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## MINUTE

Meeting of:	Scottish Futures Trust Limited - Board
Date & Time:	Monday 4 September 2023, 3pm
Place:	1a Canal View, Winchburgh, EH52 6FE
Present:	Ian Russell (IR) (Chairman) Graham Watson (GW) Pauline Mills (PM) Stella Matko (SM) Nick Rowan (NR) Bill Matthews (BM) Stephen Slessor (SS) Peter Reekie (PR)
Apologies:	none
In attendance:	Liz Petrie (LP) (minutes) Caroline Whyteside (CW) Kerry Alexander (KA) (part meeting – items 1 to 5)

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### FORMALITIES

#### 1 Agenda and Apologies

There were no apologies.

#### 2 Declaration of Directors' Interests

No new interests were declared. PM highlighted Taylor Wimpey's involvement in Blindwells and East Lothian mid-market homes projects referenced in the workstream activity report.

#### 3 Minute of Previous Meeting

The minute of the meeting of the Board of Directors of 20 June 2023 was noted and approved as a correct record.

#### 4 Action Tracker

Completed actions were noted together with timescales for ongoing actions.

It was noted that a session on risk appetite is to be scheduled within the agenda for the Board strategy day on 3 October 2023.

### DISCUSSION

#### 5 Business Area: Infrastructure Finance and Programmes

KA gave an overview of the Company's significant activity in the area of heat decarbonisation.

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She laid out the context in which the Company's work is taking place and the scale of the challenges faced in order to meet Scottish Government targets.

KA noted that heat in buildings accounts for a significant part of carbon emissions and highlighted that current Scottish Government targets will require over one million homes in addition to non-domestic buildings to convert to low or zero emission heating systems by 2030. The Board acknowledged that while leadership can come from the public sector estate the impact from conversion of publicly owned buildings on overall emissions will remain relatively low.

KA described the composition of the SFT net zero buildings team with a variety of professional backgrounds covering finance, legal and engineering. KA further outlined the teams current activities and ambitions across heat networks, the Green Heat Finance Taskforce and the decarbonisation of the public sector estate.

The Board discussed the challenges in reaching Scottish Government targets, acknowledging that constrained resources, both human and financial, are impacting the progress that can be made in the development of necessary policy and legislation as well as to support development of the market. The Board discussed further the attainability of Government targets and the risk to the Company of these targets not being met. The Board considered also whether different approaches to challenging the targets could be appropriate.

The Board discussed the new strategic risk and cost pressure across significant elements of the public sector estate arising from issues relating to Reinforced Autoclaved Aerated Concrete (RAAC). KA advised that the Learning Estate team is working with Scottish Government colleagues to understand the extent of Reinforced Autoclaved Aerated Concrete (RAAC) across the estate and has joined a cross-sector working group on RAAC.

## **MONITORING**

### **6 Workstream Activities**

The Board noted the report setting out progress against business plan activities 2023/24 as at the end of July 2023, highlighting milestones achieved in the period, risks to the achievement of planned milestones and milestones which will not be achieved or have had to be changed.

PR highlighted the risk across many of the work streams that resources in collaborating organisations remains under pressure. He confirmed that decisions have been taken in some areas to amend work plans and priorities in light of this and that these are kept under review. PR advised that the Programme for Government is due to be published during the coming week which will also be considered in the review of work plans and priorities.

PR advised that the Company has provided support to the development of the Public Sector Heat Decarbonisation Fund and successfully linked that to use of its Net Zero Public Sector Building Standard. The Board noted that creating that linkage had led to delay in formal publication of the Standard.

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PR further highlighted Scottish Government's continued consideration of the use of the Mutual Investment Model to deliver the A9 and the Board noted that SFT has not been involved in the development of the Business Case or the investment decision making. The Board agreed that given SFT's well known history of leadership on PPP investment it is important that the Company's role is clear in respect of both decision making and implementation if MIM is taken forward for any projects.

The Board was advised that funding has now been approved for SFT to support the Hydrogen Programme.

PR confirmed that progress had been made over the summer in setting up the working groups to deliver the Construction Accord Transformation Plan and it is now expected that the Transformation Action Plan will be published in draft in the autumn. PR also highlighted progress in the construction quality initiative with over 70 organisations signed up to the construction quality improvement charter. Whilst recognising this success the Board acknowledged that continued work will be required to embed the Charter's practices within the member organisations.

PR briefly described the priorities and areas of activity within the Digital Connectivity workstream, including the ongoing strategic work on mobile and satellite connectivity together with the reducing work on data centres as that area of work is transferred to Scottish Enterprise.

The Board confirmed that the revised format of the report to include directors responsible and funding sources for each workstream was helpful.

## **7 Public Inquiry**

PR provided an update on the Scottish Hospitals Public Inquiry. He advised that the Inquiry is in the process of issuing four Provisional Position Papers in relation to the Edinburgh project. Three of these papers have now been issued and following review no comment has been made by SFT. PR advised that the fourth paper is expected shortly and an update, as appropriate, will be provided.

## **8 Corporate Services Report**

The Board noted the report covering human resources, communications, information technology, office management and legal and procurement activities in the recent period.

CW highlighted the consultation on flexible working being carried out with staff and advised that a report would be brought back to the Board on the findings and recommendations arising from the review.

*Results of flexible working consultation to be reported to the Board.*

CW further advised that following the second stage interviews highlighted in the report an offer has now been issued for the role of manager within the Learning Estates team.

The Board noted that Cyber Essentials recertification has been achieved and work will be undertaken to achieve Cyber Essential Plus in the coming months. The Board discussed

the cyber risks faced by the Company and was advised that the corporate data is held in the cloud with separate cloud back up. Further staff training and IT system penetration testing are to be carried out following the office move in October 2023.

CW confirmed that the Thistle Street office will close on 6 October and be closed for two weeks. She confirmed to the Board that the business continuity plan together with the disaster recovery plan have been recently reviewed and updated and will undergo a further review in line with move to Thistle House.

**9 Board succession: Chair recruitment**

The Board noted the update report on the recruitment process for appointing a new Board Chair. CW advised that Scottish Government have confirmed that the Minister has now approved the recruitment panel and that an executive search firm can be appointed. CW confirmed that an Invitation to Quote is being issued for the executive search firm.

Directors were advised that if any current SFT board member is interested in the role they should make this known to the current Chair so that conflicts of interest during the recruitment process can be managed.

The Board noted that the targeted timescale of making an appointment remains challenging.

**10 Finance Report**

The Board noted the report outlining the financial position of the SFT Group for the four months ended 31 July 2023 with an updated forecast as at 22 August 2023.

CW confirmed that overall the year to date reflects an underspend including slippage in advisory spend which is being very closely monitored. CW confirmed that the general contingency has been reduced by £25k to cover legal costs in relation to hub procurement.

The Board was further advised that the final external audit fees have not yet been confirmed with the audit still ongoing.

The Board noted that all conditions of the grant-in-aid budget allocation are being met as laid out in section 5 of the report.

**11 Report from Chair of Audit Committee**

The draft minute of the Group Audit Committee held on 21 August 2023 was noted. GW highlighted the positive findings of the internal audits carried out on both SFT outcomes reporting assurance and the quality of board and audit committee reporting.

GW further highlighted the swing in the Company's pension actuarial report from a liability to an asset and the ongoing consideration of the treatment of the asset within the Company's financial statements.

**DECISION**

**12 SFT Accounts: Accounting Treatment of Capital Funding**

The Board noted the report outlining the proposed change to the accounting treatment of the Tranche 2 capital funding.

As background, CW confirmed that prior to 2015 the circa £5 million 'Tranche 1' capital funding provided to SFT by Scottish Government which was granted on to SFT Investments was non-repayable and was treated as non-repayable grants in the SFT and SFT Investments financial statements. The Board noted that in 2020 Scottish Government had asked for this Tranche 1 funding to be repaid and the accounting treatment was revised to recognise the tranche as a capital contribution and for SFT Investments to distribute the funds to SFT in line with the capital repayments it received. SFT then repaid Scottish Government as the 100% shareholder of SFT by reducing SFT's funding requirements from Scottish Government by the same amount by reducing the grant it draws down from Scottish Government at the end of the financial year.

The Board was advised that the Tranche 2 capital funding of circa £11m covering the period 2015 to 2019 had been made differently, through financial transactions, and it was clear from the outset that the funding was to be repaid to Scottish Government. This tranche was therefore treated as repayable grants within SFT and SFT Investments accounts from the outset. CW advised that this treatment has now been reviewed. After consultation with the Company's new external auditors, reviewing IFRS9 and reconsidering the substance of the transaction, it is recommended that rather than treat Tranche 2 as an inter-company loan, its treatment is brought in line with the treatment of Tranche 1, and it is recognised as a capital contribution.

The Board agreed that the Tranche 2 amount advanced from SFT to SFTi in relation to investments in hub projects between 2015 and 2019 be confirmed as a capital contribution and that the capital contribution has no terms for repayment. The Board further noted that this change of treatment will require a prior year adjustment in the SFTi Company accounts and noted the impact of the change on the presentation of the balance sheet.

**13 Outcomes Publication**

The Board noted the report summarising the work completed on SFT outcomes reporting for the year ending March 2023.

The Board noted that the internal auditors, RSM UK, had carried out the assurance process for the first time and had issued an opinion of 'substantial assurance'. This had been reviewed by the Group Audit Committee as previously noted.

The Board noted and discussed the ten outcomes covered in the reporting as laid out in the 2019-24 Corporate Plan and questioned if any outcomes were missing. It was agreed that the potential to report against social value outcomes across the Company should be considered.

*Consideration to be give to reporting on social value outcomes.*

PR advised that the impact of the Company's work in supporting the transition to a low carbon economy is probably understated and noted the challenges in capturing both qualitative and quantitative outcomes in this important area.

The Board that it is intended that the 2022-23 outcomes be launched and promoted through the existing online reporting platform with the launch of the refreshed platform scheduled for October 2023. The Board requested sight of the updated platform prior to it going live.

*Directors to be provided with sight of the updated Outcomes website prior to it going live.*

#### **14 Expenses Policy**

The Board noted the proposed revisions to the expenses policy including the review of mileage rates requested by the Board in March 2023. It was noted that the proposed mileage rates are in line with HMRC rates and will continue to be reviewed annually.

The Board discussed asked that the executive review some elements of the policy, including proposed changes to approval processes. The Board further recommended that elements be benchmarked with Scottish Government/other public bodies and the full policy brought back for Board approval at its next meeting.

*Elements of the Policy to be further reviewed/benchmarked and brought back to the next meeting for approval.*

#### **15 Board Strategy Day**

The Board noted the report outlining the proposed arrangements and agenda for the board strategy day on 3 October 2023.

PR outlined the proposal that the focus of the day be on discussing and agreeing the main topics to be considered and process to be adopted to develop the organisation's next 5-year Corporate Plan, running from April 2025 to March 2030.

The Board agreed the proposed agenda together with the timings and arrangements for the day. PR confirmed that supporting papers would be circulated in advance of the strategy day.

#### **16 AOB**

There was no other business.

The meeting closed at 5pm.