delegated authority with regard to land sales and reminded that all sales needed to be compliant with the SPFM. JM/IL agreed to clarify the levels of delegation in an updated scheme of delegation to be brought to the Board at its next meeting. **Withheld information No 1.**

**ACTION:** Scheme of delegation to be formatted to include disposal of assets (including land) and delegated authority limits with paper to board on disposal of land at Tiree.

Noted

#### Item 4 – SATE 2 Update

Noted

#### Item 5 – Compliance & Accountable Manager Update

IL advised the Board of the items on the agenda for the meeting with the CAA the following week. The Board asked to see the scope of the safety climate workshop.

**ACTION:** IL to circulate the scope of the safety climate workshop to Board

**AOB**

**Withheld Information No 4.**

The first People Committee will be held on 3<sup>rd</sup> March and minutes of the meeting will be included within the next board meeting.

The Board went on a tour of Inverness runway covering key points of infrastructure.

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**HIAL Board Meeting concluded at 16:15**

**Next Meeting on 26<sup>th</sup> April 2023, Head Office, Inverness**

| No | Reason for Redaction                                                                                             |
|----|------------------------------------------------------------------------------------------------------------------|
| 1  | Withheld for reasons of commercial interests                                                                     |
| 2  | Withheld as the information constitutes personal data                                                            |
| 3  | Withheld as disclosure of the information will endanger the physical or mental health or safety of an individual |
| 4  | Withheld as disclosure will prejudice the effective conduct of public affairs                                    |