

2011-2012

Annual Report and Accounts

Ambitious for **Scotland**
Àrd-amas airson **Alba**



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

ENTERPRISE AND NEW TOWNS (SCOTLAND) ACT 1990

Accounts, of Highlands and Islands Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, for the year ended 31 March 2012 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

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Management commentary

Background and principal activities

Statutory background

Highlands and Islands Enterprise (HIE) was established in 1991 in accordance with the provisions of the Enterprise and New Towns (Scotland) Act 1990.

Strategic aims

The second Scottish Government Economic Strategy was unveiled in September 2011. The strategy focuses actions on the six strategic priorities which aim to strengthen the recovery, drive sustainable growth and develop a more resilient and adaptable economy. Five of these priorities are in keeping with those set out in the 2007 strategy: Supportive Business Environment; Learning, Skills and Wellbeing; Infrastructure Development and Place; Effective Government, and Equity.

The new priority – Transition to a Low Carbon Economy – reflects Scotland's leading work in areas such as renewable energy and climate change. For further information on the Scottish Government Economic Strategy, see www.hie.co.uk/about-hie/what-we-do.html

Principal activities

HIE was established for the purpose of preparing, concerting, promoting, assisting and undertaking measures for the economic and community development of the Highlands and Islands, improving the region's competitiveness, assisting people to establish themselves as self-employed and furthering improvement of the environment in the Highlands and Islands. HIE's objectives and activities and strategies for achieving those objectives can be found within the HIE operating plan and the HIE Review.

www.hie.co.uk/operatingplan

www.hie.co.uk/review

Board membership

Mr W Roe CBE, Chair (Appointment ended – 29 February 2012)
Prof. L D Crerar, Chairman (Appointed – 20 February 2012) (Board Member prior to appointment as Chairman)
Mr A L Paterson (Chief Executive)
Prof. M Bownes OBE
Mr J Royan OBE
Mr C Spence
Mr S Thomson
Mr W Swann
Mr D MacDonald
Ms I MacTaggart

Details of company directorships and other significant interests held by Board Members are available at www.hie.co.uk/about-hie/who-we-are/hie-board.html

Leadership Team

Mr A L Paterson (Chief Executive)
Mr F C Duthie
Mr J A Watt
Mrs C Buxton
Ms C Wright

Financial performance

Results

The results for the year to 31 March 2012 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Sources of finance

Highlands and Islands Enterprise is mainly financed by Scottish Ministers through the Scottish Government Business Directorate. In addition, it has receipts in the form of rents, interest, loan repayments, European Union funding and proceeds received from the sale of assets.

The funding provision, other income and expenditure for the year ended 31 March 2012 was as follows:

Sources of finance 2011-2012	Provision £m	Actual £m
Funding		
Grant-in-aid	51.2	51.2
Non-cash DEL	12.7	7.1
Total Resource Budget	63.9	58.3
Non-cash AME	10.5	6.4
	74.4	64.7
Income from other sources		
European Union / Big Lottery	5.0	3.7
Business Receipts	9.3	10.3
Total Funding	88.7	78.7
Expenditure		
Operations	73.3	63.2
Management and Administration	15.4	15.4
Total Expenditure	88.7	78.6

Budget out-turn	Provision £m	Actual £m
Resource consumption	41.2	35.4
Non-cash DEL cost including depreciation, provisions, property revaluation	12.7	7.1
	53.9	42.5
Capital Expenditure	10.0	15.8
Total	63.9	58.3
Non-cash AME cost including pension, provisions, property revaluation	10.5	6.4
Total	74.4	64.7

Financial commentary

2011-2012 summary of financial results	Provision £m	Actual £m
Grant-in-aid	51.2	51.2
Business income	9.3	10.3
Direct capital spend	7.3	15.8
Indirect capital spend	2.7	6.5
RAB out-turn (net resource)	63.9	58.3

Highlands and Islands Enterprise had an underspend on a resource accounting and budgeting (RAB) basis of £5.6m under the provision set by the Scottish Government, which was mainly due to the late confirmation of the annually managed expenditure (AME) element of the non-cash funding. All available grant-in-aid (GIA) was drawn down for the year. During the year HIE transferred £5.8m of Revenue funding to Capital. Further details of HIE's spend can be found in note 2.

The group pension liability has increased from £9.3m to £13.7m in 2011/12.

There was an increase in the liability arising in the Highlands and Islands Enterprise Superannuation Scheme of £2.8m. This was due to poor market conditions during the year.

The Resource Budget for 2012/13 of £61.1m and the AME budget of £10.5m awarded by the Scottish Government comprises Grant-in-Aid and 'non-cash' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

Events after the Statement of Financial Position

No post-Statement of Financial Position events occurred.

Non-current assets

During 2011/12, Highlands and Islands Enterprise spent £11.8m on property, plant and equipment additions.

At 31 March 2012 the net book value of HIE's property, plant and equipment was £37.6m. Commercial properties were valued at market value. Financial assets amounted to £7.3m.

European Union

In addition to the funding from grant-in-aid, funds amounting to £4.1m were received from the European Union in support of the operations of Highlands and Islands Enterprise.

Payment to creditors

Highlands and Islands Enterprise observes the Scottish Government's policy for prompt payment and is committed to paying suppliers within 10 days of receipt of a valid invoice, where no other contract timetable applies. HIE's performance statistics can be found in the Customer Service section of this Management Commentary.

Key performance indicators

Regionally Significant Investments

Highlands and Islands Enterprise's portfolio of Regionally Significant Investments and other major projects at the start of 2011-12 included 29 key projects and initiatives under implementation. A number of these projects completed during the year, with 19 projects continuing into 2012-13. Investment of £20.0m in these projects during the course of the year has helped create new infrastructure that will see the Highlands and Islands increase the contribution it makes to the Scottish economy in future years.

Key measures

2011/12 Measure	Target range	Actual out-turn
Forecast increase in turnover by supported businesses (£m, Year 3)	50-70	104
Forecast increase in sales outwith Scotland by supported businesses (£m, year)	30-40	44
Jobs supported (created/retained) FTE*	700-800	1,433
Of which in fragile areas	100-150	129
Forecast increase in turnover in the social economy (£m, year 3)	1.5-2.5	2.1
Number of social enterprises supported to increase social impacts	30-40	50
Cumulative number of account managed communities supported to implement growth plans	25-30	29

* In addition to the jobs supported noted above, a further 418 jobs were created or retained as a result of Regional Selective Assistance grants awarded to Highlands and Islands based businesses. (FTE – Full time equivalent).

These out-turns demonstrate considerable progress made working with businesses across the Highlands and Islands, particularly given the challenging economic conditions experienced over the past year.

Continued growth in the social economy will play an important role in mitigating the impacts of changing economic conditions in many communities across the region.

Future developments

Businesses and community groups across the Highlands and Islands are finding the current economic climate challenging, but many are also taking advantage of the opportunities which are arising.

HIE will continue to invest in projects and sectors which have the potential to transform local economies and promote sustainable economic growth throughout the region.

Further information on the key measures of performance is provided in the HIE Operating Plan 2012-15, which can be located at www.hie.co.uk/operatingplan

Corporate governance

Overview

Highlands and Islands Enterprise has procedures in place to ensure the highest standards of corporate governance are maintained at all times. Further information is provided within the Governance Statement. Risk associated with HIE's financial instruments is detailed in note 27.

The Combined Code

While the remuneration and the service contracts of Board members are set by the Scottish Government, the recommendations of the Combined Code have been applied, in so far as they are appropriate to Highlands and Islands Enterprise. Full details of all elements in the remuneration package of each Board member are disclosed in the Remuneration Report.

Conflicts of interest procedures

HIE operates strict and comprehensive procedures to deal with potential conflicts of interest. These include HIE holding, and updating at least annually, registers of interests covering not only board members/directors but also members of staff. These registers are available to any member of the public who wishes to examine them. Interests which must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, non-financial interests, gifts and hospitality.

Whenever a Board member/director or member of staff has an interest in an application for assistance, they are required to declare the interest and thereafter to take no part in the investigation, processing or approval of the case. Such declarations by Board members/directors are recorded in the minutes of the appropriate Board meetings.

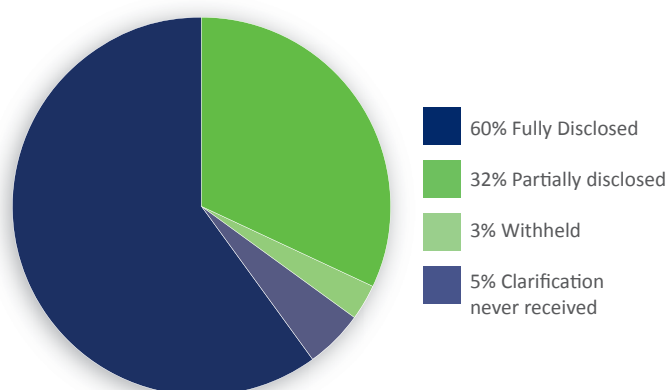
Public interest reporting

Freedom of Information

As a publicly-funded organisation, HIE is committed to full compliance with the Freedom of Information (Scotland) Act 2000.

In 2011-12, HIE received 91 Freedom of Information (FOI) enquiries.

The following chart shows the percentage of FOI enquiries where the requested information was fully disclosed, withheld, partially disclosed or clarification never received.



- Average time to fully respond and close a request for information: 13 days
- The number of charges applied to requests: 0
- Number of requests for reviews: 3
- Number of appeals to the Scottish Information Commissioner's Office: 0
- Number of instances when the time limit for reply has been extended: 6

The HIE website contains a Freedom of Information section which publishes FOI-related questions and answers – www.hie.co.uk/freedom-of-information

Customer service

We are committed to continually improving our service and welcome comments and suggestions. We take all complaints seriously and have an effective, easy to use complaints procedure.

Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. A total of four complaints investigations were carried out during the period from 1 April 2011 – 31 March 2012.

When a complaint cannot be resolved internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO. One complaint was referred to the SPSO during the year and the outcome of the SPSO's investigation has not yet been finalised.

The following table shows HIE's performance in meeting standards of service:

Standard	Performance 2011/12	Performance 2010/11
In line with government policy, aim to pay all invoices promptly - target 10 days	85%	82%
Note: excludes items under dispute or where other terms are agreed with a supplier		

Diversity and equality

We want the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

Integrating equality outcomes into HIE's performance review and reporting mechanisms places equality at strategic levels of our organisation, helping deliver measurable changes for those who live in our communities and for those who lead or work in the businesses of our region.

Assessing the impact of our functions on people helps us understand how we can minimise barriers to economic participation or grow community confidence.

This approach is consistent with our responsibilities under the Equality Act 2010 which require us to:

- Eliminate discrimination, harassment and victimisation
- Advance equality of opportunity, e.g. by removing or minimising disadvantage, taking steps to meet peoples' needs, encouraging participation in public life
- Foster good relations, e.g. by tackling prejudice and promoting understanding

The equality characteristics covered by the act incorporate age, disability, gender, gender re-assignment, marriage and civil partnership (in employment), pregnancy and maternity, race, religion or belief and sexual orientation. HIE goes further, also considering equality impact in relation to Gaelic, to those living in geographically dispersed or peripheral communities, and to those who may face multiple barriers to being part of the economy.

In 2011/12, three employees working for HIE declared a disability (2010/11 - five).

Further information on HIE's workforce demographics and other equality topics is available on the HIE website at www.hie.co.uk/equalitydiversity

Employee involvement and communication

Enhancing employee involvement and engagement is a long-standing corporate priority. A sustained focus has been given to improving our internal communications, providing opportunities for meaningful staff feedback and engaging the talent and creativity of our staff in delivering performance improvement.

At the beginning of the year, we established the Human Resources Planning and Utilisation working group (Matching our people and priorities) as part of HIE's overall business improvement plan. The focus of this group has been to create a working environment where:

- staff resources are aligned to deliver HIE's priorities and regional outcomes
- there is increased flexibility, transparency and simplicity in workforce planning and the allocation of resources
- the sharing of skills, knowledge and experience is supported and facilitated.

Consistent with HIE's current remit and the Scottish Government's commitment to deliver continually improving taxpayer value, we have made significant progress with reducing our Block B staffing costs and are continuing to take positive action in generating further savings. There has been a considerable shift from the traditional route of automatically backfilling vacancies to considering more innovative practices. A range of approaches have been employed to match the available staffing resources with specific challenges and opportunities across HIE.

In support of our learning and development programme, a range of training approaches is being developed with the aim of supporting the continual development of account managers to help them be confident in their role, credible and consistent. These include the development of a modular online development programme, the delivery of masterclasses/workshop sessions, access to Scottish Development International (SDI) Academy training and the sharing of knowledge and experience via case conferencing and lessons learned.

We have also delivered a number of team development workshops with business units across HIE. Using the Insights Discovery model, the approach has provided participants with a language and framework for understanding themselves and others better, which can be put into practice immediately. The Insights Discovery model has been very well received by staff, improving interpersonal dynamics within teams.

We continue to run our leadership programme, 'ACHIEVE 2 Inspire', providing managers with a tailored and integrated approach to leadership and change management.

As part of the agenda to move HIE to an online organisation, we have developed our HR information system to introduce self-service functionality so that staff can review and update their own personal data. Self-service has covered the introduction of electronic payslips, data verification and annual leave booking.

We are also developing an intuitive, user-friendly performance management system that encourages all staff and line managers to engage with the process in order to get the best out of performance review and development planning discussions. This is due to be implemented during 2012/2013.

A new online monthly communication has been introduced, 'Human Perspective', with HR news and updates. It focuses on sharing the latest HR news stories and announcing any new appointments and staff changes. It also provides staff with online HR help and guidance.

Plans are also under way to upgrade the HIE intranet to take advantage of social media tools and applications which will encourage more immediate dialogue and facilitate collaborative working across HIE.

The Joint Negotiating Committee (JNC) is the formal mechanism for staff consultation and negotiation between management and the recognised trade unions on pay and terms and conditions of service. Staff from across HIE have also been involved and consulted on a range of organisational issues from policy development, learning and development, the HIE intranet and website, and equality and diversity through the HIE's Equality and Diversity Board.

Sickness absence

The attendance record for HIE employees for the year to 31 March 2012 was 968 (2011 1,470) days sick leave out of a total of 53,382 (2011 - 59,891) possible working days, representing a lost time through sickness rate of 1.8% (2011 - 2.45%).

Sustainability

Greenhouse Gas Emissions from Buildings and Business Travel	2008/09	2009/10	2010/11	2011/12
Non-financial Indicators (KgCO ₂)				
Electricity	938,224	801,632	885,145	683,920
Gas	220,783	179,842	203,435	128,891
Business Travel	371,011	306,096	252,929	254,410
Related Energy Consumption (KWh)				
Electricity	1,747,158	1,492,797	1,648,315	1,323,285
Gas	1,193,421	972,119	1,099,649	1,012,666
Financial Indicators (£)				
Electricity	209,659	183,242	145,077	125,480
Gas	27,547	28,941	29,226	29,015
Business Travel	781,151	745,070	653,677	724,806

Greenhouse Gas Emissions from Buildings and Business Travel

Graphical Analysis



Performance commentary

Using 2008/09 levels HIE was aiming to reduce its CO₂ outputs by 20% by 2013/14. This has now been achieved. These targets will now be reviewed over the following year.

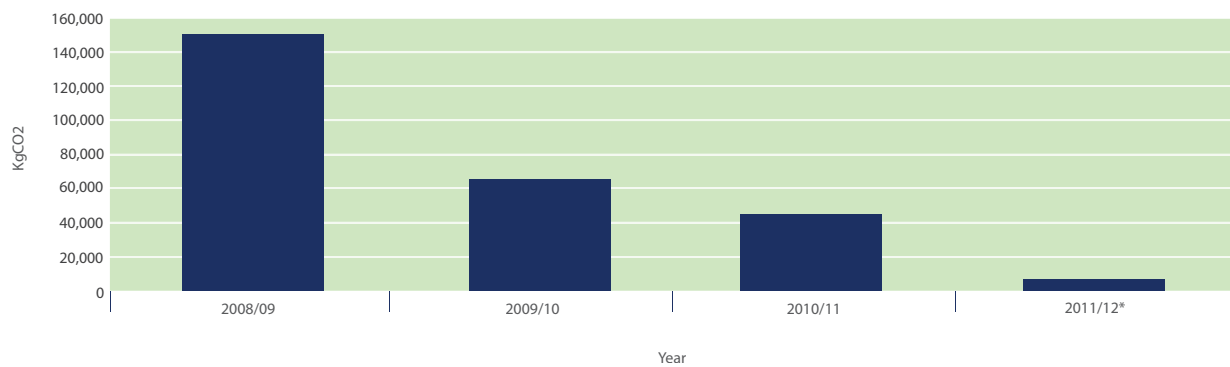
Controllable impacts commentary

The scope of HIE's Carbon Management Plan includes business travel, waste, water and office energy consumption. The benefits of controlling these outputs are that cost savings and efficiency have been achieved, as well as a reduction in HIE's carbon footprint.

Waste and water	2008/09	2009/10	2010/11	2011/12
Non-financial Indicators (KgCO ₂)				
Total greenhouse emissions from general waste	148,332	64,670	44,906	9,322
Measurable greenhouse emissions from water	483	768	470	352
Non-financial Indicators				
Total General Waste (kg)	331,839	144,675	100,460	46,284
Total Recycled (kg)	49,564	52,099	64,895	25,430
Measurable Consumption (m ³)	1,195	1,901	1,163	872
Financial Indicators (£)				
Disposal Cost	48,283	50,351	51,559	44,135
Measurable Water Cost	49,489	39,615	43,215	43,615

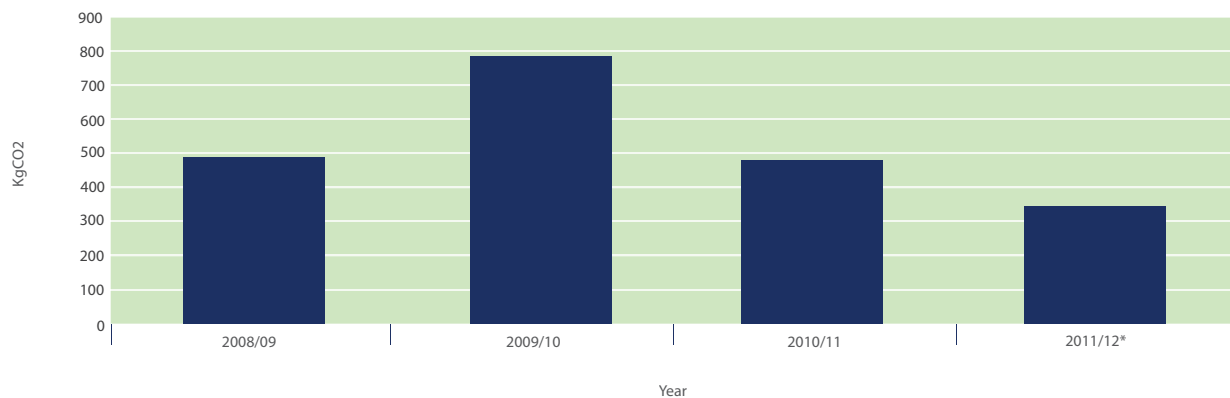
Greenhouse gas emissions from waste

Graphical analysis



Greenhouse gas emissions from water

Graphical analysis



Performance commentary

We are now reporting the volume of waste recycled. This has led to the waste disposal costs being restated to the total cost for waste collection including recycled materials.

*Waste figures have reduced considerably during 2011-12 due to a change in the method that Northern Recycling uses to weigh the waste collected.

Controllable impacts commentary

HIE is working alongside staff, suppliers and contractors to ensure that an improved culture encourages a better performance in waste management. In some cases, a reduction in water wastage will reduce cost. In all cases, it will reduce our carbon footprint, although for some offices this will not be measurable due to lease arrangements.

A L Paterson

20 September 2012

Highlands and Islands Enterprise

Remuneration report

Unaudited

General information

Highlands and Islands Enterprise's sponsoring body, the Scottish Government, approves changes to HIE's staff terms and conditions, including pay. HIE's pay structure covers all employees of HIE and aims to address organisational challenges such as recruitment and retention and organisational change. This ensures continuation of the modernisation process which commenced in 2002 with the introduction of a new pay and grading structure. This structure aims to provide pay progression based on inflation rate changes, plus an element of performance-related progression linked to HIE's performance management system, introduced in April 2004.

Remuneration Committee

Highlands and Islands Enterprise decided to establish a Remuneration Committee with effect from April 2008. The role of the Remuneration Committee is as follows:

- To review annually and agree the broad policy framework for the remuneration of the HIE Chief Executive and HIE Group Directors;
- To monitor and evaluate the performance, on the advice of the Chief Executive, of the HIE Group Directors and determine the amount or percentage of their bonus remuneration;
- To approve total payments made under such a scheme;
- To consider issues of succession planning in relation to the senior management of the organisation;
- To inform the pay remit submissions to the Scottish Government.

Committee membership

Mr J Royan OBE (Chairman)
Mr W Roe CBE (resigned – 29 February 2012)
Prof. L D Crerar (appointed – 1 March 2012)
Prof. M Bownes OBE

Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2012.

Professor L D Crerar was appointed the Chairman on 20 February 2012. Mr Roe's appointment as Chair ended on 29 February 2012.

The remuneration of HIE Board members for the year ended 31 March 2012 was as follows:

	2012 £000	2011 £000	Appointment Expires
Prof. L D Crerar (Chairman – Appointed 20 February 2012)	10-15	10-15	19 February 2015
W Roe (Chair – Appointment ended 29 February 2012)	45-50	45-50	29 February 2012
Prof. M Bownes	10-15	10-15	31 March 2014
J Royan	10-15	10-15	31 March 2014
S Thomson	10-15	10-15	31 March 2015
C Spence	10-15	10-15	31 March 2015
W Swann	10-15	0-5	31 March 2014
D MacDonald	10-15	0-5	31 March 2014
I MacTaggart	10-15	0-5	31 March 2014
A MacKenzie (Resigned 31 March 2011)	-	10-15	31 March 2011

The above figures represent emoluments earned as Board members during the relevant financial year. The figure for Mr Roe includes £2,518 (2011 - £107) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Mr Roe was £10,934 (2011 - £11,928) while Mr Roe contributed £659, being 1.5% of his remuneration as Chair of HIE.

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of the Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2012 £87,515 (2011 - £86,991) was paid to these former members.

Audited

Remuneration of Chief Executive

The Chief Executive's contract of employment was signed on 2 July 2010. This contract is a permanent contract with a six-month notice period. There are no early termination payment clauses within the contract. No benefits in kind were made to the Chief Executive.

Mr A L Paterson's remuneration for the year ended 31 March 2011 and the year ended 31 March 2012 was as follows:

	2012 Remuneration as Chief Executive £	Remuneration as Chief Executive £	2011 Remuneration as member of HIE Leadership Team £	Total £
Salary	105,000	61,250	34,844	96,094
Performance-related bonus (paid in respect of the previous financial year)	-	-	-	-
Pension contributions	26,145	15,251	8,676	23,927
	131,145	76,501	43,520	120,021

The Chief Executive is an ordinary member of the Highlands and Islands Enterprise Superannuation Scheme. Under the terms of the Chief Executive's contract of employment, no annual bonus is payable.

Remuneration of other members of the HIE Leadership Team

The contracts of members of the HIE Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highlands and Islands Enterprise Superannuation Scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS). The ordinary members of the Highlands and Islands Enterprise Superannuation Scheme contribute 1.5% of pensionable salary and HIE contributes 24.9% of the employees' pensionable salary. C Wright contributes 9.3% of pensionable salary to the LGPS and HIE contributes 23.25%. Both schemes are final salary schemes. The HIE scheme provides benefits at a normal retirement age of 60 and the LGPS has a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the Accounts (note 19).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2012 was as follows:

	2011-12				2010-11			
	Salary £000	Bonus (for 10/11) £000	Other * £000	Total £000	Salary £000	Bonus (for 09/10) £000	Other * £000	Total £000
A Paterson	105-110	-	-	105-110	95-100	-	-	95-100
F C Duthie	80-85	-	-	80-85	80-85	0-5	-	80-85
J A Watt	80-85	-	-	80-85	75-80	0-5	-	75-80
C Buxton	70-75	-	-	70-75	65-70	0-5	-	65-70
C Wright	70-75	-	-	70-75	65-70	0-5	-	65-70
A B Brady	-	-	-	-	65-70	-	65-70	135-140

*Additional payments included those from a voluntary severance scheme.
Note: In line with Government guidance on pay restraint, there were no payments of performance bonuses in 2011/12.

Reporting bodies are required to disclose the relationship between the salary of the most highly paid director in their organisation and the median earnings of the organisation's workforce.

The banded salary of the most highly paid director in Highlands and Islands Enterprise in the financial year 2012 was £105,000 - 110,000 (2011 £135,000 - 140,000). This was 3.5 times (2011 - 4.5 times) the median salary of the workforce, which was £30,481 (2011 £30,481).

In 2012 no employees (2011 - none) received remuneration in excess of the highest paid director.

	2011-12 £000	2010-11 £000
Highest Paid Director's Total	105-110	135-140
Median Total Remuneration	30,481	30,481
Ratio	3.5	4.5

Retirement benefits of members of HIE Leadership Team:

	Accrued pension at age 60 as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/12	CETV at 31/3/11	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
A L Paterson	10-15 Lump sum 40-45	0-2.5 Lump sum 5-7.5	239	160	78
F C Duthie	15-20 Lump sum 55-60	0-2.5 Lump sum 2.5-5	424	33	92
J A Watt	25-30 Lump sum 85-90	0-2.5 Lump sum 2.5-5	755	625	128
C Buxton	5-10 Lump sum 25-30	0-2.5 Lump sum 2.5-5	159	99	59
	Accrued pension at age 65 as at 31/3/12 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/12	CETV at 31/3/11*	Real increase in CETV
C Wright	20-25 Lump sum 60-65	0-2.5 Lump sum 0-2.5	365	242	109

* The actuarial factors used in the Cash Equivalent Transfer Values (CETVs) were changed during 2012, due to changes in demographic assumptions. As a result the CETV values shown for 31/03/2011 are not the same as the corresponding figure shown in last year's report.

The Chief Executive and senior members of the HIE Leadership Team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPF. These schemes provide benefits based on final pensionable salary. The assets of the schemes are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the schemes' trustees.

Highlands and Islands Enterprise meets the contributions that are necessary to meet the full balance of the cost of the benefits provided by the schemes as well as the costs of running the schemes.

Highlands and Islands Enterprise Superannuation Scheme benefits accrue at the rate of one-eightieth of pensionable salary for each year of service subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement. Normal retirement age under the scheme is 60.

LGPF benefits accrue at one-eightieth of pensionable salary plus three-eightieth lump sum payable for service to 31 March 2009 with benefits from 1 April 2009 accruing at one-sixtieth with lump sum by commutation. Automatic lump sum service ceased accruing on 31 March 2009. Normal retirement age under the scheme is 65.

Other information

Retirement benefits - Cash equivalent transfer values

A cash-equivalent transfer value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member to a particular point in time. The benefits valued are the member's benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It includes contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period, but does not include the increase in accrued pension due to inflation.

A L Paterson

20 September 2012

Highlands and Islands Enterprise

Statement of Accountable Officer's responsibilities

Under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, the Scottish Ministers have directed Highlands and Islands Enterprise to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of Highlands and Islands Enterprise and of its income and expenditure, changes in taxpayers' equity and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the accounts direction issued by Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements and
- prepare the financial statements on a going concern basis.

The Principal Accountable officer for the Scottish Government has designated the Chief Executive as the Accountable Officer of Highlands and Islands Enterprise. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records, and for safeguarding Highlands and Islands Enterprise assets, are set out in the Memorandum to Accountable Officers of other Public Bodies on appointment and as set out in the Scottish Public Finance Manual.

A L Paterson

20 September 2012

Highlands and Islands Enterprise

Governance statement

Scope of responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Highlands and Islands Enterprise's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

As Accountable Officer, I have specific responsibility in relation to:

- Best Value, including the concepts of corporate governance and continuous improvement
- Planning, performance management and monitoring
- Advising the Board
- Managing risk and resources
- Accounting for HIE's activities

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. An element of my responsibility, as Accountable Officer, is to ensure HIE's internal control systems comply with the requirements of the SPFM.

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the principal risks facing HIE. The system aims to evaluate the nature and extent of risks, and manage risks efficiently, effectively and economically. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve HIE's aims and objectives. As such it can only provide reasonable and not absolute assurance.

Governance framework

Highlands and Islands Enterprise is established under the Enterprise and New Towns (Scotland) Act 1990. The primary aim of HIE is to focus its activities on achieving the Government's purpose which is to create opportunities for all in Scotland to flourish through increasing sustainable economic growth. Ministers expect HIE to do this by pursuing the Government Economic Strategy.

A Management Statement and associated financial memorandum, drawn up by the Scottish Government's Business Directorate, sets out the broad framework within which HIE will operate. It does not convey any legal powers or responsibilities.

The HIE corporate governance framework provides a balance between the underpinning governance standards which prescribe the rules and assurance activity within which HIE is required to operate, and the messaging which provides an endorsement for innovative and creative thinking to take place within this environment.

Operation of the Board and sub-committees

As at 31 March 2012, the Board of Highlands and Islands Enterprise comprised the Chairman, seven non-executive members and myself, as Chief Executive. Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government. Individual Board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE. As a Board member myself, I have a pivotal role in assisting the Board to develop policies and priorities and ensuring that they are implemented effectively.

The Board met in full seven times in the year. They met a further one time to consider a specific item. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

- Establishing the overall strategic direction of HIE within the policy, planning and resources framework determined by the Scottish Ministers
- Ensuring Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of HIE
- Ensuring HIE complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that HIE operates within the delegated authorities agreed with the Scottish Government Business Directorate
- Ensuring review of regular financial information concerning the management of HIE
- Ensuring high standards of corporate governance are observed at all times
- Providing commitment and leadership in the development and promotion of Best Value principles throughout HIE
- Overseeing delivery of planned results by monitoring performance against agreed corporate objectives, measures and targets on both an in-year and longer-term basis

The Board is supported by the Risk and Assurance Committee and the Remuneration Committee. Additionally, an executive Health and Safety Committee is in place to report on issues related to Health and Safety.

The Risk and Assurance Committee comprises a Chairman and three non-executive members. Representatives of the Scottish Government departmental Accountable Officer and Audit Scotland, the Director of Finance and Corporate Services, the Head of Business Improvement and Internal Audit, and myself, as Chief Executive, attend these meetings. The Committee met four times in the year. Minutes of the Risk and Assurance Committee are provided to the full Board for information and an annual report on its activities is also provided.

The members of the Risk and Assurance committee during the year were:

Prof. L D Crerar (Chairman – Resigned 20 February 2012)
 Mr S Thomson (Chairman – Appointed 29 February 2012)
 Mr J Royan
 Mr D MacDonald
 Mr C Spence (Appointed 29 February 2012)

The work of the Risk and Assurance Committee during the year has been comprehensive and has provided positive assurance for the Board in relation to the internal control environment. The work of internal and external audit has identified a number of areas where action is required on an ongoing basis and the Risk and Assurance Committee will continue to monitor these on an ongoing basis.

The Remuneration Committee, chaired by a non-executive member, exists to review the reward arrangements of HIE directors and myself. This Committee met one time in the year.

The Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation. The Committee met twice in the year. An annual report on its activity was provided to the Risk and Assurance Committee for information.

Operational framework

Strategy and planning

HIE has a three-year Operating Plan which reflects our statutory duties and priorities set by the Scottish Ministers. It sets out HIE's key objectives and performance measures for the forward years and is linked to the Government Economic Strategy (GES) and the National Performance Framework. The Board and Leadership Team have responsibility for development of strategy and the Operating Plan.

Performance management

HIE has a Corporate Reporting Framework which is in place to consider organisational performance throughout the year. This was discussed quarterly by the Board during the financial year.

Decision making

HIE's governance arrangements include clear roles and responsibilities and delegated authority arrangements and decision-making processes which are transparent and supported by a clear evidence base.

Risk management arrangements

All bodies to which the SPFM is directly applicable must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

HIE has a robust risk management strategy in place which empowers staff to be dynamic, innovative and take intelligent risks. The strategy identifies responsibilities of the Board, the Risk and Assurance Committee and executive staff. It also details the process of risk categorisation and approval and review structure for the Risk Register by the Risk and Assurance Committee and the Board.

Implementation of the strategy includes:

- Assessment of risk by management on at least a quarterly basis
- Maintenance of organisation-wide risk registers
- Maintenance of a high level risk register
- Assessment of risk at individual project level
- Independent project reviews for high risk projects
- Action plans with clear accountability and timescales to address significant risks
- Provision of the high level risk register to the Board and Scottish Government on at least a quarterly basis
- Alignment to the HIE corporate reporting framework

The high level risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year.

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. HIE has had no reported or recorded instances of data loss during the year.

Assurance activity

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by:

- The Leadership Team, which has responsibility for the development and maintenance of HIE's governance, performance and internal control frameworks and normally meets weekly
- The Board which has responsibility for receiving, monitoring and commenting on regular management reports on governance matters, performance outcomes and risk management
- The work of the Risk and Assurance Committee, as delegated by the Board, which includes ongoing review of the external assurance functions and internal assessments on governance, risk and best value
- The work of the Business Improvement and Internal Audit team, who submit regular reports which include the independent and objective opinion on the adequacy and effectiveness of the systems of internal control, together with recommendations for improvement
- Comments made by the external auditors in their management letters and other reports

As part of HIE's internal control arrangement, we have in place an internal control assessment framework. This requires the heads of each business unit, including subsidiaries, to undertake an annual review of their area's internal controls. Each business unit and subsidiary completed an internal control checklist which is used to identify any control issues which should be brought to my attention. Information provided is used to complete an organisational internal control checklist and Certificate of Assurance for HIE. To enhance assurances further we are working with our Service Manager for the IT services contract to agree an assurance mechanism for future financial years. No significant control issues were noted during the financial year and to the date of signature of the accounts. The following areas were, however, highlighted and require further monitoring:

- The DEL/AME non cash budget components and process were only agreed and finalised with both the Scottish Government Sponsor and Finance teams in February 2012. As a result the DEL/AME targets have come in under budget.
- There is a significant ongoing challenge for HIE to manage the implications of having a trading subsidiary, CairnGorm Mountain Ltd, operating in a high risk environment.

HIE has a Business Improvement and Internal Audit team which is independent of any operational group. The Head of Business Improvement and Internal Audit reports directly to me, as Accountable Officer.

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed and the annual Business Improvement and Internal Audit plan was based on this analysis. The plan was endorsed by the Risk and Assurance Committee
- Provided me with regular reports on internal audit activity and provided me with an annual report which included the Head of Business Improvement and Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity.

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland identified no significant issues as part of its audit process and has given unqualified opinions on the accounts for the year ended 31 March 2012 and on the regularity of transactions reflected in the accounts.

Review of effectiveness and conclusion

As Accountable Officer, I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2012.

A L Paterson

20 September 2012

Accountable Officer (Chief Executive)

Independent auditor's report

Independent auditor's report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament.

I have audited the financial statements of Highlands and Islands Enterprise for the year ended 31 March 2012 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise Group Statement of Comprehensive Net Expenditure, Group and Highlands and Islands Enterprise Statement of Financial Position, Group Statement of Cash Flows, Group Statement of Changes in Taxpayers' Equity and Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 Government Financial Reporting Manual (the 2011/12 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Accountable Officer and auditor.

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income.

Scope of the audit of the financial statements.

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and income in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements.

In my opinion the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2012 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity.

In my opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters.

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception.

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Brian Howarth ACMA CGMA

25 September 2012

Assistant Director
Audit Scotland
7th Floor, Plaza Tower
East Kilbride
GLASGOW
G74 1LW

Group statement of comprehensive net expenditure for the year ended 31 March 2012

	Notes	2012 £000	2011 Restated* £000
Expenditure			
Operating expenditure	4	50,939	63,880
Net management expenditure on staff costs	5	9,522	9,894
Other management expenditure	5	5,046	6,011
Depreciation	5	1,550	1,296
		67,057	81,081
Income			
Income from activities	3	(6,624)	(7,510)
Other income	3	(10,764)	(13,232)
		(17,388)	(20,742)
Net operating expenditure		49,669	60,339
Interest payable and similar charges	7	-	24
Share of (profits)/losses in equity accounted investees		519	(103)
Income from investments	6	(74)	(46)
Interest receivable	6	(104)	(74)
Other finance charges/(income)	6	85	865
Net expenditure after interest		50,095	61,005
Taxation	9	587	662
Net expenditure after taxation		50,682	61,667
Minority interests		-	-
Net expenditure		50,682	61,667
Other comprehensive expenditure/(income)			
Net (gains)/losses on revaluation of property, plant and equipment		65	13
Net (gains)/losses in fair value of available for sale assets		(224)	119
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		(421)	
Actuarial (gains)/losses recognised in retirement benefit scheme		5,082	8,551
Other Comprehensive Expenditure/(Income) for the year		4,502	8,683
Total comprehensive net expenditure/(income) for the year		55,184	70,350

* 2011 restated following the change in treatment of government grants, reclassification of factoring costs and inclusion of additional equity accounted investees see note 1 (accounting policies) for further details.

Group and Highlands and Islands Enterprise statement of financial position as at 31 March 2012

	Notes	GROUP			HIE		
		2012 £000	2011 Restated * £000	2010 Restated * £000	2012 £000	2011 Restated * £000	2010 Restated * £000
Non-current assets							
Property, plant and equipment	10	38,128	42,121	49,051	37,633	41,645	48,867
Intangible assets	11	3	6	10	-	-	-
Financial Assets	12	8,202	4,301	2,494	7,324	4,559	2,874
Investment in associate		607	705	602	-	-	-
Total non current assets		46,940	47,133	52,157	44,957	46,204	51,741
Current assets							
Inventories	13	99	116	122	-	-	-
Trade and other receivables	14	5,612	5,150	6,171	5,300	4,706	6,613
Cash and cash equivalents	15	298	1,670	2,527	-	690	1,534
Assets classified as held for sale		1,021	942	143	1,021	942	133
Total current assets		7,030	7,878	8,963	6,321	6,338	8,280
Total assets		53,970	55,011	61,120	51,278	52,542	60,021
Current liabilities							
Trade payables and other current liabilities	17	(8,611)	(10,550)	(9,838)	(8,361)	(9,704)	(8,963)
Taxation	17	(308)	(512)	(1,301)	(220)	(462)	(1,256)
Total current liabilities		(8,919)	(11,062)	(11,139)	(8,581)	(10,166)	(10,219)
Non-current assets plus net current assets less current liabilities		45,051	43,949	49,981	42,697	42,376	49,802
Non-current liabilities							
Trade payables and other liabilities	18	(1,394)	(967)	(1,910)	(1,301)	(874)	(1,818)
Retirement benefit obligation	19	(13,722)	(9,332)	(20,464)	(14,021)	(9,638)	(20,593)
Total non-current liabilities		(15,116)	(10,299)	(22,374)	(15,322)	(10,512)	(22,411)
Assets less liabilities		29,935	33,650	27,607	27,375	31,864	27,391
Minority interests		(311)	-	-	-	-	-
		29,624	33,650	27,607	27,375	31,864	27,391
Reserves							
Revaluation reserve		155	220	221	155	220	221
Government grant reserve		21	26	35	-	-	-
Other reserve		435	414	426	1	3	15
Pension reserve		(13,722)	(9,332)	(20,273)	(14,021)	(9,638)	(20,593)
General reserve		42,735	42,322	47,198	41,240	41,279	47,748
		29,624	33,650	27,607	27,375	31,864	27,391

A L Paterson

Accountable Officer
20 September 2012

The Accounting Officer authorised these financial statements for issue on 25 September 2012.

Group statement of cash flows for the year ended 31 March 2012

	Notes	2012 £000	2011 £000
Cash flow from operating activities			
Profit/(Loss) before taxation	21	(51,094)	(61,237)
Share of associates' profit/(loss)		85	103
Depreciation		1,550	1,295
Amortisation of intangibles		3	3
Government grant release		-	(934)
Gain on investment		(337)	-
Dividend income	6	(74)	(46)
Interest Income	6	(104)	(74)
Surplus on disposal of assets		704	890
Surplus of investments		-	(49)
Interest expense	7	-	24
		(49,267)	(60,025)
(Increase)/decrease in trade and other receivables		(258)	839
Provision for irrecoverable debts and losses		(68)	291
(Increase)/decrease in Inventories		18	6
Increase/(decrease) in trade and other payables		(2,027)	82
Movement in pension provision		(777)	(3,446)
Investments written off, net of provision		82	(54)
Loss/(profit) on sale of property, plant and equipment		(473)	(827)
Loss/(profit) on sale of assets classified as held for sale		(237)	(51)
Revaluation of assets held for sale (movement in provision)		-	46
Revaluation of assets property, plant and equipment		12,273	7,996
Movement in deferred income		427	(932)
Cash outflow from operating activities		(40,307)	(56,075)
Taxes paid		(761)	(835)
Net cash outflow from operating activities		(41,068)	(56,910)
Cash flows from investing activities			
Payments to acquire shares		(3,450)	(1,140)
Payments for the construction of property		(10,939)	(5,898)
Payments for tenants' improvements		-	(34)
Payments to acquire plant and equipment		(972)	(390)
Purchase of assets classified as held for sale		-	-
Proceeds from sale of plant, property and equipment		1,958	3,783
Proceeds from sale of assets classified as held for sale		967	170
Receipts from sale of shares		8	49
Loans advanced		(349)	(1,085)
Loans repaid	12	1,173	315
Interest received		75	74
Dividends received		67	6
Net cash from/(used in) investing activities		(11,462)	(4,150)
Cash flows from financing activities			
Grant-in-aid		51,163	59,300
Capital grants		(5)	927
Interest paid	7	-	(24)
Net cash from financing activities		51,158	60,203
Net increase/(decrease) in cash and cash equivalents		(1,372)	(857)
Cash and cash equivalents at beginning of period	15	1,670	2,527
Cash and cash equivalents at end of period	15	298	1,670

Group statement of changes in taxpayers' equity for the year ended 31 March 2012

	Revaluation reserve £000	Other reserve £000	Pension reserve £000	Government grant reserve restated* £000	General reserve restated* £000	Total reserves restated* £000
Balance at 31 March 2010	221	415	(20,273)	5,253	42,303	27,919
Adjustments		11		(5,218)	4,895	(312)
Balance at 31 March 2010	221	426	(20,273)	35	47,198	27,607
Changes in taxpayers' equity for 2010-11						
Net gain/(loss) on revaluation of property, plant and equipment	(1)	(12)				(13)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					(119)	(119)
Grants received in year				(9)		(9)
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves			2,390		(2,390)	-
Actuarial gain/(loss)			8,551			8,551
Retained surplus/deficit					(61,667)	(61,667)
Total recognised Income and expense for 2010-11	(1)	(12)	10,941	(9)	(64,176)	(53,257)
Grant from Scottish Government					59,300	59,300
Balance at 31 March 2011	220	414	(9,332)	26	42,322	33,650
Changes in taxpayers' equity for 2011-12						
Net gain/(loss) on revaluation of property, plant and equipment	(65)					(65)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					224	224
Grants received in year				(5)		(5)
Release of reserves to the I&E		(400)			400	-
Equity accounted investees		421				421
Transfers between reserves			692		(692)	-
Actuarial gain/(loss)			(5,082)			(5,082)
Retained surplus/deficit					(50,682)	(50,682)
Total recognised Income and expense for 2011-12	(65)	21	(4,390)	(5)	(50,750)	(55,189)
Grant from Scottish Government					51,163	51,163
Balance at 31 March 2012	155	435	(13,722)	21	42,735	29,624

*2011 restated following the change in treatment of government grants, reclassification of factoring costs and inclusion of additional equity accounted investees. See note 1 (accounting policies) for further details.

Revaluation reserve is the cumulative unrealised balance arising on revaluation adjustments to assets.

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve £1k (2011 - £2k) and reserve for the provision of the repayment of a grant arising within an associate £0 (2011 £400k).

Pension reserve is the accumulated deficit arising from the HIE pension plan.

General reserve is the accumulated surplus on grant-in-aid funded activity by HIE.

Highlands and Islands Enterprise statement of changes in taxpayers' equity for the year ended 31 March 2012

	Revaluation reserve £000	Other reserve £000	Pension reserve £000	Government grant reserve restated* £000	General reserve restated* £000	Total reserves restated* £000
Balance at 31 March 2010	221	15	(20,593)	5,218	42,530	27,391
Adjustments				(5,218)	4,434	(784)
Balance at 31 March 2010	221	15	(20,593)	-	46,964	26,607
Changes in taxpayers' equity for 2010-11						
Net gain/(loss) on revaluation of property, plant and equipment	(1)	(12)				(13)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					(119)	(119)
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves			2,559		(2,559)	-
Actuarial gain/(loss)			8,396			8,396
Retained surplus/deficit					(62,257)	(62,257)
Total recognised Income and expense for 2010-11	(1)	(12)	10,955	-	(64,935)	(53,993)
Grant from Scottish Government					59,250	59,250
Balance at 31 March 2011	220	3	(9,638)	-	41,279	31,864
Changes in Taxpayers' equity for 2011-12						
Net gain/(loss) on revaluation of property, plant and equipment	(65)	(2)				(67)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					224	224
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves			670		(670)	-
Actuarial gain/(loss)			(5,053)			(5,053)
Retained surplus/deficit					(50,756)	(50,756)
Total recognised Income and expense for 2011-12	(65)	(2)	(4,383)	-	(51,202)	(55,652)
Grant from Scottish Government					51,163	51,163
Balance at 31 March 2012	155	1	(14,021)	-	41,240	27,375

*2011 restated following the change in treatment of government grants, reclassification of factoring costs and inclusion of additional equity accounted investees. See note 1 (accounting policies) for further details.

Revaluation reserve is the cumulative unrealised balance arising on revaluation adjustments to assets.

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve.

Pension reserve is the accumulated deficit arising from the HIE pension plan.

General reserve is the accumulated surplus on grant-in-aid funded activity by HIE.

Notes to the accounts

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the 2011-12 Government Financial Reporting Manual (FRM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990.

The accounting policies contained in the FRM apply International Financial Reporting Standards as adapted or interpreted for the public sector context. Where FRM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Highlands and Islands Enterprise for the purpose of giving a true and fair view has been selected. The particular policies adopted by Highlands and Islands Enterprise are described below. They have been applied consistently in dealing with the items that are considered material to the accounts.

The accounts are prepared under the historical cost convention, except that the following assets and liabilities are stated at fair value:

property	(note 10)
financial assets	(note 12)
assets classified as held for sale	(note 16)
financial commitments	(note 24)

The consolidated financial statements are presented in UK pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.

The Board and Accountable Officer have considered HIE's Operating Plan requirement and consider that the Resource budget awarded by the Scottish Government is adequate. The accounts are therefore prepared on a going concern basis.

Change in accounting policy and restatement

The accounting policies have, unless otherwise stated, been applied consistently for all periods presented in the Group and Highlands and Islands Enterprise accounts.

HM Treasury changed the treatment of EU grant and Government grant reserves to align more closely to IAS 20. The change in treatment of EU grant and Government grant reserves is considered to be a change in accounting policy under IAS 8 and prior year comparatives have therefore been restated.

The 2010/11 figures have been restated following the change in accounting treatment of Government and EU capital grants. Grants received are now expensed through the Statement of Comprehensive Net Expenditure in the year in which the grant is received.

The impact of the change on the Statement of Financial position for 2010-11 is a reduction in the closing Government grant reserve by £6.062m and an increase the opening general reserve by £5.218m. Within the Statement of Comprehensive Net Expenditure, EU grants receivable in the year increase by £842k.

Prior year adjustments

Investment in associates

The 2010/11 figures have been restated following a review of our investment portfolio. Several associate companies which were previously deemed as being immaterial within the group have shown good performance and are now considered as being significant to the Group Accounts in reflecting a true and fair view. The effect on the 2010/11 figures is to increase investments in associates by £580k and increase general reserves by £580k.

Trade and other receivables amounts (note 14)

The 2010/11 figures have been restated following a review of the accounting for our outsourced property factoring. Some costs were held in Receivables and should be expensed through the Statement of Comprehensive Net Expenditure. Receivables have been reduced by £2,054k, VAT recoverable is increased by £286k and a change of £1,768k has been made to the Statement of Comprehensive Net Expenditure.

Basis of consolidation

The Group Accounts consolidate the accounts of Highlands and Islands Enterprise and all its subsidiary and associate undertakings drawn up to 31 March each year unless otherwise noted.

No Statement of Comprehensive Net Expenditure is presented for Highlands and Islands Enterprise as permitted by s408 of the Companies Act 2006 and with the approval of the Scottish Ministers.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control over their financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

On consolidation, inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary and material to ensure consistency with the policies adopted by the Group.

(b) Associates and jointly controlled entities

Associates are entities over which the Group has significant influence but not control. Companies whose business is compatible with the objectives of the Group, in which the holdings are intended to be retained as long term investments and in which the Group has active management involvement are treated as associated undertakings.

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.

Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The Group Accounts include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies of those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(c) Other

In respect of other invested companies, Highlands and Islands Enterprise considers that, in general, the role of the Group is normally that of a passive investor and that investment holdings taken will be disposed of at the earliest opportunity. Highlands and Islands Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland.

Critical accounting estimates and judgements

The preparation of the accounts in conformity with IFRS requires the Board and Accountable Officer to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Information about critical judgements in applying accounting policies, that have the most significant effects on the amounts recognised in the accounts, is as follows:

(a) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations. The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 19.

(b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using judgement and assumptions that are mainly based on market conditions existing at each balance sheet date.

(c) Held-to-maturity investments

The Group follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would then be measured at fair value not amortised cost.

(d) Impairment of available-for-sale financial assets

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Accounting for grant-in-aid

Highlands and Islands Enterprise receives grant-in-aid from Scottish Ministers to finance its capital expenditure and the excess of its expenditure over income. Grant-in-aid is credited to general reserves and the net expenditure charged to this reserve.

European Union funding and other grants

European Union funding and other grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. All grants recognised are credited to the statement of comprehensive net expenditure in the year in which they are recognised.

Income

Income from assets sold is recognised when the risks and rewards of ownership have been transferred to a third party. Revenue from goods and services is recognised in the period to which the goods and services provided relate.

Revenue grants and partners' contributions to projects are recognised in the period to which they relate.

Expenditure

Grant expenditure is generally accounted for as it is approved for payment. Goods and services expenditure is recognised in the period to which they relate.

Property, plant and equipment

Property, plant and equipment are accounted for in accordance with IAS 16 'Property, Plant and Equipment'.

HIE has four categories of property, plant and equipment:

- Land and buildings
- Tenants' improvements
- Plant and equipment
- IT equipment

As land and buildings are primarily held by HIE for economic development purposes, in accordance with the FReM, the principles of International Accounting Standards (IAS) 16 'Property, Plant and Equipment' are followed.

Property, plant and equipment are included in the statement of financial position at their fair value and non-property assets with a short economic useful life are carried at depreciated historic cost.

For non-property assets, HIE capitalises any purchases for individual items over £5,000 where the purchase is expected to have a useful life greater than one year. In line with IAS 16, for property, HIE capitalises any costs directly attributable to bringing the property to the condition necessary for it to be used in the manner intended; this includes professional fees incurred but excludes any costs of a repair or maintenance nature.

Depreciation is provided on all property, plant and equipment other than freehold land and Assets Under Construction, on a straight line basis over their expected useful lives, as follows:

Buildings – structure : 30-60 years
Buildings – engineering : 10-20 years
Buildings – specialist engineering : 20 years

Plant and equipment: 4 years

Tenants' Improvements: 10 years

IT equipment: 4 years

The fair value for completed property is based on the open market value as defined by the guidance notes issued by the Royal Institution of Chartered Surveyors. Professional external valuations are carried out annually.

Assets Under Construction are shown at impaired cost. This recognises the costs of construction with an allowance made for a proportion of the expected impairment of these on completion, based on the degree of completion at the year end. This adjustment is considered necessary to reflect the fact that the market values of Assets Under Construction are less than the cost. This arises as one of the purposes of HIE's property function is to address market failure. Once completed and ready for use, these assets are reclassified as either land and buildings held for regeneration purposes or for own use, and accounted for accordingly.

Deficits arising on revaluation are charged to the Statement of Comprehensive Net Expenditure, although this is first offset against any revaluation reserve in respect of that property. Surpluses on revaluation are credited to a revaluation reserve after eliminating any accumulated deficit originally charged to the Statement of Comprehensive Net Expenditure in accordance with IAS 16.

Financial assets

Equity

Equity instruments have been classified as Available for Sale financial assets and are shown at Fair Value in accordance with IAS 39. A review of the Share Agreements and Articles of Association of the Investee companies was carried out for all HIE's Investments to establish the correct classification of each. As there is no active market in most of HIE's investments, Fair Value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arm's length and Net Assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparables for HIE's equity. Decreases in the Fair Values have been charged to the Statement of Comprehensive Net Expenditure as these are considered to be impairment losses.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

Intangible assets

Goodwill

Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight line basis over a period of five years

Assets classified as held for sale

Assets classified as held for sale have been accounted for in accordance with International Financial Reporting Standard (IFRS) 5. These relate to properties which have been approved for sale with a willing buyer and where the sale is expected to be completed during the next 12 months and are shown at open market value with an allowance made for legal costs related to the sales.

Irrecoverable income

Irrecoverable debts are written off at the earliest opportunity. Provision is made for debts which are considered unlikely to be recovered.

Lease commitments

Highlands and Islands Enterprise has entered into commercial property leases as lessor on its property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the life of the lease.

Research expenditure

All research expenditure is charged against revenue in the year it occurs.

Insurance

In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their own liability for all risks except for statutory obligations.

Taxation

The companies in the HIE Group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2010 have been agreed with the relevant tax authorities.

Employee benefits

Retirement benefits

Most staff are members of the Highlands and Islands Enterprise Superannuation Scheme or local government pension funds. The Highlands and Islands Enterprise Superannuation Scheme provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.

On the advice of independent qualified actuaries, contribution payments are made to the plans to ensure that the plans' assets are sufficient to cover future liabilities. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating surplus.

The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in investment income. Actuarial gains and losses are recognised in the statement of changes in taxpayers' equity.

Additional information is disclosed in note 19.

Short term employee benefits

A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken. Accruals are recognised for material amounts in respect of holidays, holiday pay, bonuses and other short term benefits earned but not taken or paid at the Statement of Financial Position date.

Trade receivables and payables

All commercial and trade sums due and payable (debtors and creditors) are stated at fair value.

Cash and cash equivalents

Cash and cash equivalents include deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.

Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax interest rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Accounting standards issued but not yet adopted

There are a number of new accounting standards which have been issued but have not yet been applied by the Group in these financial statements. The standards that are considered relevant to the Group and the anticipated impact on the consolidated accounts are as follows:

IAS 1 - Presentation of financial statements (Other Comprehensive Income)
Mandatory for accounting periods commencing on or after 1 June 2012. The adoption of this standard will result in presentational changes to the consolidated accounts.

IAS19 - Post-employment benefits (pensions)
Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard will result in presentational and disclosure changes to the consolidated accounts.

IFRS 7 - Financial Instruments: Disclosures (annual improvements)
Mandatory for accounting periods commencing on or after 1 July 2011. The adoption of this standard will result in increased disclosure requirements in the consolidated accounts.

IFRS 9 - Financial Instruments
Mandatory for accounting periods commencing on or after 1 January 2015. The adoption of this standard could change the classification and measurement of financial assets. The impact on the consolidated accounts has not been determined.

IFRS 10 - Consolidated Financial Statements

IFRS 11 - Joint Arrangements

IFRS 12 - Disclosure of Interests in Other Entities

IAS 27 - Separate Financial Statements

IAS 28 - Investments in Associates and Joint Ventures

Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of these standards affects the consolidation and reporting of subsidiaries, associated and joint ventures. The impact on the consolidated accounts has not been determined.

IFRS 13 - Fair Value Measurement

Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard could change the measurement techniques used when determining fair value. The impact on the consolidated accounts has not been determined.

Exceptional items

Highlands and Islands Enterprise presents as exceptional items on the face of the Statement of Comprehensive Net Expenditure, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow stakeholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

2. Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources.

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2012 and 2011 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the Group net operating cost before taxation.

	HIE	
	2012 £000	2011 £000
Income		
Grant-in-aid	51,163	59,250
European		
Single projects	3,673	1,129
Schemes	-	1,390
	<u>3,673</u>	<u>2,519</u>
Capital		
Equity sales	-	49
Loan repayments	1,227	130
Property sales	2,798	3,878
	<u>4,025</u>	<u>4,057</u>
Revenue		
Property rental	5,387	6,260
Loan interest/dividend	179	61
Other income	283	-
Other receipts	501	(90)
	<u>6,350</u>	<u>6,231</u>
Other income	<u>14,048</u>	<u>12,807</u>
Total income	<u>65,211</u>	<u>72,057</u>
Expenditure		
Block A		
Regionally significant investments	20,003	20,468
Business support	5,024	4,653
Growth investment	20,798	26,105
Total Block A	<u>45,825</u>	<u>51,226</u>
European single projects	3,673	1,129
European schemes	-	1,390
Pension fund deficit recovery plan	-	1,500
SVS	-	706
Other expenditure	283	-
Total Block A	<u>49,781</u>	<u>55,951</u>
Block B		
Management, staff and admin cost	15,393	16,077
Total Block B	<u>15,393</u>	<u>16,077</u>
Total expenditure	<u>65,174</u>	<u>72,028</u>
Financial position (I&E)	<u>37</u>	<u>29</u>
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	37	29
Pension (IAS19)	670	2,554
Depreciation	(1,405)	(1,198)
Provisions and charges	63	(539)
Timing differences	(356)	4,656
EU cost accrual	(956)	3,597
Property cost of sales	(2,219)	(2,989)
Capital revaluation and additions	3,613	(8,115)
Grant-in-aid	(51,163)	(59,250)
Gain on bargain	380	-
Interest payable	-	(6)
Taxation	1,168	(214)
Other Group companies	73	470
Group net operating cost before taxation	<u>(50,095)</u>	<u>(61,005)</u>

3. Income from operating activities

Income, which is shown net of value added tax (VAT), is made up of receipts from various bodies as detailed below:

	HIE	
	2012 £000	2011 £000
Income from activities		
Property rentals	5,540	6,571
Gain on bargain	380	-
Surplus/(loss) on disposal of property	704	890
Surplus/(loss) on disposal of investments	-	49
	6,624	7,510
Other Income		
Other European contributions	4,183	2,317
Scottish Government receipts	-	-
Other external income	6,581	10,915
	10,764	13,232

2011 restated following the change in treatment of government grants, see note 1 (accounting policies) for further details.

All income shown relates to continuing activities.

4. Expenditure on operating activities

Expenditure is shown net of value added tax (VAT) except where the VAT is irrecoverable.

	Regionally significant Investments £000	Business Support £000	Growth Investment £000	Tourism Attraction Operator £000	Total £000	2011 £000
Highlands and Islands Enterprise	14,988	17,629	15,584	-	48,201	60,043
CairnGorm Mountain Limited	-	-	-	2,738	2,738	3,759
Distance Lab Limited*	-	-	-	-	-	78
Former LECs *	-	-	-	-	-	-
HIE Ventures Limited	-	-	-	-	-	-
Group	14,988	17,629	15,584	2,738	50,939	63,880
2011	19,894	14,834	25,393	3,759	63,880	
2012						
Continuing operations	14,988	17,629	15,584	2,738	50,939	
Discontinuing operations	-	-	-	-	-	
	14,988	17,629	15,584	2,738	50,939	
2011						
Continuing operations	19,894	14,834	25,315	3,759	63,802	
Discontinuing operations	-	-	78	-	78	
	19,894	14,834	25,393	3,759	63,880	

*Local enterprise companies (LECs) are dormant. Distance Lab has been dissolved. HIE delivery continues through its area teams.

Expenditure includes grants of **£24,768,344** (2011 - £24,153,000) of which **£145,240** (2011- £834,000) were made to the public sector and **£24,623,104** (2011 - £23,319,000) to the private sector.

Property revaluation and management costs of **£13,864,708** (2011 - £9,324,660) are included within business support expenditure above.

5a. Administration and management charges by organisation

	Group	
	2012 £000	2011 £000
Highlands and Islands Enterprise	15,034	16,183
CairnGorm Mountain Ltd	760	923
Distance Lab	-	95
Former LECs	-	-
HIE Ventures Limited	324	-
	16,118	17,201
Continuing operations	16,118	17,106
Discontinuing operations	-	95
	16,118	17,201

5b. Administration and management charges

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Continuing operations				
Staff and Board member salaries (note 8)	10,299	12,437	10,293	12,437
Voluntary severance packages (note 8)	-	847	-	847
IAS 19 adjustment in respect of service costs and curtailments (note 8)	(777)	(3,438)	(771)	(3,438)
	9,522	9,846	9,522	9,846
Travel and subsistence - Board members	28	22	28	21
Travel and subsistence - staff	707	632	707	632
Accommodation	1,645	1,634	1,645	1,635
Hospitality – Board members	10	7	10	7
Hospitality – staff	102	104	102	104
Audit fees	135	157	118	141
Non-audit fees paid to auditors	3	3	-	-
Operating lease rentals – equipment	51	54	40	47
Equipment and furnishings	11	10	11	10
Provision for irrecoverable debts and losses	(45)	293	4	51
Investment fair value adjustments	(736)	(176)	264	65
Other administration costs	3,135	3,224	2,471	2,423
	5,046	5,964	5,400	5,136
Depreciation of fixed assets	1,550	1,296	1,404	1,198
Discontinuing operations				
Staff and Board member salaries (note 8)	-	48	-	-
	-	48	-	-
Travel and subsistence - Board members	-	1	-	-
Travel and subsistence - staff	-	1	-	-
Accommodation	-	38	-	-
Audit fees	-	-	-	-
Non-audit fees paid to auditors	-	-	-	-
Equipment and furnishings	-	1	-	-
Provision for irrecoverable debts and losses	-	-	-	-
Other administration costs	-	6	-	-
	-	47	-	-
Depreciation of fixed assets	-	-	-	-

Fees chargeable for audit services provided by Audit Scotland amounted to £133,250 (2011 - £140,700).

6. Investment income and other finance income/(charges)

	Group	
	2012 £000	2011 £000
Investment Income		
Dividends received	74	46
Interest Receivable		
Loan interest receivable	91	53
Bank interest receivable	12	21
Other Interest receivable	1	-
	104	74
Other finance income/(charges)		
Expected return on pension plan assets	4,383	4,075
Interest on pension plan liabilities	(4,468)	(4,940)
	(85)	(865)

7. Interest payable

	Group	
	2012 £000	2011 £000
Other	0	24
	0	24

8. Staff costs and reporting of compensation schemes – exit packages

	GROUP 2012		GROUP 2011	
	Complement staff £000	Total staff £000	Complement staff £000	Total staff £000
Wages and salaries	7,459	10,082	7,971	11,046
Voluntary severance packages	-	-	847	847
Social security costs	578	773	619	852
Other pension costs	1,072	1,389	3,504	3,823
Contract/temporary staff	33	33	33	33
	9,142	12,277	12,974	16,601
Board members' remuneration	380	380	358	358
	9,522	12,657	13,332	16,959

	GROUP 2012		GROUP 2011	
	Complement staff £000	Total staff £000	Complement staff £000	Total staff £000
Senior management	51	67	51	55
Operational staff	119	242	141	169
Administration and support staff	38	47	46	52
	208	356	238	276

The figures for 'total staff' reflect the average number of staff employed over the course of the year, without adjustment for those who left in the voluntary severance exercise at the end of March 2011. In addition to permanent staff employed directly by HIE, the figures also include staff in short-term posts and staff employed by subsidiary: CairnGorm Mountain Ltd.

Compensation scheme – exit packages

No voluntary severance scheme was run between 1 April 2011 and 31 March 2012. 12 Staff left under voluntary severance terms between 1st April 2010 and 31 March 2011. The total cost of severance packages during 2010-11 was £846,661, excluding compromise agreements of £4,693.

	2011-12 Number of departures agreed	2010-11 Number of departures agreed
Exit package cost band*:		
< £10,000	-	3
£10,001 - £25,000	-	2
£25,001 - £50,000	-	1
£50,001 - £100,000	-	3
£100,001 - £150,000	-	2
£150,001 - £200,000	-	1
	-	12

* Exit package cost bands include payments in lieu of notice and additional pension costs as well as the severance lump sum.

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted in full in the year of departure. Where HIE has agreed early retirements, the additional costs are met by HIE until the retirement date of the individual is reached.

9. Taxation

Corporation tax is charged at 26% (2011 28%) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20% on the taxable income of its subsidiaries.

	Group	
	2012 £000	2011 £000
Corporation tax	198	261
Adjustment in respect of prior periods	(290)	61
Current corporation tax charge	(92)	322
Temporary timing differences	763	366
Effect of changes in tax rates	(84)	(26)
Deferred Tax	679	340
	587	662

Where liabilities for earlier years have not been finally agreed with the HM Revenue and Customs, provision has been made for material estimated liabilities outstanding.

10. Property, plant and equipment

At 31 March 2012, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, Chartered Surveyors.

Group	Land and buildings held for regeneration £000	Land and buildings held for own use £000	Assets under construction £000	Total Land and buildings £000	Tenants' improvements £000	IT equipment £000	Plant and equipment £000	Total £000
Cost or valuation								
At 1 April 2010	47,203	1,343	1,708	50,254	1,421	756	2,473	54,904
Additions	5,898	-	-	5,898	34	46	344	6,322
Write down	-	-	-	-	-	-	-	-
Disposals	(3,000)	-	-	(3,000)	-	-	(548)	(3,548)
Assets held for sale	(1,012)	-	-	(1,012)	-	-	-	(1,012)
Reclassifications	1,708	-	(1,708)	-	-	-	-	-
Revaluations	(8,828)	(33)	-	(8,861)	-	-	-	(8,861)
Impairment	-	-	-	-	-	-	-	-
At 31 March 2011	41,969	1,310	-	43,279	1,455	802	2,269	47,805
Depreciation								
At 1 April 2010	1,996	63	56	2,115	765	718	2,255	5,853
Charged in year	997	32	-	1,029	133	27	107	1,296
Write down	-	-	-	-	-	-	-	-
Disposals	(137)	-	-	(137)	-	-	(547)	(684)
Assets held for sale	(36)	-	-	(36)	-	-	-	(36)
Reclassifications	56	-	(56)	-	-	-	-	-
Revaluations	(743)	(2)	-	(745)	-	-	-	(745)
At 31 March 2011	2,133	93	-	2,226	898	745	1,815	5,684
Net book value								
At 31 March 2011	39,836	1,217	-	41,053	557	57	454	42,121
At 1 April 2011	41,969	1,310	-	43,279	1,455	802	2,269	47,805
Additions	3,943	17	6,979	10,939	-	37	990	11,966
Write down	-	-	-	-	-	-	-	-
Disposals	(1,518)	-	-	(1,518)	-	(246)	(110)	(1,874)
Assets held for sale	(838)	-	-	(838)	-	-	-	(838)
Reclassifications	(3,050)	-	3,050	-	-	(36)	36	-
Revaluations	(5,596)	(130)	-	(5,726)	-	-	-	(5,726)
Impairment	-	-	(6,783)	(6,783)	-	-	48	(6,735)
At 31 March 2012	34,910	1,197	3,246	39,353	1,455	557	3,233	44,598
Depreciation								
At 1 April 2011	2,133	93	-	2,226	898	745	1,815	5,684
Charged in year	1,052	24	-	1,076	82	20	372	1,550
Write down	-	-	-	-	-	-	-	-
Disposals	(47)	-	-	(47)	-	(237)	(104)	(388)
Assets held for sale	(18)	-	-	(18)	-	-	-	(18)
Reclassifications	18	(18)	-	-	-	(38)	38	-
Revaluations	(354)	(4)	-	(358)	-	-	-	(358)
At 31 March 2012	2,784	95	-	2,879	980	490	2,121	6,470
Net book value								
At 31 March 2012	32,126	1,102	3,246	36,474	475	67	1,112	38,128
At 1 April 2011	39,836	1,217	-	41,053	557	57	454	42,121
At 1 April 2010	45,207	1,280	1,652	48,139	656	38	218	49,051
Analysis of asset financing:								
Owned	39,223	1,217	-	40,440	557	57	444	41,498
Finance leased	613	-	-	613	-	-	10	623
Net book value								
At 31 March 2011	39,836	1,217	-	41,053	557	57	454	42,121
Owned	31,738	1,102	3,246	36,086	475	67	1,067	37,695
Finance leased	388	-	-	388	-	-	45	433
Net book value								
At 31 March 2012	32,126	1,102	3,246	36,474	475	67	1,112	38,128
At 1 April 2011	39,836	1,217	-	41,053	557	57	454	42,121
At 1 April 2010	45,207	1,280	1,652	48,139	656	38	218	49,051

HIE	Land and buildings held for regeneration £000	Land and buildings held for own use £000	Assets under construction £000	Total land and buildings £000	Tenants' improvements £000	IT equipment £000	Plant and equipment £000	Total £000
Cost or valuation								
At 1 April 2010	47,738	808	1,708	50,254	1,193	543	846	52,836
Additions	5,898	-	-	5,898	34	-	-	5,932
Write down	-	-	-	-	-	-	-	-
Disposals	(3,000)	-	-	(3,000)	-	-	(465)	(3,465)
Assets held for sale	(1,012)	-	-	(1,012)	-	-	-	(1,012)
Reclassifications	1,708	-	(1,708)	-	-	-	-	-
Revaluations	(8,828)	(33)	-	(8,861)	-	-	-	(8,861)
Impairment	-	-	-	-	-	-	-	-
At 31 March 2011	42,504	775	-	43,279	1,227	543	381	45,430
Depreciation								
At 1 April 2010	2,031	28	56	2,115	537	525	792	3,969
Charged in year	1,015	14	-	1,029	133	9	28	1,199
Write down	-	-	-	-	-	-	-	-
Disposals	(137)	-	-	(137)	-	-	(465)	(602)
Assets held for sale	(36)	-	-	(36)	-	-	-	(36)
Reclassifications	56	-	(56)	-	-	-	-	-
Revaluations	(743)	(2)	-	(745)	-	-	-	(745)
At 31 March 2011	2,186	40	-	2,226	670	534	355	3,785
Net book value								
At 31 March 2011	40,318	735	-	41,053	557	9	26	41,645
At 1 April 2011	42,504	775	-	43,279	1,227	543	381	45,430
Additions	3,942	-	6,979	10,921	-	-	925	11,846
Write down	-	-	-	-	-	-	-	-
Disposals	(1,518)	-	-	(1,518)	-	(241)	(36)	(1,795)
Assets held for sale	(838)	-	-	(838)	-	-	-	(838)
Reclassifications	(3,050)	-	3,050	-	-	-	-	-
Revaluations	(5,586)	(140)	-	(5,726)	-	-	-	(5,726)
Impairment	-	-	(6,783)	(6,783)	-	-	-	(6,783)
At 31 March 2012	35,454	635	3,246	39,335	1,227	302	1,270	42,134
Depreciation								
At 1 April 2011	2,186	40	-	2,226	670	534	355	3,785
Charged in year	1,061	14	-	1,075	82	-	247	1,404
Write down	-	-	-	-	-	-	-	-
Disposals	(47)	-	-	(47)	-	(232)	(33)	(312)
Assets held for sale	(18)	-	-	(18)	-	-	-	(18)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(354)	(4)	-	(358)	-	-	-	(358)
At 31 March 2012	2,828	50	-	2,878	752	302	569	4,501
Net book value								
At 31 March 2012	32,626	585	3,246	36,457	475	-	701	37,633
At 1 April 2011	40,318	735	-	41,053	557	9	26	41,645
At 1 April 2010	45,707	780	1,652	48,139	656	18	54	48,867
Analysis of asset financing:								
Owned	39,705	735	-	40,440	557	9	16	41,022
Finance leased	613	-	-	613	-	-	10	623
Net book value								
At 31 March 2011	40,318	735	-	41,053	557	9	26	41,645
Owned	32,238	585	3,246	36,069	475	-	656	37,200
Finance leased	388	-	-	388	-	-	45	433
Net book value								
At 31 March 2012	32,626	585	3,246	36,457	475	-	701	37,633
At 1 April 2011	40,318	735	-	41,053	557	9	26	41,645
At 1 April 2010	45,707	780	1,652	48,139	656	18	54	48,867

Analysis of fund of asset additions:	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Government grant	9,651	5,206	9,531	4,816
EU	2,315	1,116	2,315	1,116
Total	11,966	6,322	11,846	5,932

Reconciliation of profit on sales:	Group	
	2012 £000	2011 £000
Sales value of disposals	2,925	3,997
Net book value of disposals	(2,222)	(3,108)
Profit on sales	703	889

11. Intangible fixed assets

Intangible assets of £3,000 (2011 £6,000) relates to goodwill on consolidation of CairnGorm Mountain Limited.

12. Financial assets

Financial assets

Group	2012 £000	2011 £000
Available for sale unlisted equity shares	6,068	1,944

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions, where available, or using a net worth basis of valuation. Due to the lack of marketplace comparables, other valuation methodologies were not considered appropriate.

During the year HIE acquired additional shares in Aquapharm (£3.4m) and a controlling interest in HIE Ventures. Unlisted equity shares held by HIE ventures have been included in the group (£500k).

Loans and receivables

Group	Preference Shares £000	Loans and Receivables £000	Total £000	2011 £000
Amortised cost				
At 1 April 2011	5,388	1,511	6,899	10,337
Additions	54	1,303	1,357	1,110
Repayments	-	(1,173)	(1,173)	(315)
Disposals	-	-	-	(127)
Fair value adjustment	(18)	(25)	(43)	11
Reclassification	-	-	-	-
Written off	-	-	-	(4,117)
At 31 March 2012	5,424	1,616	7,040	6,899
Diminution in value				
At 1 April 2011	4,116	244	4,360	8,767
Additions	343	2	345	117
Disposals	-	-	-	(127)
Released	-	(78)	(78)	(280)
Reclassification	-	-	-	-
Written off	-	-	-	(4,117)
At 31 March 2012	4,459	168	4,627	4,360
Net book value				
At 31 March 2012	965	1,448	2,413	2,539
At 1 April 2011	1,272	1,267	2,539	
Analysis of loan and receivables				
Due within 1 year	-	279	279	182
Due over 1 year	965	1,169	2,134	2,357

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows.

Financial assets

HIE	2012 £000	2011 £000
Available for sale unlisted equity shares	5,948	1,944

Available for sale financial assets consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

During the year HIE acquired additional shares in Aquapharm (£3.4m) and HIE Ventures (£380k)

These have been shown at their fair value. This fair value has been obtained using recent marketplace transactions where available, or using a net worth basis of valuation. Due to the lack of marketplace comparables, other valuation methodologies were not considered appropriate.

Loans and receivables

HIE	Preference Shares £000	Loans and Receivables £000	Total £000	2011 £000
Amortised cost				
At 1 April 2011	5,312	2,645	7,957	7,054
Additions	-	349	349	1,110
Repayments	-	(1,233)	(1,233)	(130)
Disposals	-	-	-	(127)
Fair Value Adjustment	(18)	54	36	50
Reclassification	-	-	-	-
Written off	-	-	-	-
At 31 March 2012	5,294	1,815	7,109	7,957
Diminution in value				
At 1 April 2011	4,040	1,054	5,094	5,104
Additions	290	3	293	117
Disposals	-	-	-	(127)
Released	-	-	-	-
Reclassification	-	-	-	-
Written off	-	-	-	-
At 31 March 2012	4,330	1,057	5,387	5,094
Net book value				
At 31 March 2012	964	758	1,722	2,863
At 1 April 2011	1,272	1,591	2,863	
Analysis of loan and receivables				
Due within 1 year	-	346	346	248
Due over 1 year	964	412	1,376	2,615

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows.

All non-current assets acquired were financed by government grant.

Details of subsidiary undertakings: all held by Highlands and Islands Enterprise unless indicated.

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company
HIE Inne Gall	Scotland	n/a	n/a	Local enterprise company
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company
HIE Moray	Scotland	n/a	n/a	Local enterprise company
HIE Orkney	Scotland	n/a	n/a	Local enterprise company
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company
HIE Shetland	Scotland	n/a	n/a	Local enterprise company
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives.
Distance Lab Limited	Scotland	n/a	n/a	To investigate how digital media technology can enable people to deal with distance in new ways and bring these technologies into every day use.
CairnGorm Mountain Ltd	Scotland	Ordinary shares	100%	All year round tourist attraction including mountain railway and winter skiing facilities.
HIE Ventures Limited	Scotland	Ordinary shares	55%	Venture Capitalist
		'A' Ordinary shares (non voting)	80%	
Taste of Orkney Limited	Scotland	Ordinary shares	100%	Dormant company to protect brand
Made in Orkney Limited	Scotland	Ordinary shares	100%	Dormant company to protect brand
CairnGorm 2000+ (subsidiary of CairnGorm Mountain Limited)	Scotland	Ordinary shares	100%	Debenture financing

All the local enterprise companies ceased to be operational with effect from 1 April 2008.

	£000
Investments	1,132
Receivables	56
Cash at bank and in hand	189
Current liabilities	(7)
Non-current liabilities	(1,000)
Net assets	370

On 30 March 2012 50,000 ordinary shares of £1.00 each were acquired in HIE Ventures Limited. This increased HIE's holding from 30% to 55% of the ordinary shares. HIE acquired the shares to ensure the continuity of the HIE Ventures investment fund. The purchase is considered under IFRS 3 to be a bargain purchase. The gain on bargain of £380,222 is recognised in the Statement of Comprehensive Net Expenditure. The non-controlling interest amounts to 45% as at 31 March 2012. At left is a summary of the amounts recognised as of the date of acquisition.

Details of associated and jointly controlled undertakings: all held by Highlands and Islands Enterprise unless indicated.

All HIE's associated and jointly controlled undertakings are consolidated using the equity method unless indicated.

Limited by guarantee

Name of company	Country of incorporation	Accounting period end	Percentage of membership	Nature of business
Scottish Health Innovations Limited	Scotland	31 March	50.00	Promote research and development within the National Health Service in Scotland, particularly the commercialisation of research, technology and innovations
Scottish Intellectual Asset Management Limited*	Scotland	31 March	50.00	Help build Scotland's competitiveness in modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets
Centre for Health Science	Scotland	31 March	33.33	Facility management of Centre for Health Science

*The results of Scottish Intellectual Asset Management are not consolidated within the HIE accounts. The results are consolidated within the Scottish Enterprise accounts.

Limited by shares

Name of company	Country of incorporation	Accounting period end	Percentage of membership	Nature of business
Aquapharm Biodiscovery Limited	Scotland	31 March	21.79	Research and development of marine micro-organism based products
Rodel Hotels Limited	Scotland	31 October	30.10	Accommodation and leisure
Sitekit Solutions Limited	Scotland	31 March	20.00	Website and operation and management
Inverness Airport Business Park Limited	Scotland	31 March	28.57	Construction and development of a business park adjacent to Dalcross airport
A I Welders Limited	Scotland	31 January	30.00	Metal fabrication

Summarised financial information for HIE's subsidiary investments, on a combined basis, is presented below.

	Non current assets	Current assets	Total assets	Current liabilities	Non current liabilities	Total liabilities	Revenue	Total expenses	Profit/(loss)
As at April 2010	6,382	3,660	10,042	(2,455)	(4,913)	(7,368)	3,785	(6,640)	(2,855)
As at March 2011	6,786	3,598	10,384	(1,851)	(4,945)	(6,796)	3,767	(6,015)	(2,248)
As at March 2012	6,188	2,278	8,466	(2,310)	(4,039)	(6,349)	2,257	(4,706)	(2,449)

Summarised financial information for HIE's investments in equity accounted investees, on a combined basis, is presented below.

	Non current assets	Current assets	Total assets	Current liabilities	Non current liabilities	Total liabilities	Revenue	Total expenses	Profit/(loss)
As at April 2010	250	3,010	3,260	(1,257)	(685)	(1,942)	4,822	(4,159)	663
As at March 2011	538	1,700	2,238	(1,231)	(783)	(2,014)	5,193	(4,754)	439
As at March 2012	1,643	784	2,427	(486)	(1,185)	(1,671)	3,236	(3,920)	(684)

Movements in carrying amount of investment in equity accounted investees.

	£000
Carrying amount as at April 2010	602
Share of surplus on revaluation	0
Share of net profit/(loss)	103
Carrying amount as at 31 March 2011	705
Carrying amount as at April 2011	705
Share of surplus on revaluation	421
Share of net profit/(loss)	(519)
Carrying amount as at 31 March 2012	607

Details of investments in companies in which HIE's total investment in shares and loans:

- (a) equals 20%, or more than 20%, of the voting rights and exceeds £100,000 or;
 (b) the total investment exceeds £1,000,000

Name of company	% of voting rights	Holding as at 31 March 2012	Shares value paid £000	Loan outstanding £000	Outstanding commitment £000
Aviemore Highland Resort Limited – provider of accommodation in Aviemore		1,000,000 preference shares	1,000		
		1,400,000 preferred ordinary shares	1,400		
Balcas Limited – production of renewable wood pellet fuel		29,811 cumulative convertible participating redeemable preferred shares	2,000		15
Aquapharm Bio Discovery Limited	21.8%	422,787 ordinary shares	2,104	199	
Wind Towers Limited	19.9%	63,646 ordinary shares	3,400		
Rodel Hotels Limited	30.1%	56,000 cumulative convertible participating preferred ordinary shares	56		
		44,000 redeemable preference shares	44		
Inverness Airport Business Park Limited	20%	3,385 class 'A' ordinary shares	3		
		500 class 'C' ordinary shares	1		
		24,997 class 'D' ordinary shares	25		
		275,000 redeemable preference shares	550		
Sitekit Solutions Limited	20%	160,000 redeemable preferred ordinary shares	160		
AI Welders Limited	30%	40,000 cumulative convertible redeemable preference shares	60		
HIE Ventures Limited	55%	110,000 ordinary shares	61	1,000	
		40,000 class A ordinary shares	40		
CairnGorm Mountain Limited	100%	115,000 ordinary shares	158	263	
		450,000 preference shares	450		
Investments in 32 other businesses			3,200	352	
			14,712	1,814	15

The outstanding commitment in respect of Balcas Limited relates to offers of grant.

13. Inventories

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Goods for resale	99	116	-	-
	99	116	-	-

Goods for resale are held by CairnGorm Mountain Ltd and consist of café catering supplies and retail shop goods.

14. Trade and other receivables

	Note	Group		HIE	
		2012 £000	2011 Restated * £000	2012 £000	2011 Restated * £000
Trade receivables		4,936	4,290	4,715	3,924
Provision for bad debts		(932)	(1,000)	(922)	(999)
		4,004	3,290	3,793	2,925
Taxation recoverable		879	840	865	922
Accrued income and prepayments		450	838	296	611
Loans and other receivables	12	279	182	346	248
		5,612	5,150	5,300	4,706

Analysis of trade and other receivables within boundaries for whole government accounts.

	Group		HIE	
	2012 £000	2011 Restated * £000	2012 £000	2011 Restated * £000
Balances with other central government bodies	1,446	1,357	1,433	1,438
Balances with local authorities	14	141	14	138
Balances with NHS bodies	-	-	-	-
Balances with similar public bodies	15	4	13	-
	1,475	1,502	1,460	1,576
Balances with bodies external to government	4,137	3,648	3,840	3,130
	5,612	5,150	5,300	4,706

*2011 restated following the reclassification of factoring costs. See note 1 (accounting policies) for further details

15. Cash and cash equivalents

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Group and HIE funds	298	980	-	-
Other scheme funds held	-	690	-	690
	298	1,670	-	690

The Statement of Financial Position includes funds held by Highlands and Islands Enterprise relating to the following scheme:

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Growing Community Assets	-	690	-	690
	-	690	-	690

Highlands and Islands Enterprise was contracted by The Big Lottery Fund to promote and administer both the Scottish Land Fund and the Growing Community Assets Fund in Scotland until 30 June 2010.

16. Assets classified as held for sale

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
At April 2011	942	143	942	133
Additions	838	918	838	918
Disposals/Sales	(749)	(107)	(749)	(97)
Revaluations	(10)	(12)	(10)	(12)
At 31 March 2012	1,021	942	1,021	942

Land and buildings deemed to be available for sale and where the sale is anticipated to complete within one year are included as current assets. Despite difficult market conditions the assets are being actively marketed with a view to completion of the sales in the coming year.

17. Trade payables and other current liabilities: amounts falling due within one year

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Trade payables	6,351	7,023	6,293	7,010
Accruals	1,709	3,090	1,517	2,252
Prepaid rental income	551	437	551	437
Owed to subsidiary undertakings	-	-	-	5
	8,611	10,550	8,361	9,704
Taxation and social security	308	338	220	288
Corporation tax	-	174	-	174
	308	512	220	462

Analysis of trade and other payables within boundaries for whole government accounts

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Balances with other central government bodies	532	342	444	293
Balances with local authorities	121	58	121	58
Balances with similar public bodies	66	-	66	-
	719	400	631	351
Balances with bodies external to government	8,200	10,662	7,950	9,815
	8,919	11,062	8,581	10,166

18. Trade payables and other liabilities: amounts falling due after more than one year

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Deferred income – other schemes	282	200	282	200
Deferred tax	1,019	340	1,019	340
Debenture loans	93	93	-	-
Provision - EU funding	-	22	-	22
Re-phased commercial rent	-	312	-	312
	1,394	967	1,301	874

19. Retirement benefit obligation

Staff may be members of the Highlands and Islands Enterprise Superannuation Scheme or local government pension funds. The Highlands and Islands Enterprise Superannuation Scheme is a defined benefit scheme with benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.

Contributions are made to the following local government pension funds by HIE:

- Highland Council Pension Fund
- Orkney Islands Council Pension Fund
- Shetland Islands Council Pension Fund
- Strathclyde Pension Fund

The pension scheme operated by CairnGorm Mountain Ltd (CML) is separate from HIE and involves no HIE employees. Further information about CML pension arrangements can be found in that company's annual report and accounts.

Highlands and Islands Enterprise Superannuation Scheme

The actuarial valuation at 5 April 2009 indicated a potential deficit of £27.0m in the HIE pension fund. HIE, in agreement with the HIE Pension Fund Trustees and Scottish Government, undertook to implement the following recovery plan to address this shortfall, following its acceptance by the Pensions Regulator:

- * **A lump sum payment of at least £2.5m by 31 March 2009**
- * **A second lump sum payment by 31 March 2010 to take the combined contribution of both lump sum payments to £5.0m**

In addition, HIE made a lump sum contribution of £1.5m during the 2011 and will maintain employers contributions to the scheme at existing levels for the duration of the recovery plan. It is anticipated that this action will remove the deficit revealed in the April 2009 valuation by April 2016.

Pension disclosure under IAS 19

Highlands and Islands Enterprise Superannuation Scheme

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2009** and updated to **31 March 2012** by a qualified independent actuary.

The service cost has been calculated using the Projected Unit method.

The expected rates of return on the scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance of the scheme's investment portfolio.

The major assumptions used by the actuary were (in nominal terms):

	31 March 12 %	31 March 11 %	31 March 10 %	31 March 09 %	31 March 08 %
Rate of salary increases (% per annum)	3.80	4.00	4.10	5.50	5.60
Rate of pension increase (% per annum)	2.50	3.00	3.60	3.50	3.60
Discount rate (% per annum)	5.00	5.50	5.50	6.70	6.20
Inflation rate (% per annum)	2.50	2.70	3.60	3.50	3.60

During the year, Highlands and Islands Enterprise paid contributions equivalent to 24.9 per cent of pensionable salaries.

The expected rates of return on the scheme assets are determined by reference to relevant indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance of the scheme's investment portfolio.

The assets in the scheme and expected rate of return were:

	Long-term rate of return expected at 31 March 2012		Long-term rate of return expected at 31 March 2011		Long-term rate of return expected at 31 March 2010		Long-term rate of return expected at 31 March 2009		Long-term rate of return expected at 31 March 2008	
	%	£000	%	£000	%	£000	%	£000	%	£000
Equities	5.30	38,902	6.56	43,334	6.75	37,369	6.25	23,239	6.80	34,571
Gilts	2.30	17,851	3.60	11,935	5.30	18,804	4.20	15,274	4.50	18,257
Bonds	3.80	6,270	4.70	7,276						
Cash	0.00	960	0.00	1,276	0.00	3,905	0.00	2,547	4.20	445
Total market value of assets		63,983		63,821		60,078		41,060		53,273
Actuarial value of liability		(74,867)		(71,921)		(76,620)		(63,889)		(67,122)
Deficit in the scheme		(10,884)		(8,100)		(16,542)		(22,829)		(13,849)
Related deferred tax asset/(liability)		-		-		-		-		-
Net pension liability		(10,884)		(8,100)		(16,542)		(22,829)		(13,849)

The current values show an increase in the deficit at 31 March 2011 of £8.1m to £10.884m at 31 March 2012.

Local government pension funds

The valuation for the local government pension funds used for IAS 19 disclosures has been based on the most recent actuarial valuations at 31 March 2011 and updated by a qualified actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the funds at 31 March 2012. Fund assets are stated at their market value at 31 March 2012:

	31 March 12 %	31 March 11 %	31 March 10 %	31 March 09 %	31 March 08 %
Main assumptions:					
Rate of salary increases (% per annum)	4.80	5.08	5.33	4.58	5.17
Rate of pension increase (% per annum)	2.50	2.78	3.30	3.08	3.67
Discount rate (% per annum)	4.75	5.50	5.50	6.85	6.70
Inflation rate (% per annum)	2.50	2.70	3.83	3.08	3.67

The share of the assets in the funds and the expected rate of return were:

	Long-term rate of return expected at 31 March 2012 %	Value at 31 March 2012 £000	Long-term rate of return expected at 31 March 2011 %	Value 31 March 2011 £000	Long-term rate of return expected at 31 March 2010 %	Value 31 March 2010 £000	Long-term rate of return expected at 31 March 2009 %	Value 31 March 2009 £000	Long-term rate of return expected at 31 March 2008 %	Value 31 March 2008 £000
Equities	6.53	7,162	7.58	7,235	7.83	6,447	7.10	4,066	7.70	10,930
Gilts	3.30	408	4.40	278	4.50	247	-	-	-	-
Bonds	4.25	783	5.05	818	5.13	781	5.68	815	5.30	2,559
Property	4.63	700	5.58	667	5.80	564	5.03	489	5.70	1,646
Cash	3.38	225	4.20	221	4.35	155	3.75	168	4.93	356
Estimated employer assets		9,278		9,219		8,194		5,538		15,491
Present value of scheme liabilities		(11,833)		(10,417)		(11,862)		(6,429)		(16,936)
Present value of unfunded liabilities		(582)		(340)		(383)		(308)		(320)
Deficit in the scheme		(3,137)		(1,538)		(4,051)		(1,199)		(1,765)
Related deferred tax liability		-		-		-		-		-
Net pension liability		(3,137)		(1,538)		(4,051)		(1,199)		(1,765)

The pension contributions with effect from 1 April 2012 for the local government pension funds are:

	2012	2011
Highland Council Pension Fund	18.6%	18.2%
Orkney Islands Council Pension Fund	21.4%	20.4%
Strathclyde Pension Fund	19.3%	18.2%

GROUP	HIE pension scheme				HIE pension scheme			
	2012	2012	2012	Total	2011	2011	2011	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to income statement								
Current service cost	1,532	250	21	1,803	1,784	328	21	2,133
Past service cost	10	3	-	13	652	(984)	-	(332)
Impact of settlements and curtailments	(462)	-	-	(462)	(321)	10	-	(311)
Expected return on pension scheme assets	(3,667)	(663)	(53)	(4,383)	3,412	610	53	4,075
Interest on pension scheme liabilities	3,862	569	37	4,468	(4,238)	(663)	(39)	(4,940)
Actual return less expected return on pension scheme assets	(2,071)	(814)	(54)	(2,939)	1,164	96	(28)	1,232
Experience gains and (losses) arising on the scheme liabilities	2	150	(67)	85	(128)	127	7	6
Changes in assumptions underlying the present value of the scheme liabilities	(1,223)	(1,097)	18	(2,302)	5,815	1,322	26	7,163
Restriction on scheme surplus	-	-	74	74	-	-	(41)	(41)
Prior year adjustment on assets	-	-	-	-	-	-	-	-
Total operating charge	(2,017)	(1,602)	(24)	(3,643)	8,140	846	(1)	8,985
Reconciliation of defined benefit obligation								
Opening defined benefit obligation	71,921	10,757	683	83,361	76,620	12,245	717	89,582
Recognised on acquisition	-	-	-	-	-	-	-	-
	71,921	10,757	683	83,361	76,620	12,245	717	89,582
Movement in year:								
Current service costs	1,532	250	21	1,803	1,784	328	21	2,133
Contributions by members	143	95	10	248	147	104	12	263
Past service costs	10	3	-	13	652	(984)	-	(332)
Impact of settlements and curtailments	(1,241)	-	-	(1,241)	(2,547)	10	-	(2,537)
Estimated unfunded benefits paid	-	(31)	-	(31)	-	(19)	-	(19)
Estimated benefits paid	(2,581)	(175)	(62)	(2,818)	(3,286)	(141)	(73)	(3,500)
Interest cost	3,862	569	37	4,468	4,238	663	39	4,940
Actuarial losses/(gains)	1,221	947	49	2,217	(5,687)	(1,449)	(33)	(7,169)
Closing defined benefit obligation	74,867	12,415	738	88,020	71,921	10,757	683	83,361
Reconciliation of fair value of assets								
Opening fair value of assets	63,821	9,219	989	74,029	60,078	8,194	1,074	69,346
Prior year adjustment	-	-	78	78	-	-	(78)	(78)
Opening fair value of assets – as restated	63,821	9,219	1,067	74,107	60,078	8,194	996	69,268
Recognised on acquisition	-	-	-	-	-	-	-	-
Expected return on assets	3,667	663	53	4,383	3,412	610	53	4,075
Contributions by members	143	95	10	248	147	104	12	263
Contributions by employer	1,783	311	27	2,121	4,532	367	29	4,928
Contribution in respect of unfunded benefits	-	10	-	10	-	8	-	8
Impact of settlements and curtailments	(779)	-	-	(779)	(2,226)	-	-	(2,226)
Actuarial gains/(losses)	(2,071)	(814)	(54)	(2,939)	1,164	96	(28)	1,232
Estimated unfunded benefits paid	-	(31)	-	(31)	-	(19)	-	(19)
Estimated benefits paid	(2,581)	(175)	(62)	(2,818)	(3,286)	(141)	(73)	(3,500)
	63,983	9,278	1,041	74,302	63,821	9,219	989	74,029
Estimated employer contributions for the year ended 31 March 2013								
	1,840	257	30	2,127	1,500	310	29	1,839

HIE	HIE pension scheme	LGPF	Total	HIE pension scheme	LGPF	Total
	2012	2012	2012	2011	2011	2011
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to income statement						
Current service cost	1,532	250	1,782	1,784	328	2,112
Past service cost	10	3	13	652	(984)	(332)
Impact of settlements and curtailments	(462)	-	(462)	(321)	10	(311)
Expected return on pension scheme assets	(3,667)	(663)	(4,330)	3,412	610	4,022
Interest on pension scheme liabilities	3,862	569	4,431	(4,238)	(663)	(4,901)
Actual return less expected return on pension scheme assets	(2,071)	(814)	(2,885)	1,164	96	1,260
Experience gains and (losses) arising on the scheme liabilities	2	150	152	(128)	127	(1)
Changes in assumptions underlying the present value of the scheme liabilities	(1,223)	(1,097)	(2,320)	5,815	1,322	7,137
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Total operating charge	(2,017)	(1,602)	(3,619)	8,140	846	8,986
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	71,921	10,757	82,678	76,620	12,245	88,865
Recognised on acquisition	-	-	-	-	-	-
	71,921	10,757	82,678	76,620	12,245	88,865
Movement in year:						
Current service costs	1,532	250	1,782	1,784	328	2,112
Contributions by members	143	95	238	147	104	251
Past service costs	10	3	13	652	(984)	(332)
Impact of settlements and curtailments	(1,241)	-	(1,241)	(2,547)	10	(2,537)
Estimated unfunded benefits paid	-	(31)	(31)	-	(19)	(19)
Estimated benefits paid	(2,581)	(175)	(2,756)	(3,286)	(141)	(3,427)
Interest cost	3,862	569	4,431	4,238	663	4,901
Actuarial losses/(gains)	1,221	947	2,168	(5,687)	(1,449)	(7,136)
Closing defined benefit obligation	74,867	12,415	87,282	71,921	10,757	82,678
Reconciliation of fair value of assets						
Opening fair value of assets	63,821	9,219	73,040	60,078	8,194	68,272
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets – as restated	63,821	9,219	73,040	60,078	8,194	68,272
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	3,667	663	4,330	3,412	610	4,022
Contributions by members	143	95	238	147	104	251
Contributions by employer	1,783	311	2,094	4,532	367	4,899
Contribution in respect of unfunded benefits	-	10	10	-	8	8
Impact of settlements and curtailments	(779)	-	(779)	(2,226)	-	(2,226)
Actuarial gains/(losses)	(2,071)	(814)	(2,885)	1,164	96	1,260
Estimated unfunded benefits paid	-	(31)	(31)	-	(19)	(19)
Estimated benefits paid	(2,581)	(175)	(2,756)	(3,286)	(141)	(3,427)
	63,983	9,278	73,261	63,821	9,219	73,040
Estimated employer contributions for the year ended 31 March 2013						
	1,840	257	2,097	1,500	310	1,810

Expenditure recognised in the Statement of Comprehensive Net Expenditure.

	2012 £000	2011 £000
Net management expenditure on staff costs	771	3,438
Other finance charges/(income)	(85)	(865)

The total loss amount recognised in the statement of other comprehensive income in respect of net actuarial gains and losses is £5,082k (2011 8,551k gain).

Cumulative actuarial gains and losses recognised in the statement of comprehensive income since 1 April 2002 are net losses of £5,035k (2011 £47k gain).

A history of the Highlands and Islands Enterprise Superannuation Scheme and its share of the local government pension schemes for prior periods is as follows:

	HIE					Local government pension funds				
	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Experience gains and losses										
Difference between expected and actual return on scheme assets	2,071	(1,164)	12,630	(17,923)	(5,851)	814	(96)	1,916	(2,162)	(1,926)
Value of assets	63,983	63,821	60,078	41,060	53,273	9,278	9,219	8,194	15,357	15,491
Percentage of scheme assets	3.2%	(1.8)%	21.0%	(43.7)%	(11.0)%	8.8%	(1.0)%	23.4%	(14.1)%	(12.4)%
Experience gains and (losses) on scheme liabilities										
Present value of liabilities	2	(128)	3,246	59	(380)	150	127	(9)	823	(18)
Percentage of scheme liabilities	(0.0)%	0.2%	(4.2)%	0.1%	(0.6)%	(1.2)%	(1.2)%	0.1%	14.9%	(0.1)%

Mortality

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60-year-old to live for a number of years as follows:

	HIE		LGPF		CML	
	UK 31/03/12	UK 31/03/11	UK 31/03/12	UK 31/03/11	UK 31/03/12	UK 31/03/11
1. Male member aged 60 (current life expectancy)	24.3	24.2	22.4	20.6	21.4	21.1
2. Male member age 40 (life expectancy at 60)	26.3	26.2	24.1	22.4	22.7	23.5
3. Female member aged 60 (current life expectancy)	27.2	27.1	25.0	23.9	23.5	24.2
4. Female member aged 40 (life expectancy at 60)	29.1	29.0	26.8	25.8	25.0	25.8

20. Losses statement

	Group		HIE	
	No of cases	£000	No of Cases	£000
Claims waived (amounts written off) during the year ended 31 March 2012	-	-	-	-

These write-offs relate to Scottish Government approved balances and Highlands and Islands Enterprise delegated authority.

There were zero (2011 five) cases written off which exceeded £250,000.

Highlands and Islands Enterprise continues to pursue all outstanding debts.

21. Net cash flow from operating activities

	Note	Group	
		2012 £000	2011 £000
Deficit on operating activities		49,669	60,339
Interest received	6	(104)	(74)
Dividends received	6	(74)	(46)
Share of related company results		519	103
Gain on bargain	3	380	-
Surplus on disposal of Investments		-	49
Profit on sale of assets	3	704	890
Interest payable	7	-	(24)
Net cash outflow from operating activities		51,094	61,237

* 2011 restated following the change in treatment of government grants, reclassification of factoring costs and inclusion of additional equity accounted investees. See note 1 (accounting policies) for further details

22. Commitments

	Group		HIE	
	2012 £000	2011 £000	2012 £000	2011 £000
Commitments				
Property	22,915	18,005	22,915	18,005
Grants and loans	56,357	59,276	56,357	59,276

Commitments to capital and business investment projects often extend over more than one financial year. Major projects and initiatives are undertaken by Highlands and Islands Enterprise with the support of Scottish Ministers.

23. Contingent liabilities

HIE acquired control of CairnGorm Mountain Ltd during 2008/09 and the company continues trading. In addition, as the owner of the Cairngorm Mountain Railway, HIE will continue to fulfil its responsibilities to ensure the continuance of this public service. In the event of permanent closure, HIE would have responsibility for the costs of removal of equipment and re-instatement of the site of the funicular railway to a natural condition.

HIE occupies a number of leased properties which have dilapidations clauses in the leases. These properties are maintained in excellent order, but there is a potential liability to reinstate the internal layout of the building to its original floor plan. These costs will be subject to negotiation.

24. Financial commitments

Highlands and Islands Enterprise has entered into commercial leases on certain properties and items of equipment. These leases have an average duration of between three and 20 years.

Future minimum payments due under non-cancellable operating leases:

Group	Property £000	Equipment £000	Total £000	2011 £000
Obligations under operating and similar leases:				
Within one year	1,173	9	1,182	1,188
Within two to five years	4,165	8	4,173	4,357
In over five years	4,971	-	4,971	5,963
	10,309	17	10,326	11,508

HIE	Property £000	Equipment £000	Total £000	2011 £000
Obligations under operating and similar leases:				
Within one year	1,173	3	1,176	1,183
Within two to five years	4,164	-	4,164	4,349
In over five years	4,971	-	4,971	5,963
	10,308	3	10,311	11,495

HIE has sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 March 2012 is £101,503 (2011 £107,153).

Highlands and Islands Enterprise holds office and manufacturing buildings as investment properties, which are let to third parties. These non-cancellable leases have remaining terms between one and 20 years

Future minimum rentals receivable under non-cancellable operating leases:

Group	Property £000	Equipment £000	Total £000	2011 £000
Receivable under operating and similar leases:				
Within one year	3,341	-	3,341	3,452
Within two to five years	10,978	-	10,978	10,650
In over five years	10,227	-	10,227	11,726
	24,546	-	24,546	25,828

HIE	Property £000	Equipment £000	Total £000	2011 £000
Receivable under operating and similar leases:				
Within one year	3,441	-	3,441	3,552
Within two to five years	11,378	-	11,378	11,050
In over five years	11,647	-	11,647	13,245
	26,466	-	26,466	27,847

Highlands and Islands Enterprise has entered into a number of finance leases to acquire certain properties and items of plant.

Future minimum payments due under non-cancellable finance leases:

Group	Property £000	Plant and Equipment £000	Total £000	2011 £000
Obligations under finance and similar leases:				
Within one year	140	11	151	151
Within two to five years	560	23	583	591
In over five years	3,862	-	3,862	4,005
	4,562	34	4,596	4,747
Finance charges allocated to future periods	-	(9)	(9)	(12)
	4,562	25	4,587	4,735
Present value of minimum lease payments				
Within one year	140	9	149	149
Within two to five years	560	16	576	582
In over five years	3,862	-	3,862	4,004
	4,562	25	4,587	4,735

HIE	Property £000	Plant and Equipment £000	Total £000	2011 £000
Obligations under finance and similar leases:				
Within one year	140	11	151	151
Within two to five years	560	23	583	591
In over five years	3,862	-	3,862	4,005
	4,562	34	4,596	4,747
Finance charges allocated to future periods	-	(9)	(9)	(12)
	4,562	25	4,587	4,735
Present value of minimum lease payments				
Within one year	140	9	149	149
Within two to five years	560	16	576	582
In over five years	3,862	-	3,862	4,004
	4,562	25	4,587	4,735

25. Transactions involving Board members' registered interests

During the year, the following transactions were made by Highlands and Islands Enterprise with businesses in which Highlands and Islands Enterprise Board members had an interest:

Business	Approvals brought forward (£)	Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Harper Macleod	-	62,325	62,325	Legal fees within a framework agreement	L D Crerar – Member
Scottish Association of Marine Science	164,451	682,800	280,891	Project grant	M Bownes – Board Member
University of Edinburgh	-	22,051	22,051	Provision of educational services	M Bownes – Board Member

Other transactions taking place with organisations where HIE Board members were remunerated:

William Roe held the position of Chair of Skills Development Scotland (SDS) for which he received remuneration. On 16 August 2010 Mr Roe temporarily stood down from this position of Chair of SDS in order to undertake a review of vocational education for the Scottish Government. On 9 June 2011 Mr Roe resigned from Skills Development Scotland. Highlands and Islands Enterprise entered into a shared services agreement with Skills Development Scotland on 15 February 2011 for the provision of information technology services.

Organisations which received funding in the year and in which the Board members, key managerial staff or other related parties had a non-financial interest include:

Commun na Gàidhlig
Culduthel Christian Centre
Department of Work and Pensions
Islay Energy Trust
Moray Tourism Development Group
Royal Society of Edinburgh
Scottish Crofting Foundation
Speyside Whisky Festival
Staffin Community Trust

26. Related party transactions

Highlands and Islands Enterprise is a non-departmental public body sponsored by the Scottish Government.

The Scottish Government is regarded as a related party. During the year, Highlands and Islands Enterprise had various material transactions with the Scottish Government and with other entities for which the Scottish Government is regarded as the parent body.

In addition, Highlands and Islands Enterprise had a small number of material transactions with other Government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

Material transactions took place with:

Aberdeen City Council
Aberdeenshire Council
Argyll and Bute Council
Audit Scotland
Comhairle nan Eilean Siar
Crofters Commission
Donegal County Council
Forestry Commission
Glasgow City Council
Historic Scotland
NHS Highland
North Ayrshire Council
Orkney Islands Council
Renfrewshire Council
Scottish Enterprise
Scottish Government
Scottish Natural Heritage
Shetland Islands Council
Skills Development Scotland
The Highland Council
The Moray Council
The University of the Highlands and Islands
Visit Scotland

None of the Board members, key managerial staff or other related parties has undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 25.

27. Financial instruments

Highlands and Islands Enterprise has exposure to the following risks from the use of financial instruments.

Liquidity risk
Credit risk
Market risk

The Leadership Team has overall responsibility for the establishment and oversight of the company's risk management framework. The Risk and Assurance Committee oversees how management monitors compliance with Highlands and Islands Enterprise's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to risks faced by Highlands and Islands Enterprise.

The group and Highlands and Islands Enterprise have no derivative financial assets or liabilities.

Liquidity risk

Liquidity risk is the risk that Highlands and Islands Enterprise will not be able to meet its financial obligations as they fall due. HIE's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Highlands and Islands Enterprise's primary source of liquidity is the grant-in-aid provision from the Scottish Government. With the exception of finance lease obligations for property, Highlands and Islands Enterprise has no debt or borrowing with any external party.

Liquidity is managed by the use of the annual operating plan process and the monitoring of actual performance against budgets and forecasts.

Credit risk

Credit risk is the risk of financial loss to Highlands and Islands Enterprise if a customer or counter party fails to meet its contractual obligations and arises from the trade receivables.

Credit risk arises from the group and Highlands and Islands Enterprise's normal operations, including holding non-current financial assets.

In pursuance of economic growth targets, Highlands and Islands Enterprise makes investments in a variety of companies, in part using funds provided by the European Union. Management monitors the performance of all investments and regularly revalues assets available for resale to their fair value and provides, where appropriate, for impairment of assets held to maturity, loans and other materials.

Highlands and Islands Enterprise carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk Highlands and Islands Enterprise will have from any single counter party. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position.

Highlands and Islands Enterprise operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and the experience of collecting specific overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

Highlands and Islands Enterprise's exposure to credit risk is likely to have increased in the current economic climate, but management do not consider this to have significant impact as the risk is spread across a large number of receivables.

Market risk

Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

Currency risk

Highlands and Islands Enterprise is exposed to currency risk on transactions that are denominated in currencies other than sterling. Whenever practical, Highlands and Islands Enterprise enters into agreements in its functional currency in order to minimise currency risks.

28. Prior year adjustment

	Audited accounts £000	EU funding £000	Property factoring £000	Equity accounted investees £000	Restated balance £000
2010/11 Group statement of comprehensive net expenditure					
Operating expenditure (previously expenditure on operating activities)	(62,897)	-	(983)	-	(63,880)
Income (previously Income from operating activities)	19,898	844	-	-	20,742
Share of profits in equity accounted investees (previously share of associates' operating profit/(loss))	(84)	-	-	187	103
Net expenditure after taxation (previously net operating cost after taxation)	61,834	(844)	983	(187)	61,786
Group statement of financial position at 31 March 2010					
Investment in associates	128	-	-	474	602
Trade receivables	6,374	-	(897)	-	5,477
Taxation recoverable	648	-	111	-	759
Government grant reserve	(5,253)	5,218	-	-	(35)
Other reserve	(415)	-	-	(11)	(426)
General reserve	42,303	5,218	(786)	463	47,198
Group statement of financial position at 31 March 2011					
Investment in associate	44	-	-	661	705
Trade receivables	6,345	-	(2,055)	-	4,290
Taxation recoverable	554	-	286	-	840
Government grant reserve	(6,088)	6,062	-	-	(26)
Other reserve	(403)	-	-	(11)	(414)
General reserve	37,379	6,062	(1,769)	650	42,322

Accounts

Direction by the Scottish Ministers

1. The Scottish Ministers, in pursuance of Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2010, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. The accounts shall be prepared so as to give a true and fair view of the Income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year. Additional disclosure requirement are set out in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

Signed by the authority of the Scottish Ministers

Mary McAllan

Head of Enterprise Policy Delivery Division
10 June 2010

Schedule 1

Additional disclosure requirements

1. The notes to the accounts shall include a schedule of all investments showing:
 - 1.1. In respect of companies in which Highlands and Islands Enterprise holds 20% or more of the voting rights and where the total investment (including loans) is in excess of £100,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company
 - 1.2. In respect of companies in which Highlands and Islands Enterprise holds less than 20% of the voting rights but where the total investment (including loans) is in excess of £1,000,000:
 - Name of company
 - Nature of its business
 - Percentage of voting rights held
 - Amount invested in shares (distinguishing between ordinary and preference shares)
 - Amount of loan given to each company
 - Any other commitments in respect of each company
 - 1.3. In respect of all other investments by Highlands and Islands Enterprise:
 - Total number of companies involved
 - Total amount invested
 - Total amount of loans given
 - Total amount of any other commitments



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Ambitious for **Scotland**
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