

BOARD MEETING
COINNEAMH BÙIRD

**MINUTE OF THE HIE BOARD MEETING HELD ON WEDNESDAY 29 JULY 2020, STARTING AT 1400HRS
BY TELECONFERENCE**

PRESENT: Alistair Dodds (Chair)
Charlotte Wright
Amanda Bryan
Angus Campbell
Paddy Crerar
Ailsa Gray
Donald MacRae
Robert McIntosh
Freda Newton
Belinda Oldfield
Calum Ross

IN ATTENDANCE:

Carroll Buxton	Deputy Chief Executive
Nick Kenton	Director of Finance and Corporate Services
Douglas Cowan	Director of Communities and Place
David Oxley	Director of Business Growth
Martin Johnson	Interim Director of Strategy and Regional Economy
Sandra Dunbar	Director of Business Improvement and Internal Audit
Allison Rice	Sponsorship and Better Regulation Team, Scottish Government
Chris Roberts	Head of Corporate and Media Relations
Gillian Suttie	PA to Chief Executive
Elaine Hanton	Interim Project Lead – Cairngorm, item 5.1
Paul Dzialdowski	Property Portfolio Manager, item 5.1
	RSM UK, item 5.1
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[Sentence removed in the interests of the effective conduct of public affairs.]

1 STANDING ITEMS
CUSPAIREAN COTHROMACH

1.1 Welcome and apologies

The Chair welcomed everyone to this extra meeting which had been called specifically to consider the full business case for Cairngorm Mountain. Apologies had been received from Director of Human Resources Karen Moncrieff and Director of Service Delivery Rachel Hunter.

The Chair referred to recent comments made by Alistair Carmichael MP, who had published articles in the media and contacted local authority leaders and others, making criticisms of HIE and calling for its replacement. The Board noted that the Chair had written to the MP, offering to meet and discuss HIE's role.

BBC Alba was preparing further coverage and had contacted both HIE and the Scottish Government. HIE had provided a statement, but declined an interview request as this could risk compromising the organisation's political neutrality.

1.2 Declarations of interest

Belinda Oldfield declared a third-party interest concerning engineering company Mott MacDonald, which had an involvement in works associated with the Cairngorm funicular. It was agreed that this did not present a conflict of interest.

The Chair noted that the tourism sector was expected to be discussed with reference to Scottish Government COVID-19 funding. It was agreed that Board members who had an involvement in the tourism sector would be able to participate but should declare an interest if appropriate to do so at any point during discussion.

2 UPDATES CUNNTASAN AS ÙR

2.1 COVID-19 restart and recovery planning update

The Interim Director of Strategy and Regional Economy provided an update on HIE's *Restart and Recovery Plan* focusing on the impacts of the COVID-19 pandemic. A short-term action plan was currently being implemented, addressing themes including organisational change to meet new objectives; accelerating capital investment; marketing communications; customer segmentation and recruitment, and service delivery.

It was noted that the Scottish Government's response to the recently published report from the independent Advisory Group on Economic Recovery, chaired by Benny Higgins, was expected to be published early in August and would be shared with Board members. The Chair advised that the Cabinet Secretary for Rural Economy and Tourism, Fergus Ewing MSP, was scheduled to join the HIE Board meeting on 25 August. A further update on restart and recovery would be presented at that meeting, and the final version of HIE's plan will be prepared following publication of the next *Programme for Government*, expected in the autumn.

2.2 COVID-19 response

The Deputy Chief Executive gave a verbal update on HIE's role in the regional and national responses to the COVID-19 pandemic. All appeals from applicants to the *Pivotal Enterprise Resilience Fund (PERF)* and the *Creative, Tourism and Hospitality Enterprises Hardship Fund* had now been processed. These included approximately 250 appeals to HIE, most of which had been at least partially upheld. A Scottish Government review of the enterprise agencies' role in administering PERF was under way. £25m had been distributed to businesses across the Highlands and Islands since the funds were launched at the end of April.

Further funding totalling £14m for larger hotels had been announced today by the Cabinet Secretary for Finance, and more information on this was expected in the coming days.

The Board expressed their thanks to HIE staff for their work in handling a very large volume of applications in a short period of time and ensuring that businesses meeting the criteria had received support urgently.

2.3 Space Hub Sutherland

The Director of Business Growth gave a short update on progress with HIE's plans to develop a vertical launch site for commercial satellites, Space Hub Sutherland.

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Discussions with a contractor on the timing and pricing of ground investigation works were continuing, and tenders had been received from bidders wishing to provide support in carrying out due diligence on a full business case and options appraisal, due to come to the Board in October 2020.

3 CAIRNGORM MOUNTAIN AN CÀRN GORM

3.1 Programme update

Elaine Hanton and Paul Dzialdowski joined the meeting.

The Chief Executive introduced this item, setting out the context in which a full business case for Cairngorm Mountain had been prepared and noting that a detailed paper had been circulated to Board members in advance of today's meeting. In preparing the final business case, HIE staff and external consultants RSM had undertaken an exceptional amount of due diligence. The Board's input had been vital in guiding this process, and today's discussion was an opportunity to agree a way forward that would be submitted to the Cabinet Secretary for Rural Economy and Tourism for final approval.

Successful implementation of the full business case would achieve a range of positive outcomes for the wider economy. By stabilising operations, enhancing visitor experiences and attracting higher visitor numbers, it would provide vital support to the tourism sector at local, regional and national levels, as it recovers from the shock of the COVID-19 pandemic. Importantly, it would also address the liability associated with an inoperable funicular and help create the conditions with the potential to attract future private sector investment. It would also help provide a context in which further enhancements to the mountain resort's offering could be considered and additional benefits generated for the local economy and its communities.

It was important to recognise that the project had the potential to deliver positive impact across a range of policy areas, including

- tourism development,
- economic development,
- health and physical activity,
- social and cultural development,
- energy,
- education and skills, and
- environmental performance and conservation,

While this was primarily an economic development project, the longer-term impacts and benefits of the project would be cross-cutting, and aligned with a very broad range of national and regional policies and strategies from the Scottish Government, Cairngorms National Park Authority, the Highland Council, Tourism Scotland, Skills Development Scotland, Snowsport Scotland, the Highland Community Planning Partnership and NHS Highland.

It was also noted that the business case was complemented by other activity associated with Cairngorm Mountain, notably preparation of a long-term masterplan that was currently the subject of a second and final stage of public consultation.

3.2 Full business case

[Sentence removed in the interests of the effective conduct of public affairs.] of RSM UK joined the meeting

The Interim Project Lead – Cairngorm began by reporting activity undertaken since the Board meeting of 18 February 2020, when the direction of travel presented in the outline business case for Cairngorm had been endorsed. Following that meeting, the outline business case had been submitted to the Scottish Government and developed into the full business case being presented today.

In addition to evaluating options for the funicular and the operating company, the business case included proposals for additional investments. However, these would require further appraisal and were not being put forward for Board approval at present. Instead, it was requested that the Board delegate decision making authority on these matters to HIE's Leadership Team and for inclusion in the submission to the Scottish Government for budget cover.

Although it had been expected that the full business case would be brought to an earlier Board meeting, progress had been hampered by the COVID-19 pandemic. Operating company Cairngorm Mountain (Scotland) Ltd (CMSL) had been forced to end its winter season and close temporarily on 22 March, placing 26 permanent staff on furlough. It had only recently begun a phased reopening, in line with Scottish Government guidance, on 15 July. Activities to prepare for reinstating the funicular, should that be the approved option, had also been delayed, including detailed survey and design work, and tender and contract agreement.

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While the full business case recommended reinstatement of the funicular, it was stressed that the project remained high risk, with 11 conditions attached to planning approval, ground conditions requiring investigation, a safety case being required, and the ongoing threat of COVID-19 which could impact further on timescales.

Future phases would review longer-term Cairngorm ownership and operating models.

At this point in the meeting, the Chair invited members to put questions to HIE staff.

The Board asked HIE staff whether they were confident that the preferred option of reinstating the funicular would be supported in the local community. It was noted that the masterplan engagement had shown fairly wide support for reinstatement, but that there was a plurality of views among respondents, with some advocating alternative uplift and others wishing to see rewilding of the ski area. The Funicular Response Group of stakeholders, comprising public bodies, business and community leaders and sports interests, was in favour of reinstatement.

It was agreed that there was a need for HIE to design and implement a stakeholder engagement plan, aligned with Scottish Government, and to take on board Audit Scotland recommendations for greater openness, particularly with the local community. A clear and readable draft of the business case should be prepared for publication, and Cairngorm's potential to drive wider economic benefits would be a key message in all communications.

Other issues addressed by the Board included opportunity cost, with members observing that expenditure at Cairngorm should not have a disproportionate impact on the organisation's ability to invest elsewhere in the region.

The request for Leadership Team to be given delegated authority to approve additional investments, on a project by project basis, was debated. Following discussion, it was agreed that further work was required to prioritise these investments to determine those which should be regarded as essential alongside the current business case. For non-essential costs, the Board noted the need to consider these at a future point, with -

decision-making arrangements agreed with the HIE Board. This would include, where appropriate, alignment with the outcome of the masterplan. The business case would be revised prior to submission to the Scottish Government and an updated recommendation taken to the HIE Board.

The Chair then invited RSM UK to present the detail of the full business case.

[Sentence removed in the interests of the effective conduct of public affairs.] began by noting that RSM's earlier work to determine economic and other impacts of the range of options for the funicular had been updated in light of COVID-19. The preferred option remained reinstatement, as the outline business case had previously concluded.

Six options had been shortlisted and examined in detail. These were:

- 1a: Do minimum (remove funicular, no CMSL funding or additional capital investment). This would mean closing the business. Total deconstruction cost was estimated at £16.92m.
- 1b: Remove funicular, maintain / replace existing uplift infrastructure with a ski lift (fund CMSL and fund selected additional capital investments). This would maintain current employment at the site. Total construction cost was estimated at £36.83m and the annual number of visitors at 68,340.
- 2a: Remove and replace the funicular with a dual-cable gondola, fund CMSL and selected additional capital investments. Total construction cost was estimated at £60.77m, and the annual number of visitors at 136,231.
- 2b: Remove and replace funicular with a dual-cable gondola and fund CMSL, but not additional investments. Total construction cost was estimated at £52.05m, and the annual number of visitors at 136,231.
- 3a: Reinstate funicular, fund CMSL and fund selected additional capital investments. Total construction cost was estimated at £24.88m, and the annual number of visitors at 162,789.
- 3b: Reinstate funicular, fund CMSL but do not fund proposed additional investments. Total construction cost was estimated at £16.16m, and the annual number of visitors at 162,789.

Options 2a, 2b, 3a and 3b all assumed growth in numbers of visitors and operating company staff. The additional capital investments associated with options 1b, 2a and 3a were calculated at £8.72m. These would cover a range of future projects, including extending the life of the day lodge, upgrades to the Ptarmigan building, dilapidations, investing in existing tow infrastructure, improvements to paths, and resurfacing and drainage at the Cas car park. There would be no additional capital investments associated with options 1a, 2b and 3b.

The Board noted that the calculations of capital costs and visitor numbers for each option had included generous estimates for optimism bias, including construction challenges and the potential impacts of COVID-19 and Brexit, to present as realistic a picture as possible. It was noted that the project remained high risk but was important to help support current economic recovery following COVID-19.

Life cycle costs over 30 years were: zero for options 1a and 1b; £6.07m for options 2a and 2b, and £5.68m for options 3a and 3b.

Wider economic benefits, at national level, had also been calculated for each option over the same period, both in terms of gross value added (GVA) and full-time equivalent (FTE) employment. Option 3a would generate £5.39m GVA pa (total over 30 years, £161.84m), followed by option 2a at £5.3m pa (£159.01m over 30 years), and option 3b at £5.24m (£157.17 over 30 years). Options 3a and 3b scored highest for employment, each with an average of 33 FTEs per year. *[Sentence removed in the interests of the effective conduct of public affairs.]* also explained the range of sensitivities which are applied to the assessment, none of which changed the recommendation on option.

At 1550, a connectivity failure caused Angus Campbell to leave the meeting.

At 1600, both Paddy Crerar and Calum Ross had to leave the meeting, which was running later than anticipated. Both indicated support for the recommendations in the paper, noting that they were very familiar with the project through participation in the Cairngorm sub-group.

It was agreed that reinstatement of the funicular, as described in options 3a and 3b, offered the highest level of qualitative benefit, and was the Board's preferred way forward. However, each of the additional capital projects identified within recommended option 3a (totalling £8.72m) would require further analysis to determine those regarded as essential and therefore which should be appropriately included in this current business case. It was observed that, while some of these additional investments were integral to maintaining good quality service provision, there were others that should await development of the masterplan.

Therefore, the Board agreed to approve in principle capital investment of £16.16m to reinstate the funicular, subject to the required additional funding from the Scottish Government. The other capital costs would be reviewed to determine and include only those regarded as essential alongside the business case with the revised figure being included in the updated business case to the Scottish Government for budget cover. The essential capital items would be the subject of individual business cases and subject to normal delegated authority arrangements (including the HIE Board as appropriate). Regular updates will be provided to HIE Board.

In addition, the Board agreed to delegate decisions on revenue funding for the operating company to HIE Leadership Team, noting that these costs were currently estimated at a range of between £9.76m and £14.57m for the five-year period 2020-25, and would be offset by income generated by the business.

It was also noted that discussions to conclude the contractual negotiations and design continued. This included assessment of risks and potential mitigations and it was agreed that conclusion of these matters should be delegated to the HIE Chief Executive. Regular updates would be provided to the HIE Board and Risk and Assurance Committee.

The Chair noted that with the changes that had been agreed, the full business case would now go forward to the Cabinet Secretary for Rural Economy and Tourism for decision, noting the HIE Board's decision. It was anticipated that a further Board meeting would be held once the Cabinet Secretary had reached a decision, and that this was likely to be in advance of the next scheduled Board meeting, due to be held on 25 August. HIE and the Scottish Government should work closely on a plan for communications and stakeholder engagement, recognising the widespread public interest in Cairngorm, and noting Audit Scotland's recommendations to be as open and accountable as possible.

The Chair thanked all members, HIE staff and consultants for their considerable work in reaching this stage. The meeting concluded at 1618.

4 ITEMS FOR INFORMATION **CUSPAIREAN AIRSON FIOSRACHADH**

4.1 Any other business

There was no other business.

4.2 Forthcoming meeting dates

- Tuesday 11 August- Risk and Assurance Committee
- Week commencing 10 August – potential additional meeting (to be confirmed)
- Tuesday 25 August – Board

Chris Roberts, 29 July 2020