

MINUTES OF THE SCOTTISH ENTERPRISE BOARD HELD ON FRIDAY 26 JULY BY MS TEAMS

Present: Willie Mackie, Interim Chair
Adrian Gillespie Chief Executive
Karthik Subramanya
Dr Sue Paterson
Peter McKellar
Professor Gillian Murray
Raymond O'Hare
Professor Richard Williams
Graham Soutar
Professor Stephen McArthur

Apologies: Dr Poonam Malik

In Attendance: Jane Martin, MD, Innovation and Investment
Gill McNeill, Chief People Officer, People, Digital and Communications
Douglas Colquhoun, Chief Financial Officer
Reuben Aitken, MD, Energy Transition and International Operations
Rhona Allison, MD, Productivity and Business Growth
Karen Hannah, Corporate Office

Willie welcomed everyone to the meeting and thanked them for taking the time to consider the Annual Report and Accounts.

Willie updated that Julia Miller had been appointed as the new Chair of the SE Pension and Life Assurance Scheme, to replace Alastair Gray. Julia is a highly experienced professional trustee and qualified pensions lawyer. Willie thanked the recruitment team, which included Gill and Douglas, on the appointment. Adrian would follow up with a more detailed note to Board members.

Willie advised that this was Peter McKellar's last meeting of the SE Board and thanked him for his outstanding contribution during his tenure at meetings of the Board, Chairing the Audit & Risk Committee and also in providing support to Willie as Interim Chair and to the Executive Leadership Team and other SE colleagues on investment decisions and strategies. Most recently, he had given a great deal of his own time to advise on the development of the Club Fund.

Peter would officially step down at the end of July and Willie, on behalf of the Board, Adrian and Executive Leadership Team, wished him well for the future.

Peter thanked Willie and responded by saying that he had enjoyed his time on the SE Board and having the opportunity to work with the Executive Team. He commented positively on SE's vision and strategy and wished the Board and Executive Leadership Team continued success.

FOR APPROVAL:

Annual Report and Accounts 2023/24 – SE(24)39

Douglas outlined that the cover paper that accompanied the annual report and accounts highlighted some of the key factors that helped to determine the final Grant in Aid budgetary position and the financial outturn for the 2023/24 financial year. The Performance & Accountability report provided a holistic picture of SE's performance during the financial year.

Douglas highlighted that this had been a further year of high achievement for the organisation against a dynamic and challenging operating environment. This year saw the organisation transitioning towards a mission-based approach embedding this within the organisation, and communicating the increased focus and transformative nature of the approach to key stakeholders and partners. This culminated in the publication of the new corporate plan "Our Focus on Economic Transformation" in January 2024.

Despite challenges, particularly the ongoing public sector fiscal environment and the associated spend control processes, the organisation was strongly focused on delivery and had achieved strong results against performance measures and delivery of a range of projects to transform Scotland's economy in the future. All target ranges had been achieved, with five exceeded. The performance against the Jobs Paying at least the Real Living Wage, Planned Capital Investment and International Export Sales measures was exceptional with all three recording the best year of performance since these measures were introduced. In addition, a range of potentially transformative projects were supported and delivered during the year that will contribute to SE's strategic ambition to drive up levels of innovation, internationalisation and investment in Scotland's economy. As noted in the Future Developments section, even more ambitious targets have been set for 2024/25 for five of the six targets, with the exception being Growth Funding Raised given the ongoing challenges in the early-stage investment market.

The Parliamentary Accountability and Audit Report section set out the final financial outturn for the year. The final net underspend against the "cash" budget, comprised of the Resource, Capital and Financial Transactions elements, was £10.1m. Overall, this represented a 3% underspend against the total cash budget of £335.3m (combination of income and Scottish Government allocation). Resource underspend was 0.7%, Capital 2.7% and Financial Transactions 11.1%.

Since the last update to the Board on the projected outturn, and as noted in the commentary paper, the first draft of the accounts was revised to remove a £2m accrual in relation to an R&D grant. This would have increased the underspend on the Capital budget, however, agreement from Scottish Government was secured to utilise this against the capital budget. Although the overall underspend position at £10.1m remained unchanged, it meant that the maximum amount of recycling could be used to satisfy conditions attached to SE's use of European Regional Development Fund (ERDF) for investment activity, increasing the level of recycling achieved during 2023/24 from c£5.4m to c£7.4m. It also reduced the overall Financial Transaction liability and any future proceeds would count as capital income and would be recyclable.

As highlighted in the Audit Scotland Annual Audit Report, the three main areas of judgement within the accounts related to the estimations of value placed on Land and Buildings, Pension Assets and Liabilities and Financial Assets.

- **Land and buildings:** The overall value placed on property, plant and equipment (including assets classified as held for sale) had increased from £152.9m as at March 2023 to £171.2m by end 2023/24. Land and building assets accounted for 98% of the overall

value, with the main drivers being the strategic site acquisition of Broomielaw and an increase in valuation of Glasgow Science Centre buildings. Direct holdings by SE totalled £100.5m, with the top 10 assets accounting for 72% of value, with holdings at the Edinburgh BioQuarter and at Broomielaw in Glasgow (3 sites) alone accounting for 44% over the overall value.

- **Pension assets and liability:** the short-term volatility associated with the pension scheme was reflected in the net valuation movement of £62.2m experienced during the year (moving from a surplus of £18.7m to a deficit of £43.5m). This was mainly due to lower-than-expected asset returns and high levels of inflation that serve to increase pension related liabilities. Hymans Robertson, the actuarial advisor to the Pension Scheme, currently estimate that the funding position has recovered and at 22 July the scheme was back in surplus (£23.7m).
- **Financial Assets:** The overall value of Financial Assets – Other Investments reflected on the Group Balance Sheet (Statement of Financial Position) reduced from £505.5m at the end of 22/23 to £493.8m at as 31 March 2024 (£11.646m or 2.3% reduction in value) despite new investment additions of £60.5m during the year. A significant contributor to the reduction in value arose from the valuation movement on the investment portfolio which removed £46.1m from the book value of the assets. As highlighted in Note 10 (within the Scottish Enterprise entity analysis) Impairments account for £5.9m of the movement, with net unrealised losses accounting for £40.8m and these are partially offset by £0.6m of gains on level 1 listed investments.

There was a high volume of valuation movements, both positive and negative, across the portfolio.

Douglas advised that the Audit process had gone very smoothly. The Audit and Risk Committee considered the report from Audit Scotland and an unmodified audit opinion would be issued following approval by the SE Board. There were no recommendations in terms of the current year audit and the recommendations from the previous year had largely been addressed. There were two outstanding in relation to the Best Value Framework, for which an information paper would be submitted to the SE Board in August, and Cyber activities which were ongoing.

Following approval of the Annual Report and Accounts, the team would work with Scottish Government to meet the commitment to lay the Accounts in Parliament by 31 August. Work was also underway with the Comms Team in preparation for public launch, to amplify positive messages and to prepare for any negative media coverage.

Douglas acknowledged the team effort to prepare and collate the material that forms the Annual Report and Accounts, and highlighted the contributions of Susan Moore and John Crawford in preparing a substantial element of the Performance Report, Alan Maitland for his drafting of the Financial Performance commentary, Gary Stewart and Jennifer Paul for preparing the Governance Statement, and Rachel Ducker, Clair Alexander, Anne Ferguson, Nicole Mulholland and Tom McGowan for their work in preparing the Accounts.

Engagement with Audit Scotland had been positive with good feedback throughout the process. There had been very clear and complementary reciprocal arrangements on support and timeliness of responses and enquiries.

The Board commented positively on the report, particularly acknowledging the strong performance. Richard raised the potential to highlight challenges within the report. Douglas confirmed that following the Audit & Risk Committee meeting, Adrian had included a paragraph within his statement that highlighted dependencies in terms of future performance, particularly in relation to energy transition. Adrian read the paragraph to the Board. Richard also

suggested inclusion of SE's positive engagement in COP28. Douglas suggested that this could be included within the communications strategy. Raymond also encouraged more communication of some of the positive contents within the report. Adrian outlined the Delivering Results Campaign which would be launched the following month to communicate the positive results on SE's performance, over social media channels.

Peter confirmed the endorsement by the Audit and Risk Committee for the inclusion of the outlook statement. The Committee had also received the report from Audit Scotland which confirmed there had been no misstatements and identified seven key findings, three of which related to timing. Recommendations from the previous year had been addressed. Audit Scotland had been very complimentary on the quality of the accounts, the audit process and the timeliness and accuracy of evidence provided.

Willie thanked Douglas and the team involved in development and collation of the Annual Report and Accounts, acknowledging the amount of work involved, and commented on the positive development of the report over recent years to capture the narrative in relation to the key performance indicators.

Willie also thanked Adrian and the Executive Leadership Team on leading and delivering unprecedented outputs against stretching targets, and acknowledged the welcome reception from the First Minister, Deputy First Minister, and Cabinet Secretaries on SE's vision, strategy and performance.

Adrian also thanked Douglas and the team for their work in developing the Annual Report and Accounts and the Executive Leadership Team for their leadership and delivering such strong results.

The Board approved the Annual Report and Accounts.

FOR INFORMATION:

SE Audit and Risk Committee Annual Report – 2023/24 – SE(24)40

Willie commented on the report, particularly in providing assurance to the Board and thanked Peter and the Committee.