

**MINUTES OF THE 211TH MEETING OF HIGHLANDS & ISLANDS AIRPORTS LTD (“HIAL”)
BOARD HELD AT HIAL HEAD OFFICE, INVERNESS ON 20TH MAY 2014 AT 9.30AM**

Present	Mr Grenville Johnston Mr Inglis Lyon Ms Gillian Bruton Ms Lorna Jack Mr David Savile Mr Tim Whittome	Chairman Managing Director Finance Director Non-Executive Director Non-Executive Director Non-Executive Director
In Attendance	Mr Gary Cox Mr Mark Stuart Mrs Kirsteen Adams	Representing the Scottish Government Director of Operations Minutes

Item 1 – Apologies

Apologies were received from Mr Jim McLaughlin.

Item 2 – Minutes of the Previous Meeting

The minutes were accepted as a true reflection of the meeting held on 8th April 2014.

The redacted minutes from the meeting held on 8th April 2014 were also approved.

Item 3 – Matters Arising from the Minutes

The Fresson Trust

The Chairman confirmed that the recent event held by the Fresson Trust at Wick Airport had been well attended and well received and he would write a personal note of thanks to William Sutherland, the Wick Airport Manager. The Chairman mentioned that one of the attendees had raised the issue of renaming Inverness Airport to Loch Ness Airport. The Board agreed that this would not raise the profile of the airport nor provide any benefit to the area and if necessary, the Chairman would write a letter confirming the same.

Flybe Routes

Mr Lyon provided an update on the forthcoming announcements regarding increased rotations from Inverness to Birmingham, Dublin and Manchester and also the launch of the London City route, beginning October 2014. With regards to the Dublin rotations, Mr Savile asked what the appetite was in the Highlands for a transatlantic connection. Mr Lyon confirmed that the main customer at present would be Lifescan (Johnson & Johnson) whose headquarters were in the States.

(Redacted under FOISA Section 33 (1)b).

As an aside, Mr Whittome queried whether Loganair could fill empty seats between the North and Edinburgh by allowing passengers to board the aircraft in Inverness. Mr Lyon said he would speak to Loganair about the matter, particularly in light of the impending average speed cameras on the A9 and the considerable impact that this would have on journey time.

Item 4 – Corporate

4.1 Risk Management

(Redacted under FOISA Section 33 (1)b).

Risk Oversight Group

Ms Jack confirmed she had attended the last corporate ROG meeting which she found informative and believed the team was making significant attempts to embed risk management throughout the organisation.

She raised a number of issues she had noticed whilst attending the ROG meeting and also in examining the corporate risk register and the risk management process. Firstly, she noted that risks were cascaded from bottom/local levels upwards to a corporate level and asked whether this necessarily worked and whether there was evidence to support this particular cascade system.

(Redacted under FOISA Section 33 (1)b).

Lastly, she mentioned the lead up to the referendum on Scottish independence and the additional workload and time constraints which would be placed upon Transport Scotland colleagues, perhaps impacting on their ability to manage HIAL matters as quickly and efficiently as would be hoped. She suggested that Transport Scotland may need to channel its resource towards the implications of a potential “yes” vote and made reference to potential financial constraints, specifically regarding Transport Scotland’s ability to sign off HIAL’s capital projects. Mr Cox confirmed that his team had already carried out a significant amount of work on the potential constitutional changes were Scotland to become independent. He advised that the longer term changes regarding HIAL would impact on the CAA and therefore something the CAA itself would need to consider. In the interim, HIAL and its airports would continue as is. He added that he had also done some work to help bolster the Transport Scotland team and therefore resource would not be an issue.

The Chairman thanked Ms Jack for attending the ROG meeting, noting that forthcoming dates had been circulated and a board member would attend each meeting going forward.

The Board noted the position.

4.2 Safety Management

Wick Air Traffic Incident – Departure into conflict

Mr Whittome highlighted the incident noting a lack of communication between the two ATS units involved. He was unsure from the report what the final outcome had been and Mr Stuart explained that he was still waiting on the full investigation to be completed but would advise at the next Board meeting.

Airspace Change Proposal

Mr Stuart confirmed that the CAA has issued a safety notice with regards to HIAL’s airspace change proposal, confirming that Inverness currently has Class G airspace and providing the correct safety procedures were in place, this was safe to use. He confirmed that the safety notice very much put the onus onto HIAL in terms of responsibility and how the airspace was managed.

The Board noted the position.

4.3 Operational Report

Fire appliances

Mr Stuart confirmed that site acceptance testing of the new appliances should be completed soon, adding that the Board would be meeting with the MT department later in the day for an update on the project.
(Redacted under FOISA Section 33 (1)b).

Mr Stuart confirmed that the outstanding issues were not fundamental, rather areas which required some more attention to detail. Mr Savile advised he was aware of other airports having had issues with Iturri appliances and suggested carrying out some investigative work to establish what these issues were and how they had impacted upon the project. Mr Stuart agreed to look into Iturri projects both nationally and Europe-wide to gain better insight into the issues being experienced by other Iturri customers. However, he stressed that HIAL's management of the project was extremely tight with stringent testing programmes and an agreement that no monies would be paid until HIAL was 100% satisfied with the product. Mr Lyon confirmed that staff had been kept informed along the way and provided assurance that once approved, the appliances would have a lifespan of 10 – 15 years.

ATCO Training and Recruitment

Mr Stuart provided an ATS staffing update. Mr Savile noted the on-going issue at Stornoway regarding staffing levels and Mr Stuart confirmed that the new approach to local recruitment sought to help with retention levels across the network. Mr Stuart advised that an independent audit would be carried out by a Scandinavian company who would be looking at HIAL's holistic approach to training.

The Board noted the position.

4.4 Regulatory Report

VORs

Mr Stuart advised that little progress had been made regarding an agreement and that a meeting with the CAA was vital in order to pull the various work streams together. Ms Jack queried whether the continued delay increased the risk of missing the deadline for funding. Mr Stuart advised there was some flexibility in terms of timescales but that he would need to establish exactly how much.

The Board noted the position.

4.5 Airport Management Services Ltd (AMSL) - Verbal Update

Below is an extract from the minutes of the AMSL board meeting held earlier that day:

"4.1 Airport Management Services Ltd (AMSL) Report (Redacted under FOISA Section 33 (1)b).

Item 5 – Finance and Legal

5.1 Monthly Accounts

Ms Bruton confirmed an overspend against budget of £247k due to the pay review which was unbudgeted. She also made reference to the unbudgeted travel and subsistence costs in relation to covert testing.

The Board noted the position.

Item 6 – Any Other Business

6.1 Auto Enrolment

Mr Lyon confirmed that 214 AMSL staff members had opted into the auto enrolment pension scheme, details as follows:

- *143 at the statutory minimum contribution level;*
- *6 at the 5% contribution level;*
- *1 at the 6th contribution level; and*
- *41 at the 7% contribution level.*

Mr Lyon noted that circa 25% of staff were contributing above the statutory level. Ms Jack asked what the age demographic was for AMSL staff and Mr Lyon replied that he was unsure but would bring more detail to the next board meeting.

Ms Bruton noted the Board's thanks for the significant amount of work carried out by HIAL's HR team and all those involved in setting up the scheme. The Chairman asked that HIAL's results be shared with Transport Scotland and CMAL. Mr Cox agreed to do so.

6.2 Zero Hours Contracts

(Redacted under FOISA Section 33 (1)b).

4.7 Environmental Management System

It was agreed that the environmental management report would include energy usage data and other useful indicators going forward.

Item 5 – Business

5.1 Commercial Report

(Redacted under FOISA Section 33 (1)b).

Oil and Gas Activity

With regard to the forthcoming safety restrictions for helicopters, Mr Lyon confirmed that the CAA had postponed the implementation date from June to September. He also confirmed that HIAL had been able to provide the airline companies with assurances regarding the planned works for the terminal building at Sumburgh. The business case for this would be submitted to Transport Scotland in early June.

There was some discussion about the proposal for a new hotel next to Sumburgh Airport to accommodate the significant increase in traffic. The Chairman noted that there was already an existing hotel next to the airport and suggested that all considerations, including redevelopment of the current facilities, should be made. The proposal for a new hotel would be for a modular design built onto HIAL land, with the potential for the building to be relocated if necessary at a future date, were traffic levels to reduce.

Wick Hangar

Mr Lyon confirmed that the hangar was becoming increasingly dilapidated and that he had spoken with HIE's Chief Executive, Alex Paterson regarding an approach. Mr Paterson agreed to raise the issue with Steve Barron, Chief Executive for the Highland Council. The Chairman advised that John Thurso had suggested speaking to the farmer and offering a compulsory purchase. The Chairman suggested approaching the farmer to advise that HIAL was liaising with the Highland Council regarding a compulsory purchase and establishing whether there was any interest to sell. Mr Lyon confirmed he was due to visit Wick on 6th June and would hopefully speak to the farmer during his visit.

Post meeting note: Mr Lyon met with the farmer who confirmed he would be prepared to contribute towards the removal or repair of the rotten doors and Mr Lyon had asked a local contractor to provide a price for the same.

The Board noted the position.

5.2 Media & Public Affairs Report

With regard to the forthcoming Flybe route announcements, Mr Lyon confirmed he would keep Mr Cox updated on timescales and detail.

Mr Lyon advised that Sir Howard Davies would be speaking at a lunch in Inverness on 9th June and sharing the work of the Airports Commission and its study into capacity in the south east.

Post meeting note: Mr Lyon found the discussion very informative and it had been agreed that a Highland response would be pulled together for the Airports Commission.

5.3 Inverness Airport Business Park

Business Development Manager

Mr Lyon confirmed that the recruitment process for a Business Development Manager was underway which would hopefully help progress the development and start to build some momentum.

Infrastructure

Mr Lyon noted that HIE were keen to get the infrastructure plan in place and had agreed to keep IABP as a priority project – i.e. if HIE had spare budget available at the end of the year, this would go towards IABP infrastructure.

IABP Background

Mr Savile noted that several organisations were involved in the IABP project and queried what HIAL's position was in relation to the other agencies. Mr Lyon advised that the initial agreement was for HIE to provide an access road to the business park, that HIAL would provide the land and some financial investment and Moray Estates would provide the remaining investment. HIE funds the Chair, Secretary and future Business Development Manager position.

In parallel to the initial IABP discussions was the proposal for a purpose built town – Tornagrain. The intention was to create this residential development of circa 10,000 inhabitants close to the airport, on the other side of the A96 and that many of the residents would provide the workforce for the airport

business park. Shortly thereafter, the recession halted any immediate plans for the town and indeed, impacted on confidence to invest in the business park.

Mr Lyon pointed out that the lack of development land available in Inverness strengthened the business case for IABP adding that the entry of the Scottish Ambulance Service (SAS) and Bristows with the Search and Rescue contract was a significant development for the site. He added that Bristows enjoyed operating out of Inverness due to its close proximity to both the sea and mountains and that in comparison to Aberdeen, Inverness was not too busy. Consequently, Bristows were now looking to put their UK Search and Rescue training base into Inverness.

Mr Savile then asked about the development of a railway link at the business park. Mr Lyon advised that to date, little progress had been made however it was agreed this would be an important development and would be progressed in the longer terms.

The Board noted the position.

5.4 Sumburgh Airport

Runway Project – Mediation with McLaughlin and Harvey

Mr Lyon confirmed that the contractors would be onsite the following day to begin remedial works. He stressed that it was vital the works were completed ahead of winter and the contractor had given September as a deadline.

(Redacted under FOISA Section 33 (1)b).

The Board noted the position.

Item 6 – Finance and Legal

6.1 Year end accounts 2013-14

Ms Bruton confirmed that with the exception of a few outstanding items left to finalise, the actual budget was circa £17.6m against a forecasted budget of £17.9m. She advised that the initial capital budget was £6m but that Transport Scotland had allowed a tolerance of £500k. The final capital expenditure was circa £6.3m.

The forecasted spend for Sumburgh was £9m against an actual spend of £8.4m **(Redacted under FOISA Section 33 (1)b).**

Ms Bruton advised that HIAL's original cash balance had been circa £10m but had been asked by Transport Scotland to reduce this to £3m and she confirmed that the current balance stood at £3.4m. Ms Jack asked about the role of the Board in approving cash reserves noting that reserves equivalent to one month's operational costs seemed comparatively low against other companies which usually held reserves equivalent to around 3 month's operational costs. Ms Bruton confirmed that HIAL had been asked to work with these amounts and that the government would fund any shortfalls if necessary.

Finance Manager

Ms Bruton advised that Tracy Ross, the Finance Manager would be going on maternity leave in August and that interviews would be held this week for her cover.

She also noted that Karen Lowe from Mazars was leaving and that Peter Cudlip would replace her in the interim.

The Board noted the position.

Item 7 – Human Resources

7.1 HIAL Pension Scheme

Mr Lyon confirmed there remained one trustee vacancy to fill and advised that the recruitment for this would be used as a staff development initiative. Mr Lyon had spoken with the Independent Chair who had agreed with the approach.

The Board noted the position.

Item 8 – Any Other Business

8.1 Board Strategy Day

It was agreed that a strategy day would be scheduled in the next few months and Mrs Adams would contact board members to organise.

8.2 Southern States aircraft procurement

Mr Cox thanked Mr Savile and Mr Lyon for their work on the southern states PSO project. He noted the disappointment that a single engine option had not been progressed which could have created a greater competitive edge for HIAL however he encouraged HIAL to keep this option open for future discussions. Mr Savile believed that until a new and innovative approach was used in dealing with airlines, that HIAL as an operator, would be unable to take the driving seat in airline negotiations.

In terms of the existing PSO contract, Mr Cox confirmed this ended in May 2015 and that there was an option to extend if the aircraft were not ready. It was discussed that Transport Scotland would own the assets and HIAL would manage the procurement process.

The Board noted the position.

Item 9 – Date of Next Meeting

The next meeting will be held on 2nd July 2014 at the Dark Island Hotel, Benbecula.

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