

HIAL Board Minutes – Wednesday 19th October 2022
Machrie Hotel Islay, & Microsoft Teams Video call

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)
(EH) Eric Hollanders (Non-Executive Director) - **Virtual**
(LC) Lynne Clow (Non-Executive Director)

In Attendance: (DS) Denise Sutherland (HIAL Head of Communications)
(GF) George Farquhar (HIAL Interim Operations Director)
(DM) Darren MacLeod (HIAL Acting Director of Corporate Operational Support)
(JC) Jackie Clark (HIAL Executive Assistant – Minutes) - **Virtual**
(FP) Fran Pacitti (Director of Aviation, Maritime, Freight and Canals)
(MB) Michael Bratcher (Transport Scotland – Policy)

Apologies (AS) Andrea Sillars (HIAL, Director of HR)
(GCx) Gary Cox (Transport Scotland, Head of Aviation)

HIAL Board Meeting commenced at 09.30

The Chair welcomed everyone to the meeting and introduced Jamie Manson, the new Finance Director to the Board. In the absence of Gary Cox, Michael Bratcher and Frances Pacitti were welcomed to the meeting.

Apologies

Apologies were received from AS and GCx.

Declaration of Interest

The Chair took as read the usual declarations of interest unless advised of any change. EH, LC and LJ advised of some changes to their current director's register of interests. The Chair asked JC to circulate the directors register of interest log to the Board members for update and publication.

ACTION: JC to circulate the latest directors register of interest log to Board members for them to update.

Minutes and Matters Arising

The Board minutes from the previous meeting on 31 August 2022, were noted having previously been approved by the Board and published on the HIAL website as per the agreement with Transport Scotland (TS).

The following adjustments to matters arising report 31.08.22 were noted.

Item 13 HIAL Monthly Accounts – action date changed to Dec-22. MB advised the Revenue submissions were mostly up to date however, the Capital submissions were missing backup documentation. MB referenced the low percentage of capital funds spent to date. The executive confirmed they were still projecting to fully spend the budget.

ACTION: Amend action date to Dec-22. Bring to Board a report showing where capital has been under spent within the current financial year.

Item 14 – SATE update – Phase 3 funding is in place and agreed and the action can be marked as complete.

Item 2 – 29.06.22 – Code of Conduct – action date changed to Dec-22

Item 7 – 29.06.22 – CO2 Emissions Report – *Decision-The board agreed the infographic format produced and are content for a report to be produced in the same format for each airport.*

Item 5 – 05.05.22 – Action closed. Replaced by the Infrastructure investment which forms part of the Sustainable Financial Model within the strategy update.

Chair's Report

The Chair advised that the regular catch-up calls continue with the local island authority leaders which are mostly well attended. The Chair advised the Board that she has written to the editor of the Stornoway Gazette strongly objecting to a statement in Mr Wilson's article published in the Gazette on HIAL's strategic spending review. In the article, Mr Wilson said that HIAL's news item, published earlier on the day of the Queen's death, was "not a bad time to 'bury bad news'". A reply was still awaited although the Chair's letter had been published in the print edition of the Gazette. The Board supported the approach.

The Chair and LC are working on TOR (Terms of reference) for a revised People Committee. The TOR will be circulated to IL and AS for review and comment and then brought to Board in December for approval. The Chair has invited LC to chair the People subcommittee.

The Chair updated the Board on a call with the Chair of Loganair regarding the sale of the Loganair business. CH updated the board on a follow-on conversation he had with their Chair and CEO on this and on the raising of HIAL airport charges.

Managing Directors Report

The MD provided the Board with feedback received from airline customers on the raised airport charges. **Information withheld No 4**. Based on current projections with the raised charges HIAL's financial position is **Information withheld No 1** positive against budget, which should pay for the Winter season and the proposed increased pay award.

IL advised the increased pay award offer is with the Unions and is out to Ballot.

IL updated the Board on a meeting he had sat in on with the CAA and HIAL colleagues on the issue of audits. From this it was clear that there would be increased scrutiny and it was important that HIAL recognised the change and set in place the necessary changes. **Information withheld No 3**. IL also advised that the CAA would be consulting on increased charges. The Chair advised that local authority leaders had made comments in the local authority catchups about the changes the CAA had made and the cost implications to their organisations and were asking HIAL whether the time is appropriate to collectively highlight excessive regulation by the CAA. Amongst the questions raised by Board members was a need to understand why the CAA's scrutiny was increasing; interest in understanding what was happening at other UK airports re escalation in CAA findings and **Information withheld No 3**. IL and GF confirmed that increased scrutiny was a post-Brexit effect (CAT 373 coming into effect) and that there was a short timescale attached to resolving **Information withheld No 3** which would be progressed by the team.

ACTION: IL agreed to bring to December board, an overview of the CAA situation together with recommendations of what the Board might raise in future with them at a Board to CAA session to be arranged for early 2023.

IL informed the Board that the NATS contract has been signed.

IL advised that the Sumburgh Approach radar contract with NATS is now complete.

Going Concern

The Board had a discussion on what is required to satisfy both the auditors and the Board members to approve the business as a going concern. It was agreed the auditors should see a copy of the letter sent to the Minister about the impact of the Scottish Government's spending review along with the advice IL had received from Saffery Champness re going concern. It was suggested that a formal process around going concern discussions should be setup with Transport Scotland (TS).

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ACTION: IL to circulate a copy of the letter sent to the Minister and the advice re going concern to Azets.

IL advised that there was still the matter of the funding position **Withheld Information No 4**. TS have issued periodic letters in the past in support of continued funding. FP noted the inhouse pressures for TS and the time pressures for HIAL and would advise as soon as possible if a letter of support could be provided.

ACTION: IL to seek letter of assurance from TS in support **Information withheld No 4**.

Spotlight Session - SPFM

Nick Bennet joined the call at 10:25

NB gave a presentation on the Scottish Public Finance Manual (SPFM) to the Board. He advised the SPFM was an important document in the governance framework for HIAL. This session was a useful refresh and focused on how HIAL's governance model fits with the manual. The SPFM applies to all Accountable Officers within the Scottish administration including Non-departmental Public Bodies (NDPB). The Framework document states that the HIAL Board and the Managing Director must comply with the SPFM. HIAL or Transport Scotland can propose amendments to the Framework at any time.

There are forty-seven chapters in the SPFM with seven relevant areas to HIAL which were covered by NB.

1. **Best Value** - NB advised that the HIAL Framework document could be expanded on the area of best value. There are seven characteristics of best values for public service organisations and HIAL are expected to demonstrate that they deliver best value through these seven characteristics and continually improve. Guidance on the seven characteristics can be found in the SPFM.
2. **Audit Committees** – Are a requirement under the SPFM and all committees must have at least three Non-executive directors as members with at least one member having financial experience. The Audit Committee handbook is published by the Scottish Government. Good practice is a periodic review of the terms of reference (TOR) that are included within the Audit Committee Handbook. Four new terms were suggested by NB for addition to the HIAL Audit committee TOR's.
3. **Treasury Management** – Provides guidance on banking arrangements to be adopted by all bodies using the SPFM. NB highlighted that borrowing cannot be used to increase HIAL's spending power. No financial investments can be made without the prior written approval of TS.

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- 4. Internal Controls – Fraud** – The Accountable Officer’s primary responsibility is to establish and maintain sound systems of control that manage the risk of fraud. The Board have influence on commitment to ethical standards. The Board should have a fraud policy and communicate the Boards approach to fraud within the organisation. All attempted cases of fraud must be notified to the Audit Committee. A fraud response plan showing timely effective action should be in place.
- 5. Governance – Settlement Agreements** – This includes severance, early retirement, and redundancy agreements. The Accountable Officer is responsible to prove that any discretionary payments are necessary, justifiable and demonstrate value for money and should avoid any confidentiality clauses. The benefits structure in the SPFM states all notice must be worked and all annual leave taken.
- 6. Major Investment Projects** – HIAL must seek agreement from TS for any major investments of over five million pounds inclusive of fees. At the end of a project arrangements must be put in place to identify the benefits gained and capture the lessons learned from the project delivery. Any ICT investment plans must be reported to the office of the Chief Information Officer within Scottish Government.
- 7. Losses & special Payments** – These relate to payments that do not sit within the normal course of business which amount to a loss to the organisation.

NB advised the SPFM is there to help as a guide for major developments or where unusual transactions occur.

The Board raised some questions and had a discussion about best value, Fraud Response Plans and Losses and Special payments.

The Chair thanked NB for providing the board with a briefing/refresh on the SPFM.

NB left the meeting at 11:10

Audit Committee Update

LS updated the Board on the Audit Committee held earlier that week. The internal audit on Budgeting and forecasting resulted in a ‘strong’ conclusion. Good progress has been made on the reduction of outstanding items on the internal audit tracker from forty-one to twenty-six. No changes were made to the SPFM. The overall risk picture is to be reviewed by the team with strategic risks and ownership of risks to be reviewed by the board.

The Board broke for Coffee at 11:24 and reconvened at 11:35

Company Risks

GF brought to the attention of the Board the Risk Treatment Plan for discussion and feedback.

GF advised the Board of a question raised by the Audit Committee around movement on the direction of travel per risk category. A question was raised on Staff retention being the top-ranking risk across HIAL. GF provided an explanation on how the risk is calculated and scored.

The Board made comment that the risks show areas pulled together by the 'Sphera' system and therefore may not reflect the true priority risks to the business overall.

ACTION: GF to tidy up slide on direction of Travel per Risk Category to ensure no double counting.

ACTION: IL and team to review the Strategic risks based on the feedback from the Board looking at whether regulatory procedure and commercial should be added to the strategic or corporate risk register.

ACTION: IL to discuss risk ownership with the compliance and safety manager and update risk report on ownership.

CH commented that we should not lose sight of safety risks within all of the current operational risks.

ACTION: JC/GF Programme a spotlight session every quarter on safety risks not included in the top ten risks.

The Board felt it was appropriate to discuss the Capital Prioritisation Paper prior to making decisions on Business Cases

Item F – Capital Prioritisation

DM provided an overview of the paper and highlighted that updated figures received just before the board meeting show an expected overspend for the current year.

The Board made comment on the gap in capital funding and the operational risks associated.

The Board added they were keen to understand more about how the choices were made between the three different priority levels within capital prioritisation and sought assurance that the projects listed within appendix A and B are a true reflection of the selection made.

The Chair noted HIAL would need to write to Transport Scotland (TS) requesting an increase in Capital funding and that it would have been preferable to have included this in the letter sent on the revenue budget shortfall. However, the Board did not have this information when that letter was sent. MB added that historically HIAL has underspent their capital funding allocation. TS have a reduced capital budget as well as a reduced revenue budget and HIAL are not high on the list to receive any increase on capital.

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The Board noted that the executive team's preference would be to recruit staff to build a team who can deliver projects on time within the capital plan and budget.

IL advised that several items in the capital plan were projects which had been postponed over the years; are now at the point of no longer being able to slip down the list and require deliverability. GF added that there is an annual review of HIAL's assets which identifies which assets require replacing or maintaining. FP added TS rely on HIAL to advise on what figure is required annually for Capital.

ACTION: IL/GF to undertake a line-by-line review of the capital asset list, categorise by priority and bring back to Board for review.

Decision: The Board were not content to sign off the capital list of £21m given affordability challenge and asked the management team to review projects which are not priority and amend the capital plan, accordingly, bringing back to board for review and approval.

Business Case Approvals

BC0554F – INV pavements & AGL

GF provided an overview of the papers and added that they were now at tender stage. However, following the earlier conversation on capital, the paper will be revised and brought back to the December Board. GF provided an update to the Board on answers to the questions the Chair had raised on the paper prior to the Board meeting. The Board reminded the executive team about the use of the Monte Carlo process when analysing costs.

ACTION: GF to review the costs within the business case and show where each phase of the project fits in the capital plan. GF to rework the numbers, explaining savings of executing two phases together, and information on reliability of forecast.

Decision: The Board raised questions on the costs and did not approve the Business case. GF to review the costs and bring back revised figures to the December Board showing where it fits in the capital plan and how it will be phased.

BC1173C – KOI Runway 0927 AGL

GF provided an overview of the paper highlighting that the AGL was in a poor condition. GF advised that the cross drainage could run separate to the runway and AGL works as three separate projects. Any benefits on reduced electricity cost from the replaced lighting should be identified.

*Decision: The Board approved **Information withheld No 1** plus R14 detailed design at **Information withheld No 1** subject to showing affordability within the overall Capital plan.*

BC1270D – INV Surface Water Drainage Phase 3

GF provided an overview of the board paper highlighting the escalating costs on the project. There is a question of whether Phase 3 is required with SEPA advising that we need to comply with the conditions of the CAR license. IL will discuss with SEPA if this could be postponed for a future year. The cost of Phase 3 is captured in the capital plan for 2023/24.

ACTION: IL/GF to discuss Phase 3 Surface water drainage with SEPA and see if the project can be progressed in a future year.

*Decision: The Board are content with the work done so far, however the phasing concerns the Board. If Phase 3 is affordable within the overall capital plan, then the board are content to progress with Phase 3 at a cost of **Information withheld No 1**.*

BC1275 Islay Pavements

GF provided an overview of the paper highlighting significant risk around getting materials to the Island and the excessive cost for accommodation built into the project. The Board discussed the cost increase of the project, the added extra works and increased costs. It was noted that there was also an issue with the reliability of the ferries which will impact the transporting of materials **Information withheld No 4**.

*Decision: The Board approved the **Information withheld No 1** subject to affordability and phasing.*

BC1344 – BT21CN Private Wires

DM provided an overview of the paper with this being the last part of moving the private wires to a digital solution by March 2023 and is in the budget.

*Decision: The Board approved the revenue cost of **Information withheld No 1** and capital cost of **Information withheld No 1**.*

BC1413B – Liquid Testing Equipment

GF provided an overview of the paper stating it has occurred due to some legislative regulation changes. It reduces pressure on security staff and provides resilience in terms of equipment.

The life expectancy of the equipment should be in excess of ten years.

*Decision: The Board approved the **Information withheld No 1** purchase liquid explosive testing units.*

BC0824 – Stornoway Coastal Protection

The Board noted the update

BC1083 – TRE Coastal Erosion

The Board noted the update

Papers for Discussion

Item A – Spending Review Update

IL advised the Board that a reply from the Minister to the letter sent in reference to the spending review had not yet been received. MB provided an update on some of the points covered in the letter, one being the funding of a one-year extension to the Dundee PSO for 2023/24. IL advised that a business case to allow the organisation to exercise flexibility of early severance has been submitted to TS. MB advised that this may require Ministerial oversight. **Information withheld No 4.**

The Chair asked about the revenue/cost reports for each airport that the Board used to receive. MB advised that he still regularly receives these reports, and it was agreed that these reports would be reinstated alongside the management accounts when these are brought to the Board.

ACTION: JM Reinstatement revenue/cost reports for each airport alongside the management accounts when brought to Board

Item B HIAL Pension

IL's interest as a member of the HIAL pension Scheme was noted.

IL provided an overview of the content in the board paper. **Information withheld No 4.**

The Board discussed appointing its own pension advisors as Barnett-Waddingham advises HPS, not the HIAL Board, **Information withheld No 4.** IL agreed to take this forward.

Item C – NATS (as a supplier)

The Board noted the content in the paper.

A question was raised on non-performance of the contracts. GF advised that the contracts are performance managed.

IL advised that the contracts are due for retender within the next eighteen months.

Item D – Environmental Update

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The Board noted the content in the paper. DM confirmed the Net Zero Road map will be coming to the December 22 board meeting.

Item E – IABP Update

IL updated the Board on current IABP business covering **Information withheld No 4** and advised the Inverness Airport Rail Station will open in December 22.

ACTION: IL to circulate copy of IABP final signed accounts to Board

Papers for Approval

The Board broke for lunch at 13:18 and reconvened at 13:45

Item G – 10 Year Sustainability

DS advised that an updated report had been circulated to the Board the previous day which incorporated all the feedback received from the Board. The final version will be produced ready for publication.

The Board asked if an executive summary of the report could be produced.

ACTION: DS to arrange for a summary document of the 10-year sustainability strategy to be produced and published.

Decision: The board approved the 10-year sustainability report and with the suggested amendments made to the report it can be published following comment from the DAL Board non-executive member.

Item H – Strategy Update

IL took the Board through the proposals in the first draft of the strategy update paper. The board asked for more on safety to be included and to review the wording of the language used around sustainable pay and award. The Chair advised she had some minor changes and would forward them to IL. GF explained why HIAL would not be BREEM standard across the organisation however, examples of BREEM best practice has been built in where possible on projects. Changes were requested on the wording of the mission statement, the priorities under core activity and to ensure the expectation of each strategic outcome was made more tangible.

ACTION: IL/SMT to update the revised strategic goals with the suggested amendments from the Board.

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Decision: The Board asked for the amendments to be made and a draft strategic plan to be prepared for engagement with colleagues and stakeholders before the final strategic plan is submitted for Board approval. The draft strategic plan to be brought to the December board meeting to allow the engagement programme to start before the end of the year.

Item I – Equality, Diversity and Inclusion Strategy

In the absence of AS the Board discussed the content of the Equality, Diversity and Inclusion Strategy and highlighted areas within the document for review and amendment.

Decision: The Board did not approve the Equality, Diversity and Inclusion Strategy. AS to bring back to the board in December to discuss the Boards questions.

Papers for Note

Item 1 – AMSL Operations Update

Noted

Item 2 – HIAL Operations Update

Noted

Item 3 – Health Safety and Wellbeing Action Plan

Noted

Item 4 – Commercial Update

Noted

CH updated the Board on a conversation with **Information withheld No 4** and their view on the recent increase on charges.

ACTION: Commercial report to include more financial detail highlighting the impact on budget and forth coming revenue streams from future business.

Item 5 – SATE Update

Noted

ACTION: IL to check and update the Board with a breakdown of HIALs net investment of £650K over the past two years.

Item 6 – ICT Update

Noted

Item 7 – Pay Award Update

Noted

AOB

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The Chair advised that in an effort to reduce costs in light of budgets every second board meeting will now be held on the mainland.

The proposal for the timeline of minutes was approved by the Board.

The Chair reminded the Board of the virtual meeting on 9th November for the signing of the Annual Accounts

HIAL Board Meeting concluded at 17:20
Next Meeting on 15th December, 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