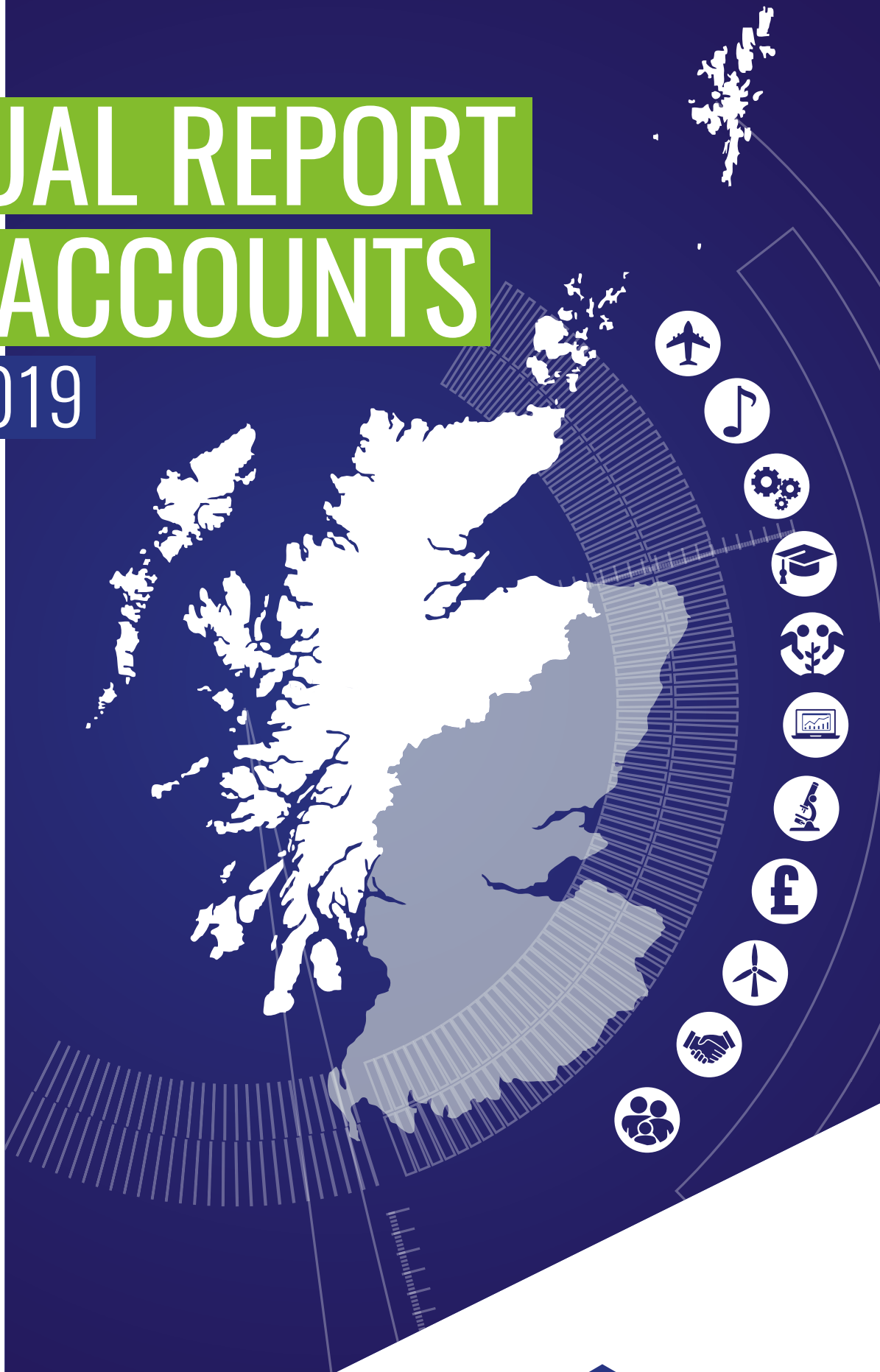


ANNUAL REPORT AND ACCOUNTS

2018-2019



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 2019 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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OVERVIEW

Chief Executive statement

The Highlands and Islands economy continued to perform well in 2018-19. HIE interventions, both financial and non-financial, played a key role in addressing challenges and opportunities across all parts of our region. Despite significant headwinds in the wider economy, we met or exceeded all our performance targets for the year.

We approved £54.6m to support 564 new projects representing a total combined investment of £185m. This will deliver well over 1,000 jobs, raise turnover among supported enterprises by nearly £118m, and boost international trade by £46m a year. It is particularly pleasing to be within range on our target for supporting jobs in fragile areas.

These achievements were made possible by the breadth of powers that HIE enjoys, enabling us to work directly with community groups, as well as businesses and social enterprises. We are able to target support towards relatively small scale projects that can make a big difference, particularly in more remote, rural and island communities. It is an approach that continues to serve the Highlands and Islands well and is being used as a model to inform the development of the new agency that will focus on the South of Scotland.

Account managers in our eight locally-based area teams provided dedicated support throughout the year to around 600 client companies, social enterprises and communities. On international sales, working with Scottish Development International (SDI) we helped drive a significant increase in performance, supporting more than 400 clients to develop activity overseas. HIE and SDI also secured a total of seven new investment projects, creating more than 260 highly skilled jobs in sectors as diverse as technology, manufacturing and business services.

Another key factor was collaboration. HIE has always recognised the importance of partnership working, at local, regional and national levels. Throughout 2018-19, we were able to develop this further, notably through engagement with the Scottish Government, community planning partners across the region, growth deal partnerships and the Convention of the Highlands and Islands (CoHI).

Close collaboration and alignment with the enterprise and skills agencies across Scotland to effectively contribute to the work of the Enterprise and Skills Strategic Board has been a key focus this year and will evolve in future years.

Headline events included our aspiration to establish a vibrant regional space sector with the potential to attract significant investment, supporting hundreds of new jobs and create supply chain opportunities in different parts of our region.

“Our combined investments in 2018-2019 will create over 1,000 jobs, raise turnover among supported enterprises by nearly £118m, and boost international trade by £46m a year.”

We faced a set of complex challenges at Cairngorm Mountain, home to Scotland’s only funicular railway, and a major attraction in Badenoch and Strathspey. First, safety issues identified in an engineers’ survey caused the mountain railway service to be suspended, then the operating company was placed in administration by its directors. As owner and custodian of Cairngorm Estate, HIE moved swiftly to set up a new operating company and reached a deal with administrators that saved jobs and kept the business open. However, the 2018-19 ski season across Scotland was badly hit by unseasonably warm weather, and the situation remains extremely challenging.

Our rollout of next generation broadband reached 91% of the region’s homes and businesses, well above the target of 84% for access to fibre connections. We are working with the Scottish Government to support delivery of the R100 programme, providing access to 100% of Scotland’s premises.

We led or contributed to many other highly ambitious projects around the region. These included our joint venture with Orkney Islands Council to develop the Orkney Research and Innovation Campus and our Wave Energy Scotland subsidiary, which continued to drive forward Europe’s biggest research and development programme for wave energy.

In the Outer Hebrides, our investment in Arnish enterprise park helped BiFab secure orders to manufacture monopiles for the Moray East offshore wind farm. We approved £3.4m to support the first phase of Stornoway Port Authority’s ambitious masterplan, and over £1m for Comhairle nan Eilean Siar and Lews Castle College UHI to create Cnoc Soilleir, a new Gaelic cultural centre in South Uist.

Our support of up to £7.75m towards the Port of Cromarty Firth’s new quayside and laydown area will ensure the region continues to play a full and active role in the development of the UK’s offshore wind energy supply chain.

Confidence in the region, as demonstrated by inward investors, and optimism expressed by many businesses, speaks volumes – particularly given the uncertainties that lie ahead for the whole of the UK. The 1,000 companies that take part in our business panel survey are consistently optimistic about their prospects, while young people are more positive in their attitudes towards the region and their aspirations to live, study and work here.

I would like to thank all of our staff and Board members, whose passion, energy and talents contributed so much to deliver an excellent set of annual results and lay foundations for future growth across the Highlands and Islands.



CARROLL BUXTON
Interim chief executive

ABOUT HIE

History and statutory background

Highlands and Islands Enterprise (HIE) is an executive non-departmental public body of the Scottish Government. HIE acts as a public agency with a statutory duty to undertake economic and social development within the Highlands and Islands of Scotland.

HIE was established in 1991 in accordance with the provisions of the Enterprise and New Towns (Scotland) Act 1990. The legislation defines our key functions as:

- preparing, concerting, promoting, assisting and undertaking measures for the economic and social development of the Highlands and Islands;
- enhancing skills and capacities relevant to employment in the Highlands and Islands; and
- furthering improvement of the environment of the Highlands and Islands.

Our duties are determined by Scottish Ministers under Section 24 of the Act, and a range of general and specific powers is set out in section 8.

Strategic aims

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

The Scottish Government's economic and policy frameworks provide a clear vision and set of actions which foster a collaborative enterprise and skills environment and collectively ensure that sustainable, inclusive economic growth is achieved in all parts of Scotland. Our direction and guidance are set out in four related documents: *Programme for Government*; *Economic Action Plan*; *Enterprise and Skills Strategic Board's Strategic Plan*; and *Scotland – Trading Nation*.

Each of these recognises the role that Scotland's enterprise and skills system plays in creating the right environment to build a strong, vibrant and diverse economy that promotes wellbeing and attracts investment. They provide important strategic context which is reflected in our own plans.

2019-2022 Strategy

In response to the new strategic frameworks, we worked with our partner enterprise and skills agencies to align our Strategy and Operating Plan for the forthcoming years.

People and place are at the heart of our 2019-22 strategy and our vision can only be achieved through supporting inclusive growth and having a strong regional perspective. We are ambitious for all parts of our region to sustain and develop a vibrant rural economy based on:

- successful, productive and resilient businesses;
- strong, capable and resourceful communities; and
- a region which is well connected and well placed to maximise opportunities – creating the conditions for growth.

Principal activities

During 2018-19, we pursued four complementary priorities:

- **Accelerating business growth**
Supporting businesses to increase productivity and grow through investment, innovation and internationalisation
- **Strengthening communities**
Supporting the growth of the social enterprise sector, and enabling communities, particularly in remote and rural areas, to make a significant contribution to place-based development
- **Supporting growth sectors**
Sectoral development with a focus on sub-sectors and supply chains offering distinctive regional opportunities
- **Developing regional attractiveness**
Making the Highlands and Islands a globally-attractive region in which to live, work, study and invest



Business model and environment

The HIE Board oversees the work of the organisation, reporting to the Cabinet Secretary for the Rural Economy. We work collaboratively with the Scottish Government and public sector partners – including Scottish Enterprise, Skills Development Scotland, the Scottish Funding Council, Visit Scotland, the new South of Scotland Economic Partnership, local authorities and Business Gateway – to align strategies and resources behind growth opportunities. Formal partnerships include long-established community planning partnerships and city, area and island growth deals, some of which are currently in development.

Under the guidance of our chief executive and leadership team, HIE's activities were delivered via the following directorates:

Business and Sector Development leads on our engagement with business and broader sectoral developments and initiatives. We work with hundreds of businesses through account management, targeting sectors that can make the greatest contribution to regional growth, and offer programmes that are accessible to the wider business community. We support innovation, entrepreneurship, international trade, inward investment, management and leadership, provide financial support and specialist advice, and coordinate with appropriate national support.

Regional Development holds responsibility for property and infrastructure, research and economics, marketing and communications, strategy, planning, corporate data, performance measurement, EU engagement and strategic partnerships. The directorate leads on a range of major developments and collaborative projects, currently including Inverness Campus, digital Highlands and Islands, universities, and the Highlands and Islands Science Skills Academy.

Strengthening Communities helps to empower communities to be at the forefront of their own development, with a focus on our most remote, rural and island areas. Key themes are supporting communities to acquire and develop assets, encouraging the growth of the social economy and the social enterprise model, and taking a place-based approach to local development. This includes the organisation's contribution to developing culture and heritage, including Gaelic.

Finance and Corporate Services is responsible for strategic financial management, financial services, procurement, legal services, facilities management, health and safety, and environmental management.

Business Improvement and Internal Audit ensures innovation, high standards of corporate governance and value for money are at the heart of the business and its decision-making process by leading on the organisation's business improvement and assurance activity.

Area teams provide local access to and delivery of HIE services, strengthening our place-based approach, across the Highlands and Islands. Eight teams cover Argyll and the Islands; Caithness and Sutherland; Inner Moray Firth; Lochaber, Skye and Wester Ross; Inness Gall (Outer Hebrides); Moray; Orkney, and Shetland.

We operate across all of Scotland to deliver:

- Wave Energy Scotland
- Scottish Land Fund (in partnership with the Big Lottery Fund)

Human Resources leads HIE's people agenda, ensuring that our staff resource is managed and developed effectively to support the organisation's objectives. This includes working with staff and managers across the organisation to help ensure individual behaviours align with HIE's organisational values.

Our values

HIE employees are committed to the following values:

- Outward-looking and think long-term
- Customer-focused
- Work together and learn from each other
- Committed to excellence and innovation
- Encourage diversity and respect each other
- Network and collaborate - inside and out
- Listen and communicate clearly

Principal risks and uncertainties

We operate a robust risk management policy and maintain risk registers at project, business unit and corporate level. Our corporate risk register is reviewed regularly by our Board and Risk and Assurance Committee.

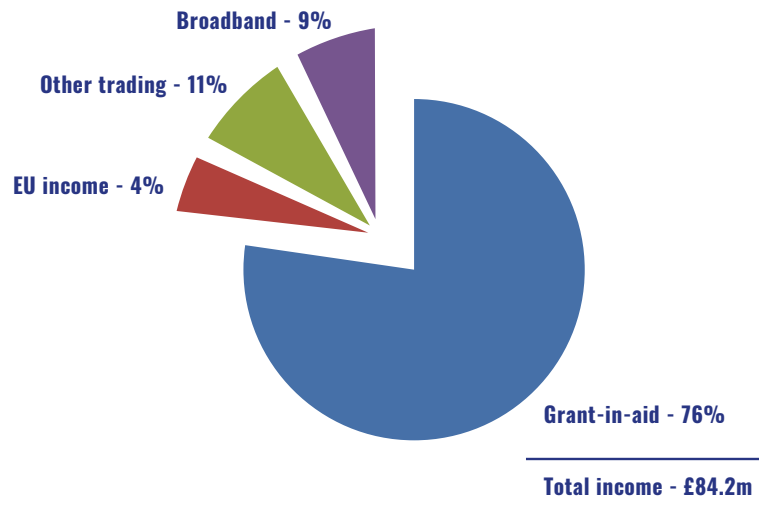
All internal and external risks in the corporate risk register are actively managed at the appropriate level in the organisation. At the end of 2018-19, these included:

- Challenges with Cairngorm Mountain, including the unexpected closure of the funicular railway, the operating company going into administration, HIE acquiring and operating the business through a new subsidiary, and the need for a new masterplan to guide future investment;
- Space Hub Sutherland and wider space activity challenges;
- Financial challenges, including access to and replacement of EU funding;
- Brexit preparedness and impact across our region;
- Internal resource capacity and the need to ensure staff expertise continues to match a changing external environment
- Cyber security and governance
- Our VAT liability
- Our pension liability
- Business transformation and systems environment

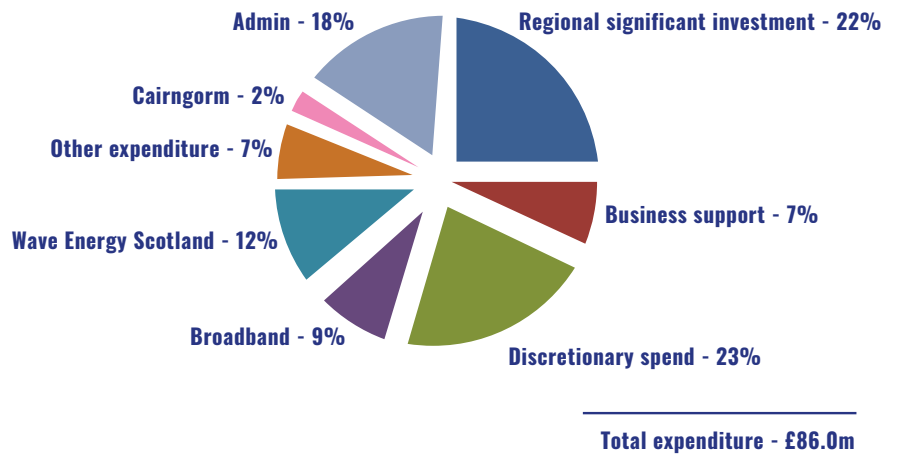
Going concern

The financial statements for the year ended 31 March 2019 show net liability position of £20.8m (Group £19.3m net liabilities). The position of net liabilities has arisen due to the HIE pension fund deficit. Net current liabilities will be funded by the Scottish Government as they arise. The Scottish Government has provided a resource budget for 2019-20 of £61.0m, therefore, the financial statements have been prepared on a going concern basis.

INCOME



EXPENDITURE



We approved **564** projects for 338 clients, with a total grant-in-aid investment of £54.6m

CASE STUDY

FAIR ISLE



24-HOUR POWER TO THE ISLAND

A renewable energy system on Fair Isle, Shetland, went live in October 2018, bringing reliable 24-hour power to the island, which is home to 55 people.

HIE and the Low Carbon Infrastructure Transition Project (LCITP) were among the funders of the Fair Isle Local Energy System which was commissioned on time and on budget. LCITP is a partnership programme led by the Scottish Government with financial support from the European Regional Development Fund.

The £3.5m project was led by community group Fair Isle Electricity Company (FIEC), who believe it will make a huge difference and encourage more people to make the island their home.

The island-wide high voltage network includes three 60kW wind turbines, along with a 50kW solar array and battery storage.

PERFORMANCE ANALYSIS

HIE applies a comprehensive framework of measures to determine how our support meets the delivery of our priorities and our contribution to *Scotland's Economic Strategy*. Details are on our website, at www.hie.co.uk/operatingplan. Along with our key measures presented below, we monitor the progress of our clients through a wider range of supporting and tracking measures and evaluations.

These measures contribute directly to the *National Performance Framework* and particularly to the outcomes of:

- Globally-competitive, entrepreneurial, inclusive and sustainable economy;
- thriving and innovative businesses, with quality jobs and fair work for everyone; and
- communities that are inclusive, empowered, resilient and safe.

Our out-turns were achieved from investments across the region, from financial and advisory support to businesses and communities; infrastructure development, investing in both our own land and property portfolio and in third party projects; and supporting wider economic development partnership initiatives.

Due to the holistic and place-based approach which HIE undertakes, the majority of our investments intentionally contributed to more than one of our four priorities. Assigning the results to particular priorities would therefore be artificial, with the exception of the turnover generated from community-owned assets and the number of new/improved income generating assets which, expectedly, are created wholly from our Strengthening Communities activities. The interconnection between our investments across the remaining three priorities are clear from the range of actions detailed in our annual accounts, with sectors playing a key role in business growth and regional attractiveness.

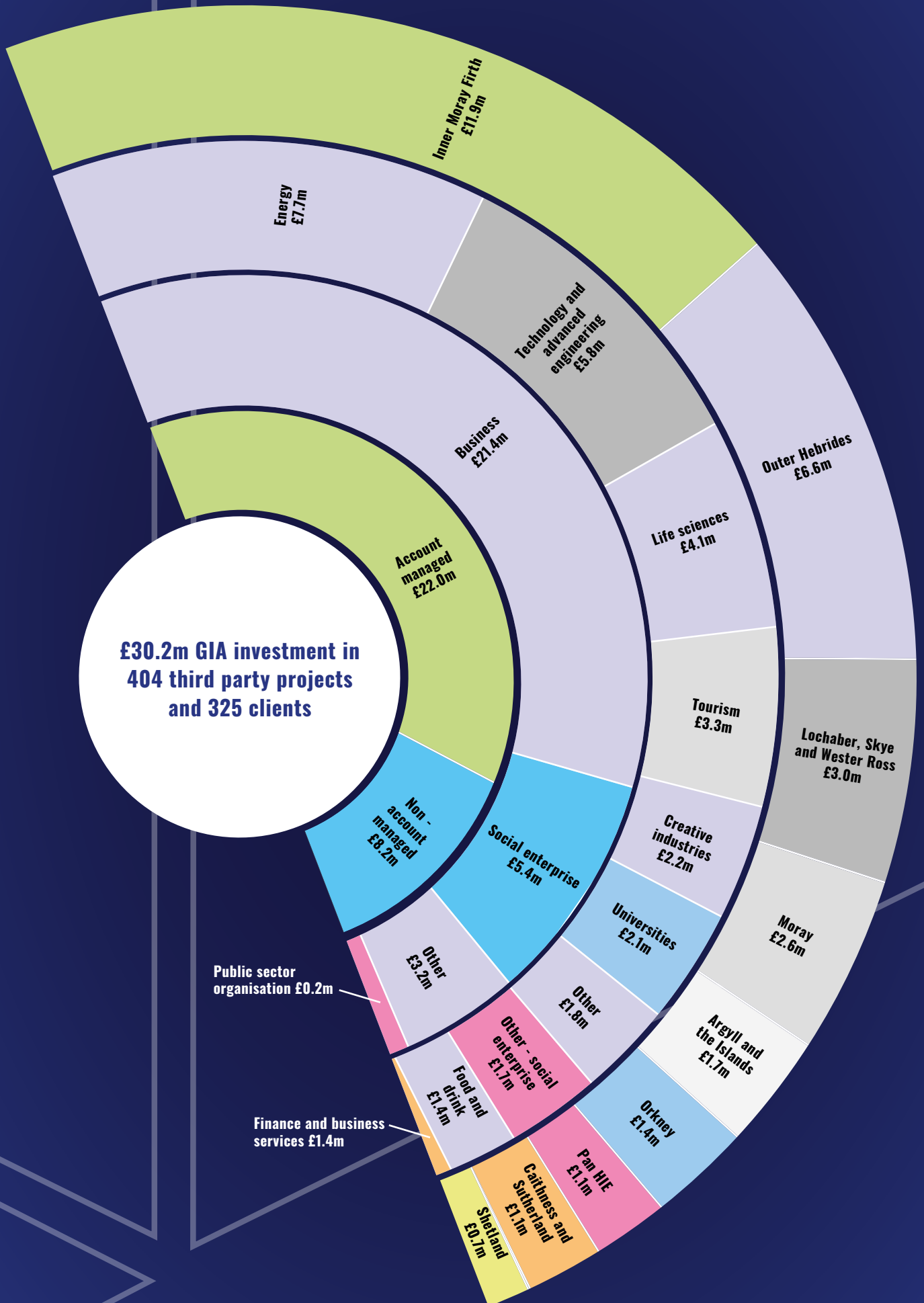
THE MEASURES	THE TARGET	WHAT WE ACHIEVED
Forecast increase in turnover by supported businesses (Year 3)	£80m - £100m	TARGET £117.9m
Forecast increase in international sales by supported businesses and social enterprises.	£30m - £40m	TARGET £46.7m
Jobs supported (created/retained)	700-900 FTEs	TARGET 1,051 FTEs
Fragile jobs supported (created/retained)	125 - 175 FTEs	166.75 FTEs TARGET
Average salary from jobs supported.	£25,000	TARGET £26,487
Increase in turnover in the social economy	£3m - £4.5m	TARGET £4.8m
Turnover generated in social economy by community-owned assets.	£1.5m - 2m	TARGET £3.04m
No of new/improved income-generating assets	25 - 30	25 assets TARGET

As highlighted in our Operating Plan, reaching all parts of our region and all sizes of businesses and communities is key to our vision. The following analysis indicates the spread of our third party grant support for 2018-19 which totalled £30.2m. Three major investments in port infrastructure dominated in Inner Moray Firth (Cromarty Firth Port Authority), Outer Hebrides (Stornoway Port Authority) and Lochaber, Skye and Wester Ross (Kishorn Port Limited). Their impact is also visible under energy, and technology and advanced engineering in the sectoral analysis.

In 2018-19, Innse Gall received the highest grant-in-aid (GIA) per capita followed by Lochaber, Skye and Wester Ross. 79% of businesses supported were micro

or small enterprises and just under half of GIA was awarded to small enterprises.

Whilst the majority of grants were awarded to account managed businesses, many non-account managed businesses accessed both grants and a range of non-financial assistance, particularly under international and innovation support programmes. The highest proportion of fragile area jobs (34% of total) were created in the Outer Hebrides although most of the total jobs created were in Inner Moray Firth. Jobs created in Orkney had the highest average salary (mainly through jobs in the energy sector). Argyll and the Islands had a particularly strong performance in both increasing turnover in the social economy and from community-owned assets.



CASE STUDY

HEBRIDEAN SEAWEED



£650,000

TO SUPPORT A £7M EXPANSION

We awarded over £650,000 to support a £7m expansion by the Hebridean Seaweed Company Ltd, at Arnish Point near Stornoway in the Isle of Lewis.

The company is building a new factory and expects to double its local workforce to 26, including highly skilled research and development jobs. It has also secured £800,000 from the European Maritime and Fisheries Fund.

Hebridean Seaweed is the largest industrial seaweed processor in the UK. It supplies markets around the world and is generating growing international demand.



Investments in port infrastructure, such as Cromarty Firth Port Authority (above), have had a positive impact on the energy and T&E sectors across the region.

Of the GIA investments in social enterprises, more jobs were created/retained in fragile areas than in non-fragile areas. More than half of the forecast turnover in the social economy was from organisations in fragile areas (£2.7m) with over £1m of this relating to community anchor organisations. Additional output from investments in social enterprises included improvements to working practices, developing new products and processes, promoting entrepreneurship and supporting 42 cultural events.

A small number of evaluations were undertaken during the year providing useful insights, particularly into business perceptions of the support accessed. Evaluations of the HIE Innovation Service and CAN-DO Scale summer school provided good indications of positive outcomes for businesses and high customer satisfaction. 78% of HIE Innovation Service respondents and 100% of CAN-DO Scale Summer School recommended the service to other businesses and respondents viewed the support as beneficial to their business.

During 2018-19 HIE started to develop new approaches to measuring the value of our investments. These include the development of a model to capture the long-term benefits of investment in infrastructure and community assets, and more effectively monitor and evaluate inclusive growth. Understanding the relative impact of our interventions across our region and among under-represented groups, and their contribution to inclusive growth, is very important to our objectives and place-based approach. The evidence base will be enhanced through further evaluations and, in the longer term, through improved data management systems.

CAN DO SCALE SUMMER SCHOOL (2015-2018)

100% would recommend the service to other businesses

80% improved their knowledge

“ This is a very good programme that has really helped us grow and develop our business and my personal skills and confidence towards my business growth.”

INNOVATION SERVICE (2015-2018)

78% would recommend the service to other businesses

32% had or expected a turnover impact

29% expected an employment impact

“ Definitely worthwhile, great support and very relevant to our business. Hopeful of establishing a separate business in the future for the product developed through the innovation support services.”

FROM THESE TWO PROGRAMMES ALONE...

Turnover increase of over £10m

with over £60m expected in the future

Almost 90 FTE jobs

with over 500 expected in the future

OUR PRIORITIES AND KEY ACHIEVEMENTS

Accelerating business growth

We supported businesses and social enterprises of all sizes across the region to plan and deliver their growth ambitions. Account managers in our eight area teams worked directly with clients, while a range of other services, such as support for innovation and international trade, were widely available to non-account managed companies.

Scale

Through HIE's entrepreneurship programme, we aim to instil a culture of ambition, equip businesses with the relevant skills, facilitate networking and support the successful commercialisation of new products and services. We ran three programmes to help entrepreneurs put in place a structured approach to new product or service development, each spanning three months. These were delivered in Inverness, Shetland and Moray, attracting 39 delegates from 26 businesses and social enterprises.

In January 2019, we took senior staff from five clients to the six-day Entrepreneurship Development Programme at Massachusetts Institute of Technology (MIT). Through MIT's industrial liaison programme, we also organised a learning journey in New England for five energy companies in May 2018.

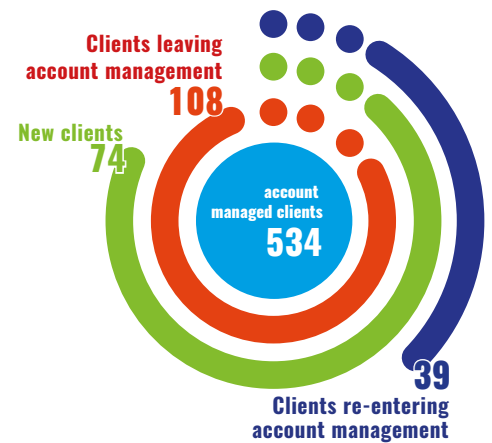
The SCALE summer school is a collaborative initiative between HIE, Scottish Funding Council and Scottish Enterprise, designed for organisations with an ambition to grow turnover above £1m. Following a highly successful 2018 summer school, 40 businesses have applied to take part in 2019.

We delivered a suite of four masterclasses over the year that were attended by 80 delegates from 73 businesses and social enterprises. These combined expert teaching, peer-to-peer learning and networking opportunities to equip delegates with skills and support to manage growth.

Leadership

We provided leadership support to 251 leaders or potential leaders of businesses and social enterprises, 41% of them women. We have now procured a new programme to help deliver the Enterprise and Skills Strategic Board's mission on business creation and growth.

HIE's account management portfolio



CASE STUDY

ENTREPRENEURIAL ACADEMY



196
ENTREPRENEURS

Following a very successful pilot in Inverness, we rolled out the Entrepreneurial Academy across the region.

It provided workshops on vital topics from brand development and pitching skills, to entrepreneurial sales and digital strategy.

Eighteen workshops attracted 196 entrepreneurs. Some 31% were aged under 35 and 64% were women.

A further 12 workshops will be delivered across the region in 2019-20.

Access to finance

We worked with the new Scottish National Investment Bank (SNIB) team to ensure that HIE can support the evolution of products and services most appropriate for businesses and social enterprises in the Highlands and Islands.

International

Through International Highland and Islands (IHI) we provided 442 instances of support to 321 new, existing and potential exporters. HIE delivered 31 awareness and exporting training events to 423 participants from 342 businesses and organisations. Specialist training included Developing International Cruise Tourism in Shetland and Oban (78 participants), China Ready tourism workshops (74 participants), Selling Online Internationally roadshow and Get Your Business Brexit Ready. Forty-three firms received Go Global grants totalling £119,000.

In partnership with Scottish Development International (SDI), we supported 30 companies to deliver significant international growth projects through developing products, entering new markets and increasing international sales.

We contributed to the national *Prepare for Brexit* campaign, supporting Scottish companies to consider and prepare for the impacts of the UK leaving the European Union.

Graduate opportunities

Our graduate and student placement programme, ScotGrad, is one of HIE's main initiatives to attract and retain talented, working-age people to the region. In 2018-19, ScotGrad supported 52 graduate placements and 14 student placements.

Digital

Recognising the correlation between digital technology and business growth, we delivered 48 digital reviews, providing one-to-one support for up to six days with account managed clients. Thirty businesses also benefited from our digital marketing support.

We ran 20 cyber security workshops, attracting 295 attendees, and provided specific advice to 22 clients. Well over 450 people took part in our digital masterclasses, and we held a highly successful, week-long DataFest event in partnership with the Data Lab Innovation Centre.

We are working with the Data Lab Innovation Centre to create Scotland's fourth Data Lab Hub, based in Inverness.

Innovation

HIEs Innovation Programme 2015-18 concluded in December 2018, having supported 794 clients, 49 of whom received grants with a total value of £220k, leveraging an additional £500k of private sector match funding. This funding created 29 jobs and increased turnover by more than £5m. Our new Innovation Service 2019-21 launched in January 2019 with a target of supporting 800 businesses at a cost of £1.9m including ERDF investment.

Our Co-Innovate project, funded by the EU Interreg VA programme, gained momentum with 106 businesses benefiting from support in Argyll and the Islands, Lochaber and Skye, and the Outer Hebrides. The programme provides workshops, innovation audits, consultancy, academic placements and R&D grants with a key focus on cross-border collaboration with Ireland.

Northern Innovation Hub

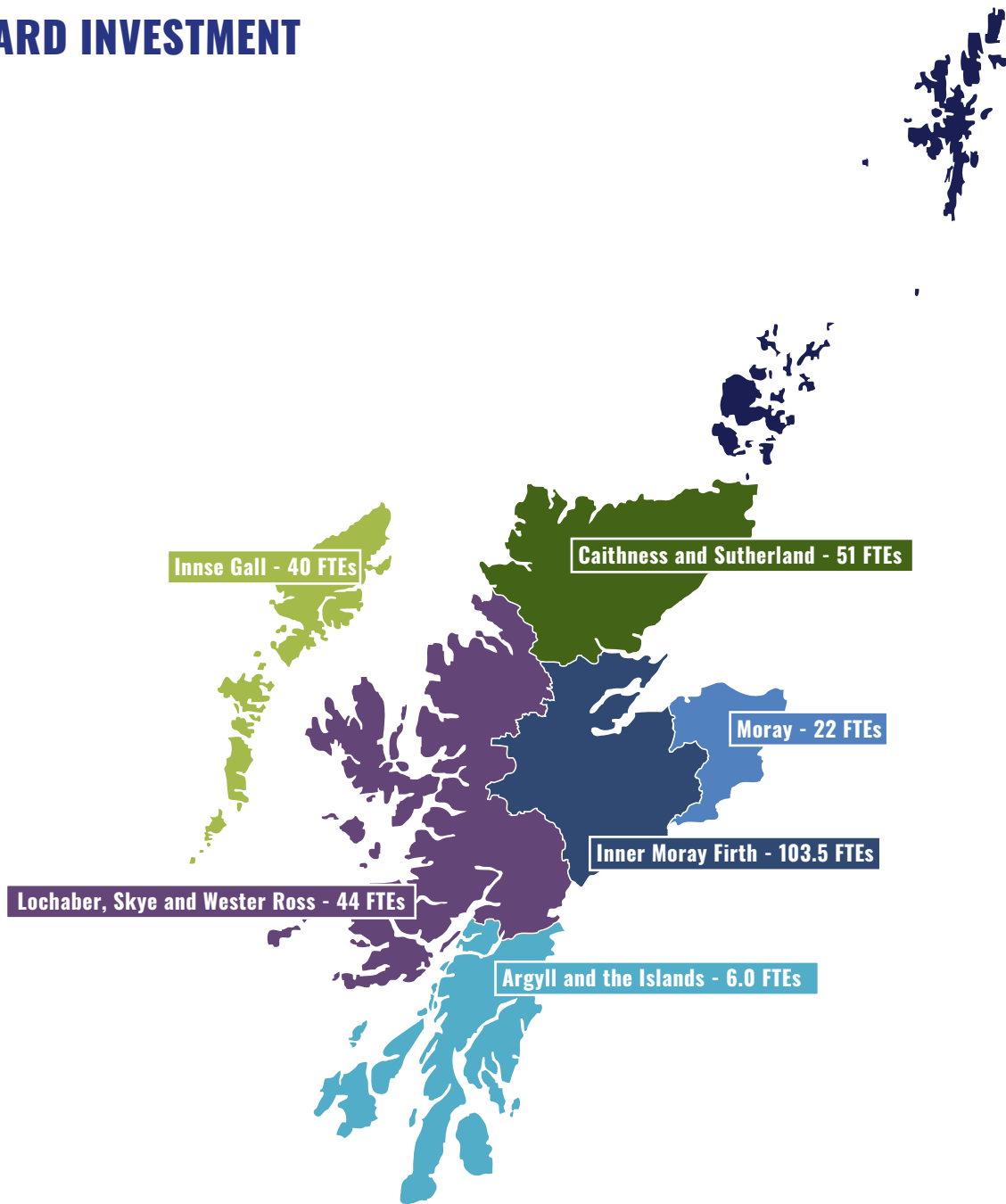
We are delivering the Northern Innovation Hub as part of the Inverness and Highland City-Region Deal to help small-to-medium sized enterprises (SMEs) in the Highland Council area improve their businesses through innovation. The virtual hub is focused on four sectors – life sciences, tourism, food and drink, and creative Industries. An additional strand of young people and technology applies to all sectors. The majority of our programmes are now running, with eight contractors in place. Two cohorts of the Pathfinder Accelerator completed, with 16 life sciences and technology businesses taking part. The Nexus collaborative working space in Inverness Campus is providing office and hot desk space for 10 businesses.

Inward investment

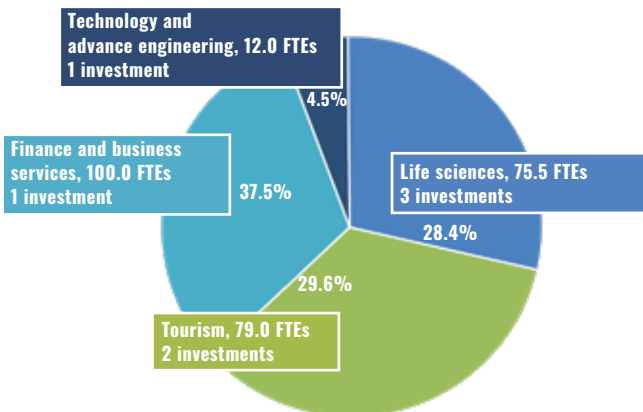
Working with SDI, we secured 7 foreign direct investments delivering 266.5 full-time equivalent (FTE) jobs in the Outer Hebrides; Argyll and the Islands; Moray; Lochaber, Skye and Wester Ross, and Inner Moray Firth. The impacts of a homeworking project will be dispersed and benefit several fragile areas.

We approved **£22.4m**
to support the growth of businesses
and social enterprises across the region

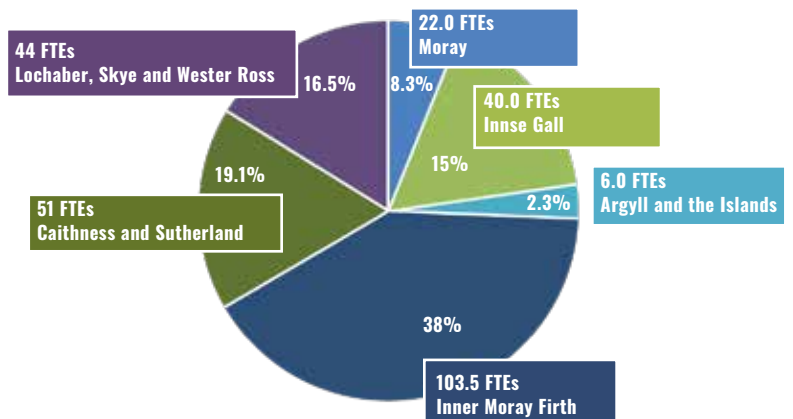
INWARD INVESTMENT



FTEs BY SECTOR



FTEs BY AREA TEAM



16.5%

of our approved investment in businesses and social enterprises was in fragile areas

Strengthening Communities

We supported communities across the Highlands and Islands to prepare and deliver projects that achieve local impact and contribute to the region's attractiveness and growth.

Through our area teams, we account manage 144 social enterprises and communities. Thirty-four development officers helped deliver initiatives ranging from creating new services to complex asset development projects. Overall, we supported 289 clients with funding, specialist advice and help to attend events.

Social enterprise

A new HIE-led project, Support Network for Social Entrepreneurs (SuNSE), won approval from the European Union Interreg North-West Europe programme (NWE). Participants will be supported to develop their business ideas and the programme will create employment, deliver services and produce wider social impact.

HIE is working with Firstport to deliver the national LaunchMe accelerator programme. This supports ambitious social enterprises to grow their activities, increase employment and turnover and secure investment. HIE will identify potential applicants across the Highlands and Islands, and, where appropriate, offer seed and investment funding.

Through the Social Enterprise Academy, HIE supported the Get on Board and Wide Horizons schools projects, attracting 37 young participants to experience training and learning in a social enterprise context.

The Social Enterprise 2018 World Forum was held in Edinburgh in September 2018. HIE hosted a large exhibition area, in which social enterprises from the region displayed a range of products and material. The event included study visits to Highland and Argyll, and a rural symposium hosted by HIE on Lewis and Harris.

Community-led development

We appointed 6 suppliers to the Support for Communities framework, giving communities access to specialist support to develop their projects. Some examples include Cuillin FM, which received assistance to access new markets, and the Orkney Blide Trust which was helped to improve financial planning.

Local development officers worked on a diverse range of projects in our 37 account-managed communities. For example, in Coigach, a bond issue to refinance the wind turbine and increase community benefit, raised £1.75m. In Orkney, the Rousay, Egilsay and Wyre Development Trust was awarded £260k from the Scottish Land Fund to buy the Trumland Estate, which has tourism potential and is the location of a community wind turbine.

Community asset ownership

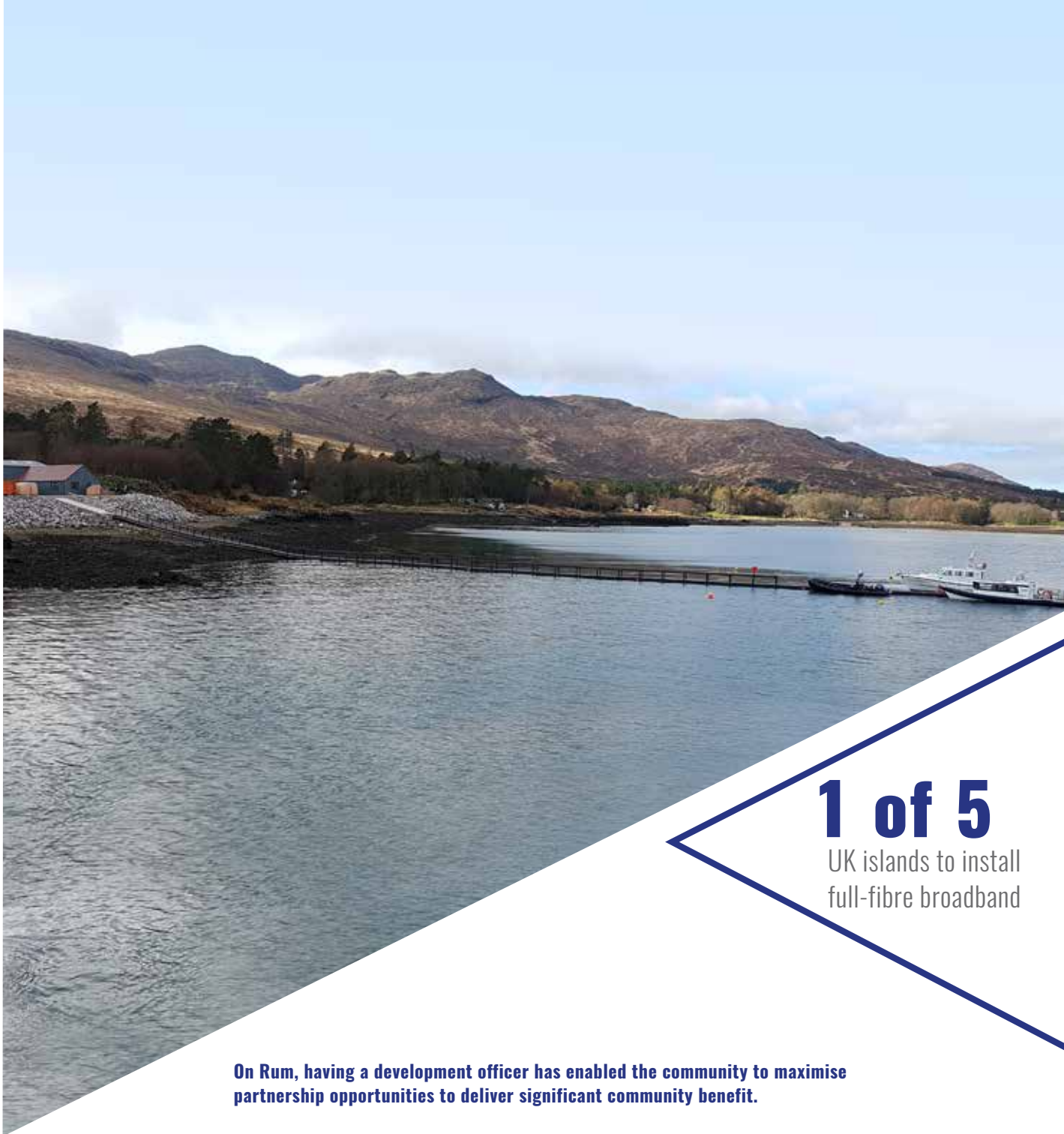
Demand for Scottish Land Fund support was up 40%, with 53 acquisitions assisted in 2018-19. Twenty-four were in the Highlands and Islands. A further 258 pipeline projects were being supported at 31 March 2019. Income streams are essential to strengthen the viability of asset-owning organisations. Recognising the pressure on post-acquisition funding, we supported development of community assets across the region, with examples including the Rockfield Centre in Oban, Mallaig swimming pool; a community enterprise centre in Tain, and deep water berthing facilities at Tobermory Harbour.

Community energy

Through HIE support, the islands of Canna, Muck, Eigg, Rum, Fair Isle and Foula were successful in their application to the EU Clean Islands Transition Programme. We are continuing to support these communities to maximise this opportunity.

CASE STUDY

RUM



1 of 5

UK islands to install
full-fibre broadband

On Rum, having a development officer has enabled the community to maximise partnership opportunities to deliver significant community benefit.

A new pontoon and moorings for community use have been created by Mowi, which has set up a new fish farm on the island.

The company is also building houses for staff and the Trust development officer worked with Mowi to fund construction of four community-owned properties.

Broadband provider Hebnet worked with Mowi and the Trust to install full-fibre broadband throughout Rum, making it one of only five islands in the UK to have this.

CASE STUDY

CROFTERS AND SMALLHOLDERS SKILLS BOOST PROJECT



1,646
PARTICIPANTS

The HIE-funded crofters and small holders skills boost project provided 124 courses to 1,646 participants, most of whom were women. We achieved high satisfaction rates with 98% of participants agreeing that the course met or exceeded their requirements. The evaluation highlighted that the project plugged a gap in providing affordable training alternatives for low-income crofters or aspiring crofters. 98% of respondents reported they had learned a new skill and 82% felt able to increase product quality as a result of the training.

Agri-tourism

As part of a Scottish Government commitment to agri-tourism, we developed a programme to stimulate collaboration, innovation and diversification in the agricultural, food and drink, and tourism sectors. Crofts, farms and businesses in Northmavine (Shetland), and the Uists (Outer Hebrides) are set to create working cohorts.

Housing

Building upon our earlier housing research, we have developed relationships with housing sector partners across the region. We have identified opportunities where our expertise can add value and are working on a number of potential pilot projects. We have also established an internal housing forum to guide our intervention in the sector and to share information and good practice.

South of Scotland Economic Partnership

We hosted several learning exchanges for members of the South of Scotland Economic Partnership and executive team. These focused on the HIE model, including our support for communities and the integration of strengthening communities and more traditional economic development activities. HIE is represented on the partnership and will continue to assist with the development of a workplan and support the communities sub-group.

Rural leadership

A three-year Rural Leadership Programme delivered by HIE and Scottish Enterprise completed its first cohort of 15 participants. Appropriate levels of support enabled participants from North Uist and Mull to benefit. A further 30 places are planned over the next two years.

Culture and heritage

HIE is participating in the CUPIDO (Culture Power: Inspire to Develop Rural Areas) project, funded under the EU Interreg North Sea Region Programme, which supports communities to develop digitised attractions and commercialise culture and heritage through digital means. We engaged eight account managed clients in the digital adoption and digital skills strands of the project and plan to promote the benefits of participation to cultural and heritage organisations throughout the region.

We continue to work with partners to promote the use of Gaelic and dialects as assets which add economic and/or social value. HIE is co-leading on two workstreams established by the Deputy First Minister through the initiative, *A Faster Rate of Progress*. These are Economy and Skills, with Skills Development Scotland, and Communities, with Comhairle nan Eilean Siar. They are building on HIE research exploring the economic and social value of Gaelic and also the Gaelic Language Evidence Base final report, published in June 2018.

Our interventions supported
1,051
full-time equivalent jobs,
including 166.75 in fragile areas

Supporting growth sectors

Energy

HIE continued to build the case to create an ultra-deep water quay at Dales Voe, Shetland as the optimal location for oil and gas decommissioning. The tender to develop an investment-grade business case for the facility will conclude in 2019. Developments in the Moray Firth will lead to the world's largest cluster of deep water offshore wind projects with many Highlands and Islands companies and facilities playing an active role.

Construction of the 588MW BOWL offshore wind farm continued apace. First power from the project was achieved in July 2018 and full operation is expected in summer 2019.

EDPR reached financial close for the Moray East offshore wind project. The Port of Cromarty Firth was named as the staging port in an 18-month deal worth around £10m. In March 2019, BiFab secured a contract to deliver 100 piles for the project, creating up to 82 jobs at Arnish, Stornoway.

Continued success in securing EU funding by the European Marine Energy Centre (EMEC), Orkney, is enabling further wave and tidal testing, and ensuring the region is playing a pivotal role in the demonstration of green hydrogen and local energy systems.

Life sciences

HIE has a lead role in developing Scotland's first healthcare-related innovative procurement partnership. This project will evaluate a service model change. CorporateHealth International, based in Inverness Campus, in collaboration with Medtronic, has been appointed to deliver capsule endoscopy service evaluation across the Highlands and Islands.

Nexus, a life sciences project funded through the Inverness and Highland City-Region deal, comprises soft-landing space for new investors and Pathfinder, an accelerator programme. Pathfinder is a 12-week programme and over 20 companies and individuals participated to develop ideas for commercial viability. Nexus, located on Inverness Campus, has achieved full occupancy and a healthy pipeline.

Animal health and aquaculture

The Highlands and Islands is home to the majority of Scotland's world-renowned aquaculture industry and supports a well-established supply chain, including fish health companies like FishVet and Aqua Pharma. In 2018, Norwegian company Patogen established an office in Malin House at our European Marine Science Park near Oban.



25%

(266.5) of the jobs we supported were through 7 inward investment projects

Food and drink

The portfolio of companies supported by HIE and SDI to enter and expand business in international markets continued to grow, with 86 business receiving proactive trade support. Six Highlands and Islands companies received intensive support to make them 'China market ready' and, in June 2018, HIE delivered a two-day programme which brought 13 SDI in-market specialists to Inverness to meet food and drink businesses from across the region.

HIE accompanied Scottish Government Ministers to Seafood Expo Global in Brussels, the world's largest seafood show. This provided us with a unique opportunity to engage with chief executives from some of our most significant inward investors and to promote the region.

The national Make Innovation Happen food and drink collaboration fund, managed by HIE, received a significant uplift in enquiries. We approved two innovative, near-market projects and are progressing due diligence on others that will lead to market diversification and greater efficiency and productivity in food and drink manufacturing.

We participate in the Aquaculture Industry Leadership Group and organised a ministerial aquaculture supply chain event in April 2019 to unlock growth opportunities through collaboration. An immediate priority identified by industry is the formation of a new aquaculture supply chain forum, which we are supporting through the formative stages. We undertook aquaculture industry skills research to develop a sector skills investment plan, and we supported the Scottish Aquaculture Innovation Centre to develop its business plan for a second phase of operation.

HIE recognises the uniqueness of the region's natural assets including our marine resource. We are informing and influencing discussions, demonstrating sectoral leadership and sharing our knowledge of socio-economic characteristics and growth patterns to enable greater and wider distribution of benefits from and sustainability of our marine economy.

Tourism

To strengthen digital capability and leadership across industry and destinations, a refreshed programme of Digital Tourism Scotland training delivered over 100 workshops, reaching 585 participants in the Highlands and Islands since September 2018. HIE's *Tune into Tourism* webinars launched in October 2018 drew over 1,000 participants to interactive sessions covering topics such as booking trends; online reputation, food and drink tourism, and cruise tourism.

We developed a new Community Tourism Leadership programme to support rural communities in the provision of tourism services, attractions and facilities.

We played an integral role in the development of the Scottish Government's £6m Rural Tourism Infrastructure Fund. Over 70% of successful applications in the first round were from the Highlands and Islands

Creative industries

We launched support programmes in October 2018, focusing on three strands of activity under the XpoNorth banner. XpoNorth Digital aims to maximise data usage, complementing the year-round XpoNorth support programme and our annual conference and buyers events. In the first three months, more than 50 unique businesses were supported.

International collaboration will see additional benefits brought to the region, including three European networks and a relationship with California Entertainment Week in Burbank. XpoNorth has created two new models for providing commercial partners and support to regional businesses involving key industry decision makers and global brands.

Technology and advanced engineering

HIE funding of £500k over five years to the Construction Scotland Innovation Centre (CSIC) will result in a CSIC member of staff being based in the region to develop projects in the construction sector. This will principally focus on forestry and timber technologies, offsite manufacturing, rural/affordable housing, digital technologies, and sustainable/advanced materials. We held a very popular, two-day automation and robotics event in February 2019, attracting 130 delegates and 46 exhibitors.

HIE worked with partners on the development of the National Manufacturing Institute for Scotland (NMIS) to help ensure that NMIS is accessible to companies based in our area through appropriate outreach activity. We also supported the development of the new Advanced Manufacturing Challenge Fund, providing support to academia and public sector bodies for projects to drive improvements in manufacturing that target SMEs.



Developing regional attractiveness

HIE made good progress on several strategic projects which have the potential to deliver a disproportionate level of impact to the Highlands and Islands. This aspect of our work takes place in tandem with our efforts to attract foreign direct investment and maximise the impact of growth deals.

Lochaber

Capitalising on investment plans by Liberty British Aluminium, we progressed several strategic developments which aim to make Fort William a more prosperous town and a driver of economic growth in the west Highlands. The *FW2040 Delivery Programme* provides a collaborative partnership focus. A Fort William strategic transport case for change has been published and a follow-up appraisal is planned to ensure the town's infrastructure is fit for purpose. This will tackle constraints in capacity and resilience on the road network as well as reviewing rail, maritime and active travel provision in the area.

A centre for science, technology, health and engineering is being proposed next to a planned new hospital at Blar Mhor. Working with Scotia Gas Network and the Scottish Government, HIE is exploring options to develop a gas network in the town. A masterplan has been drafted for the proposed phased expansion of Corpach Harbour, with scope for future gas and alumina handling.

Cairngorm

HIE is the long-term owner and custodian of Cairngorm Estate, including Cairngorm Mountain, which faced a series of significant challenges during 2018-19, that we are continuing to address. Operating company Cairngorm Mountain Ltd (CML) took the funicular railway out of service in September 2018, after an inspection identified safety concerns. HIE commissioned a detailed structural inspection by specialist engineers, to include options and costings for any repairs that may be needed, and set up a response group, comprising public bodies and business and community representatives.

In October, the HIE Board approved a £1m investment in new snow making equipment and snow cannons, which arrived on site in December 2018. By this time, however, CML's directors had put the operating company into administration. With the business still trading, HIE established a new subsidiary company, Cairngorm Mountain (Scotland) Ltd, to take over operations, and submitted a successful bid to the administrators. This meant that HIE acquired the business and its assets, and was able to maintain employment and safeguard wider economic impact.

Specialist consultants SE Group, who carried out a well-received uplift review for HIE in 2018, were recommissioned to consider the impact of the funicular being out of service and inform debate on future development at Cairngorm. The winter of 2018-19 proved unseasonably warm and badly affected ski centres across Scotland. This underscored the need to increase Cairngorm's appeal throughout the whole year, and reconfigure the business model to be less dependent on a strong snowsports season.

Space

The space sector presents global growth opportunities, in which the Highlands and Islands has a key role to play due to its unique geography. In July 2018 at Farnborough Air Show, the UK Space Agency announced grant funding to HIE of £2.5m to help develop a UK vertical launch facility in Sutherland. The HIE Board also approved conditional funding in May 2018. Over the year, the Space Hub Sutherland project gained momentum with an agreement by the Melness Crofters Estate to progress land lease discussions, the establishment of a dedicated internal HIE team, appointment of professional advisers and project managers, and the continuation of environmental studies.

A key partner in Space Hub Sutherland, launch vehicle manufacturer, Orbex, established a manufacturing facility in Forres.

We also continue to work with other potential vertical launch locations for satellites in the Outer Hebrides and Shetland. Space is a key opportunity for the region and we are looking to further support supply chain opportunities and ensure we capture benefits across the region of this national opportunity.

Orkney Research and Innovation Campus

The Orkney Research and Innovation Campus (ORIC) joint venture (LLP) by HIE and Orkney Islands Council to support the growth of pioneering research and innovation, made significant progress. The HIE-led construction project to deliver a first phase of infrastructure works at a cost of up to £6.65m is on course to complete by December 2019.

Demand for space has exceeded expectations and the first full phase of ORIC-owned accommodation will be almost fully pre-let on completion. The ORIC board is fully operational and an Executive Manager was appointed in January 2019.

Almost a
THIRD

(31.3%) of the year's international sales impact from our interventions was in the food and drink sector

CASE STUDY

W-POWER



Empower Network Grow

In September 2018, HIE became a partner in W-Power, a European Union Northern Periphery and Arctic programme.

W-Power aims to increase the economic contribution of women entrepreneurs and help address youth outmigration, particularly young women, from rural areas.

Drawing on transnational good practice, HIE will work with new start-ups and existing female entrepreneurs in Argyll and the Islands to build the capability of women entrepreneurs.

It is expected that the project legacy will result in the development of a gender-aware model of business support.



**Northern Periphery and
Arctic Programme**
2014–2020



EUROPEAN UNION

Investing in your future
European Regional Development Fund

Wave Energy Scotland (WES)

Established in 2014, HIE subsidiary Wave Energy Scotland has now awarded £38.6m of contracts to 86 projects, involving 200 organisations from 13 countries. It has secured EU funds to develop performance metrics, a structured engineering approach to wave technology development, and to design the EU's planned Wave Energy Europe programme (which will replicate WES).

A HIE-commissioned impact assessment concluded that WES has added value of over £6.5m to the Highlands and Islands and over £23m to Scotland through its programmes of activity.

Property and infrastructure

Design work for phase two of our European Marine Science Park (EMSP) in Oban is ongoing. Phase one now has three tenants and we have established a new co-working suite, the Moorings, providing flexible working space.

On Inverness Campus, life sciences building Solasta House provides a further 2,200 sq m of Grade A office accommodation, with strong tenant interest. Construction of The North Bridge started in October 2018. This will provide a pedestrian and bus link with Inverness Retail and Business Park.

Over 900 people were employed at Inverness Campus at the end of 2018-19 and 10 private companies based at the site. The Dewar Centre for Health Innovation, a joint development between NHS Highland, HIE and the University of the Highlands and Islands, gained planning approval and confirmation of EU funding for the UHI wing. In December 2018 we concluded missives for the development of a five-storey business-class hotel with around 130 bedrooms, meeting rooms, bistro, bar and lounge.

Construction progressed on five new business units at Balivanich and interest has been strong.

Digital

HIE continued to increase access to fibre-based broadband across the region, with coverage exceeding the original target and set to expand further by the end of 2019-20. The Digital Highlands and Islands NGB project passed 185,000 premises, reaching over 288 towns and villages and around 91% of homes and businesses. Average take-up reached 55%, significantly higher than the original 20% target.

Greatly improved mobile connectivity is now widely available throughout the Highlands and Islands. HIE continues to provide local authorities with a twice-yearly update on progress of the range of mobile developments and participates in managing the Scottish 4G Infill project to build new masts in areas with no mobile coverage.

Universities

HIE continued our policy of working across the whole of the Scottish university sector, establishing relationships with institutions that are supportive to our regional ambitions. Ongoing developments include our work with Scotland's Rural College to support the development of a rural veterinary hub; finalisation of the contract with the Glasgow School of Art for a further two years of supported activity in Forres, and working with UHI, University of Stirling and Heriot Watt University in relation to the marine economy.

HIE is acting as a conduit to encourage and incentivise universities to engage with the three developing regional deals, to ensure that there is a strong research and innovation component.





MAXiMAR – Science and Innovation Audit

The MAXiMAR Science and Innovation Audit final report was submitted to the UK Government and published at the end of March 2019. Focusing on aquaculture, energy and biotechnology as the most innovative sectors in the marine economy, MAXiMAR is a foundation for future work that will aim to capitalise on the Highlands and Islands’ outstanding marine resource.

Science Skills Academy

The regional science skills academy is progressing at pace. Five Newton Rooms are being established to inspire more young people to take up science, technology, engineering and mathematics (STEM). The first was opened in Thurso in March 2019 by the Cabinet Secretary for Further and Higher Education and Science.

Skills and labour market

As part of our ambition to create the conditions that will attract and retain young people, we are focused on growing student numbers, supporting the development of the learner journey, and influencing teaching, learning and training provision that supports our regional objectives. In addition to supporting a reduction in youth unemployment and enhancing the journey from education into work for our 15-24 age group, we have a focus on developing the working age population.

Through our role in regional and local skills planning and the national sector skills investment plan actions, we are also ensuring that the skills system can support the retention and return of people aged between 24 and 65.

We engaged the Glasgow School of Art to pilot a study from May to September 2018 which identified factors underlying occupational segregation in Moray. This will be used to identify ways in which partnership activity can address patterns of occupational segregation in the area, specifically the issue of women being more likely than men to work part time and in low paid sectors and roles.

Talent attraction

We formed a senior level working group to oversee the evolution of our talent attraction strategy and action plan, and are working with partner bodies to support local area planning. Key priorities for the region are housing, education and skills, regional messaging, information and marketing; evidence gathering; and policy influence.

In April 2018 HIE commissioned research: “Young People and the Highlands and Islands: Maximising Opportunities” to track the changing attitudes and aspirations of young people in relation to the region and explore how opportunities around education, training and employment can be maximised for all. The report is on the HIE website.

We supported a childcare business model pilot with Pairc Playgroup, on Lewis, to establish whether a childcare social enterprise could be sustainable in a rural location. It will also explore the role of adequate, accessible childcare on the stability of small, rural communities, on population retention and on enabling workforce participation, particularly by women.

Regional policy

We work alongside regional partners to maximise the use of European Union structural funds, and with international partners on collaborative projects, funded through INTERREG. Examples include the SuNSE social enterprise development programme, Co-Innovate to deliver innovation support in the west of the region and support links with Irish businesses and academic institutions; W-Power developing female entrepreneurship, and CUPIDO to create business opportunities in the culture and heritage sector. We worked with international partners to pursue opportunities through the EU’s innovation programme, Horizon 2020, to optimise science and research to support innovation in the region’s marine sector.

We continued to work with Scotland Europa to sustain our engagement and influence in Brussels and across Europe. Ongoing participation in European networks has continued to enhance the region’s profile as one of innovation, ambition and an openness to collaboration. While the post-Brexit policy and funding landscape remains unclear, HIE has been active in sharing its thinking with partners and has submitted evidence on future regional policy to Scottish and UK parliamentary committees.



Transport

An extensive socio-economic study of Inverness Airport, co-funded by HIE and Highlands and Islands Airports Ltd demonstrated demand for services and will aid route development. Building on the reinstatement of a British Airways service to Heathrow in 2016 – which was backed by Transport Scotland and HIE – HIAL secured a deal to increase frequency to twice daily.

We worked with partners to commission research in response to transport constraints which hamper socio-economic development. This included the Fort William Transport Study, which evidences the need for investment to address seasonal congestion and support future growth. With the Highland Council and HITRANS, we helped develop the business case to reintroduce air services between Skye and the Central Belt and are part of a working group that aims to determine feasibility.

Around a
QUARTER

(24.6%) of jobs supported were in the
technology and advanced engineering sector

CASE STUDY

SURVEY OF YOUNG PEOPLE



3,000
YOUNG PEOPLE
TOOK PART

In summer 2018, HIE carried out a survey into the attitudes and aspirations that people age 15-30 have towards the region. It followed a previous study commissioned in 2015.

The new findings showed that increasing numbers of young people want to live and work in the Highlands and Islands, with the proportion of committed stayers up from 36% to 46%.

Almost all areas of the region show an increase in the proportion of young people committed to staying, while fewer school leavers are committed to leaving; down to 42% from 56%.

Over half (54%) of respondents said they anticipate living in the Highlands and Islands in ten years' time. This was particularly the case among those living in Shetland, the Outer Hebrides and Lochaber, Skye and Wester Ross.

More than 3,000 young people took part in the study, sharing their views on living, working and studying in the region. Almost 70% agreed that people who stay are lucky to be able to work or study locally and most believe that leavers will return to the region when the time is right.

FINANCIAL COMMENTARY

For 2018-19, HIE achieved its financial targets as agreed with Scottish Government (SG). This out-turn included an authorised Resource (RDEL) overspend on its wholly-owned subsidiary Cairngorm Mountain (Scotland) Ltd (CMSL) of £2.0m (within the limit of £2.3m set by SG). The summary group position on RDEL excluding CMSL was an underspend of £0.108m. The group position on Capital (CDEL) was an underspend of £0.082m. Within this total, HIE's wholly-owned subsidiary Wave Energy Scotland (WES) recorded an overspend of £0.050m.

HIE recorded an overspend of £15.2m on its budget for Annually Managed Expenditure (AME). This overspend was primarily due to a provision of £9.6m for the repair of the funicular railway and a provision of £4.2m in relation to potential backdated VAT liabilities. The provision for the repair of the funicular railway is based on high level estimates and further technical investigation work is required to finalise the costs. The VAT liability is not quantified with any certainty at the time of writing and is subject to ongoing discussions with HMRC.

As a result of the increase in pensions deficit plus provisions for potential liabilities relating to the funicular railway at Cairngorm Mountain and vat payments, HIE's balance sheet position moved from a net positive position of £0.8m to a net negative position of £19.3m. The technical provision deficit on all pension schemes stands at £47.4m (of which the HIE scheme represents £41.8m). If these provisions are set aside, the Group has positive net assets of around £28.1m. As noted above, the pensions provision will take decades to crystallise and therefore does not represent an immediate risk to HIE's cashflow. In addition, SG has provided written assurance of its willingness to 'stand behind' the HIE pension scheme. For these reasons, the accounts have been prepared on a going concern basis.

HIE stayed within its cash limit for 2018-19.

The above out-turn represents an excellent result in a very challenging financial climate.

Summary out-turn

The table below summarises the out-turn for 2018-19.

	Budget	Actual	Spend
	£000	£000	£000
Resource DEL	32,277	34,175	(1,898)
Capital DEL	31,690	31,608	82
Non-cash DEL	5,000	2,115	2,885
Non-cash AME	7,500	22,740	(15,240)
Note			
Analysis of RDEL out-turn:			
HIE underspend			98
Cairngorm Mountain (Scotland) overspend			(1,996)
			(1,898)

Future outlook

The financial outlook for the Scottish public sector remains challenging. HIE's RDEL budget for 2019-20 was 3% (£1m) lower than 2018-19 whilst the CDEL budget was £0.7m lower, albeit this was balanced out by a financial transaction allowance of £1m. Financial transactions are, in effect, loan funding that must be utilised on loans or equity outwith the public sector boundary and must be repaid to the Treasury.

The 2019-20 budget-setting process within HIE was quite challenging in view of the very tight financial settlement, and scenario planning was utilised to finalise the budgets. The RDEL budget was set with a modest over-commitment, albeit this relies on successful management of some key risks summarised below. The CDEL budget was set with a £10m over-commitment which was relatively high and requires careful managing and monitoring during the year. The Scottish Government set the 2019-20 budget on a one-year basis again. Therefore, the financial outlook for HIE beyond 2019-20 is unknown but it is certain to remain very challenging.

HIE sold its most valuable asset in 2019-20 (the Centre for Health Science (CfHS) at the Raigmore Hospital site in Inverness). The rationale for this decision was set out in a detailed paper to the Board in April 2019. This reduces the asset value in the balance sheet by around £8.5m albeit the net asset position would still be very positive, aside from the pensions deficit.

Short-term risks

For 2019-20 the key RDEL financial risks are as follows:

- Finalisation of the potential backdated VAT liability with HMRC. This figure is not quantified with any certainty
- Operating losses at CMSL
- The loss of rental income arising from the sale of CfHS was mitigated by profit on disposal in 2019/20 but there will be an ongoing impact.

Discussions are ongoing with the Scottish Government in regard to managing the risks above.

For 2019-20 the key CDEL financial risk is the overall level of over-commitment. This was set at £10m in the opening budget. There is high confidence that this can be managed, but there is likely to be an impact in terms of delaying planned projects. There is a further potential risk regarding the Space Hub Sutherland project due to its novelty and complexity. This risk would essentially encompass delay, costs overrun or 'scope creep'.

The funicular railway at Cairngorm is another CDEL risk that is certain to require significant investment. Most of the cost is likely to crystallise in 2020-21. Discussions are ongoing with the Scottish Government regarding funding for this. One potential source of funding is the sale proceeds from the sale of CfHS.

There are sub-groups of the Board receiving weekly updates on Cairngorm and Space given the level of risk involved.

The uncertainties associated with Brexit represent a further risk both directly to HIE (in view of HIE's ability to access EU funding in the past) and indirectly given the potential impact on the local economy.

Medium-term risks

In the medium-term, the most significant risk is the status of the HIE Pension Scheme. At April 2018 (the latest formal actuarial valuation) the technical provisions deficit stood at £31m. It must be emphasised that this is an estimate that looks far into the future. There is no immediate threat to HIE's cashflow arising from this. The key action required is the agreement of a Pensions Recovery Plan that looks to address the deficit over a prolonged time period. A recovery plan has been agreed with the Board and signed off by the Trustees of the HIE Pension Scheme. This plan was submitted to the Pensions Regulator alongside the formal valuation and the Regulator raised no questions regarding the plan. The deficit is monitored closely and HIE will act to accelerate the recovery plan if required.

HIE's activities in Cairngorm mountain seem likely to remain a risk in the medium term. HIE is working closely with the Scottish Government on this.

Overall the financial outlook is likely to remain challenging in the medium term. HIE will continue to liaise very closely with the Scottish Government to understand the likely outlook and continue to employ scenario planning to model the impact of the financial position.

The Scottish Government has published a medium-term financial strategy that will inform HIE's financial planning.

<https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy-2019/>

Longer-term

The financial outlook for the public sector is likely to remain extremely challenging with pressures such as climate change, ageing population, increasing incidence of chronic diseases and skills challenges likely to have an impact. The Scottish Government will be creating a 30-year infrastructure strategy and HIE will be ready to play into this.

Other factors difficult to quantify include increasing automation and artificial intelligence that may affect employment in the region, along with political uncertainty.

The Fraser of Allander Institute has produced a document entitled 'Scotland in 2050' which is useful background reading regarding the longer-term outlook. <https://www.sbs.strath.ac.uk/economics/fraser/20190319/scotland-in-2050.pdf>

Payment to creditors

HIE observes the 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

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

Standard	Performance 2018-19	Performance 2017/18
In line with government policy, aim to pay all invoices promptly - target 10 days Note: excludes items under dispute or where other terms are agreed with a supplier	77%	86%

Events after the Statement of Financial Position

No post Statement of Financial Position events occurred.

Corporate governance

We aim to maintain the highest standards of corporate governance at all times. Further information is provided within the Governance Statement. While the remuneration and the service contracts of Board members are set by the Scottish Government, appropriate recommendations of the UK Corporate Governance Code have been applied. The remuneration package of each Board member is 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 Board members/directors and employees. 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. Declarations by Board members/directors are recorded in Board minutes.

Future developments

HIE's 2019-22 strategy and 2019-20 operating plan were published in June 2019 and launched jointly with a similar strategy and plan by our partner agency Scottish Enterprise. With people and place at the heart of Scotland's economic future, the agencies plan to enhance collaboration through regional partnerships to support the growth of vibrant economic communities. At the same time, they will maximise Scotland's international reputation to increase export success and attract more talent and investment.

HIE's three-year strategy sets out how the agency will help improve productivity, equality, wellbeing and sustainability, building an inclusive rural economy through a place-based approach across all parts of the Highlands and Islands. Included is a commitment to grow the working age population by attracting more young people, as well as increasing incomes and embracing the Fair Work First approach.

Our plan is available online at www.hie.co.uk/strategic-plan

Over **20,000** young people
are expected to benefit from events under the
Fèisean nan Gàidheal Youth Arts programme

PUBLIC INTEREST REPORTING

As a publicly-funded organisation, HIE is committed to full compliance with the Freedom of Information (Scotland) Act 2002 (FOISA), Environmental Information (Scotland) Regulations 2004 (EIRs), the Data Protection Act 2018 and EU General Data Protection Regulation, implemented in 2018.

In 2018-19, HIE received 138 information enquiries.

Number of requests for reviews	2019	2018
Freedom of Information (Scotland) Act 2002	100	77
Environmental Information (Scotland) Regulations 2004	37	22
Data Protection Act 2018 (Subject Access Request)	1	0
Total	138	99

A detail of our response times and information request handling is as follows.

Information request handling performance	2019	2018
Average time to fully respond and close a request for information:	18 days	14 days
Percentage of requests requiring a response which received a response within the statutory timescales:	86%	94%
Percentage of requests which received a late response:	12%	6%
Percentage of requests fully or partially disclosed:	92%	77%
Percentage of requests which were vexatious:	0%	9%
Percentage of requests which were withdrawn:	2%	1%
Percentage of requests not held:	0%	7%

FOISA exemptions and EIRs exceptions applied to requests for information

The number of occasions exemptions were applied to requests received under the Freedom of Information (Scotland) Act in 2017-2018.

Section of the Act	Description of exemption	2019	2018
30 (c)	Prejudice effective conduct of public affairs	3	6
33 (1) (b)	Prejudice commercial activities	12	11
38 (1) (b)	Breach of data protection principles / Third party personal data	27	10
30 (b)	Free or frank provision of advice	0	1
36 (2)	Confidentiality of communications	3	9
EIR Regulation 10 (5) 9d)	Confidentiality of commercial information	15	9

Number of requests for reviews	2019	2018
Freedom of Information (Scotland) Act 2002	4	4
Environmental Information (Scotland) Regulations 2004	11	4

Number of appeals to the Office of the Scottish Information Commissioner	2019	2018
Freedom of Information (Scotland) Act 2002	2	3



Customer service

We are committed to continually improving our service and welcome comments and suggestions. We record both positive and negative feedback and ensure lessons are learned for the future.

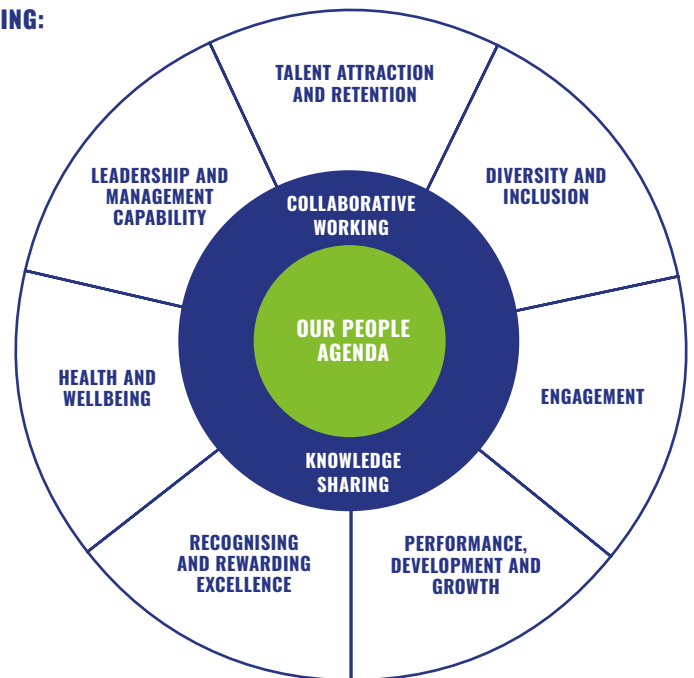
COMPLAINTS

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. If we are not able to do this, a complaint investigation will be carried out. 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.

From 1 April 2018 – 31 March 2019, 10 complaints were dealt with through frontline resolution. Seven complaints required investigation and one went forward to the Scottish Public Sector Ombudsman, which was not upheld.

	Frontline resolution	Investigation	SPSO
1 April 2018 – 31 March 2019	10	7	1

OUR PEOPLE AGENDA HAS FOCUSED ON THE FOLLOWING:



Talent attraction and retention

The strength of HIE’s culture is evidenced by a committed workforce who are passionate about the Highlands and Islands. Alignment with personal values is the main reason they give for working for HIE.

At 31 March 2019, HIE’s headcount was 301. We continue to review our strategic resource requirements alongside efforts to develop the workforce of the future. We are working to ensure that the organisation remains an employer of choice which is key to effective employee recruitment and retention. HIE featured in best practice case studies produced by Working Families UK to promote flexible working approaches to other employers and was a finalist in the 2018 cHeRries awards.

HIE was joint winner (with the RAF) as the UK Best Public Sector Employer for working families and awarded Best Public Sector Employer at the Family Friendly Working Scotland awards. This recognises the impact of HIE’s culture, leadership and practical support for flexible working and how that impacts positively on organisational performance. Regular reviews of our workplace policies provide a benchmark against other organisations and ensure that HIE remains at the forefront of best practice.

Workshop sessions on inter-generational working helped raise awareness of the changing expectations of employees and the implications for our workplace. We worked with Age Positive Scotland to focus on HIE’s change in demographics and support our employees with opportunities to extend working life beyond traditional retirement ages.

Participation in Scotland’s Year of Young People 2018 celebrated and built on our approach to developing the young workforce and promoted HIE as an exemplar employer. From a low base, we have seen an increase in the numbers of people we employ aged 30 and under, as well as success in developing and retaining younger staff.

Our approaches to attract, retain and develop young people have included:

- development of HIE’s in-house graduate placement programme and promoting HIE as an employer of choice for young people;
- employment and training of modern apprentices;
- short term placements/internships;
- development opportunities focused on the needs of young people and staff in the early stages of their career with HIE, including the Young Scotland programme;
- 100% financial support for further education/ professional qualifications;
- achievement of Investors in Young People (IiYP) gold recognition and contribution to the development of the IiYP maturity model with IiP Scotland;
- commitment to the Scottish Government’s Social Impact Pledge and implementation of targeted action on young people;
- contributing at a national level to the Developing the Young Workforce employers representative group; and
- contribution to the development of the Work Placement Standard for colleges

Diversity and inclusion

Our inclusive working environment is enhanced by flexible working. Some 30% of HIE staff have agreed flexible working arrangements and all staff have the option to work flexibly on an informal basis.

HIE has a suite of family-friendly and flexible working policies backed up by practical support, tools, facilities and resources to help employees balance the demands of work and home, for example childcare, foster care, elder care, young people, pre-retirement and community volunteering. To encourage greater inclusiveness in the workplace, we signpost employment opportunities for care-experienced students.

To promote and encourage greater diversity and inclusion, we ensure that the default position for HIE roles is that they can be done from a flexible location unless there is a specified overriding business consideration. We have also adopted the 'Happy to Talk Flexible Working' strapline which is featured on our website recruitment pages and for specific job adverts.

Our equal pay audit 2018 shows a mean gender pay gap of 14.35%, reducing to 13.45% with the inclusion of the Chief Executive. This reflects a narrowing of the gap primarily for women in higher grades. At Director level, women on average now earn more than men for the first time.

HIE's employment equality outcomes have been refreshed to further advance and support equality of opportunity for all employees. HIE is recognised as a Disability Confident employer, reaching the second level of the UK Government's Disability Confident scheme. We are reviewing the criteria associated with the next and top level of the scheme, Disability Confident Leader, with a view to seeking accreditation next year.

As well as meeting the specific and varied needs of any disabled employees through a range of reasonable adjustments, we have also considered the needs of employees caring for disabled dependents. There have been a number of examples where existing employees have acquired caring responsibilities while in our employment. This has included the care of disabled children where a range of flexible working arrangements have been put in place and time off agreed to cope with treatment and therapy.

In July 2018, HIE took part in a parliamentary roundtable discussion hosted by Sir Ed Davey MP to mark the launch of the Working Families report 'Off Balance – the parents of disabled children and paid work' to which we had contributed case study examples of best practice. The roundtable involved politicians, policy-makers, employers and parents of disabled children themselves to help influence recommendations around labour market reform, childcare and public services.

Engagement

HIE's staff forum is instrumental in helping articulate our organisational values and principles and a key route for consulting and communicating on policies such as encouraging breastfeeding, raising awareness of support for carers, and promoting agile working through new approaches and use of technology.

Forum representatives joined a joint cross-agency workshop with Scottish Enterprise (SE), the Scottish Funding Council and Skills Development Scotland to explore shared values and identify collaboration opportunities. A small project team has been working together to agree shared principles and proposals to align resources, collaborate and share knowledge more easily across the four agencies. Immediate benefits have been derived from sharing best practice, agreeing reciprocal agreements and protocols and developing joint approaches to deliver enhanced quality, consistency and cost effectiveness. Some of the key themes are around inter-agency secondments, recruitment/resourcing, space sharing/co-location and joint virtual teams.

Our internal communication channels raise awareness of people issues, opportunities and support available. We introduced an online publication, People Matters, as a regular update for employees on people-related activities and news across, and are working to improve access to information, support and online learning tools on our intranet. Yammer has been introduced across HIE and we have seen virtual informal collaborative and knowledge sharing groups set up for the staff forum, carers, working women in business, and young people.

Performance, development and growth

The Account Management Development programme has been delivered and the focus is now on consolidating and applying learning in practice through coaching, regular review and feedback. An additional module on due diligence is being progressed.

Employees have benefited from learning and development opportunities including corporate induction, social media skills, line management training, team development, facilitation skills, mental health awareness, dignity at work and a range of further education and professional development. Specialist training programmes have been provided to meet identified needs, as well as widening provision to open access online learning programmes through our e-learning platforms.

We offer an annual opportunity for employees in the early years of their career to apply for the Young Scotland programme (YSP). Following past successes by participants, this year HIE was part of the winning team in the group presentation round.

Recognising and rewarding excellence

HIE works with the Scottish Government Finance Pay Policy Unit and our recognised trade union PCS to agree our remit for pay and benefits within Scottish Government pay guidelines. HIE's pay settlement date was successfully moved from 1 August to 1 April, enabling employees to gain pay increase earlier than anticipated. HIE's staff pay remit proposal was formally approved and fast tracked to allow negotiations to start on next year's pay claim.

We have taken an innovative and positive approach to providing flexible opportunities which our employees value. Our special leave and flexible working policies reflect a variety of needs, such as supporting parents with disabled children, dependents going through treatment or therapy, or long-term or complex domestic needs. Consideration has been given for island-based employees for whom specialist services can only be accessed on the mainland, as well as supporting adult children with mental health issues living at a distance.

Health and wellbeing

HIE aims to help employees achieve an optimum balance between work and home life, and to have workplace policies, ways of working, health-related benefits and a workplace environment that promotes health and wellbeing opportunities. We recognise the variety of caring responsibilities held by our employees and have supported the establishment of peer networks for carers.

We support the Mentally Healthy Workplace initiative, and members of the HR team have been trained alongside Community Planning partner organisations to help in the local delivery of suicide intervention and prevention awareness.

Leadership and management capability

We received excellent feedback for a pilot programme to develop practical line management skills. We gained funding through the Flexible Workforce Development Fund and a cohort of staff undertook an accredited management development programme that we ran with the University of the Highlands and Islands.

The prestigious Cook Conversations, sponsored by HIE and Scottish Enterprise, bring together exceptional individuals and future leaders of different professional backgrounds, culture and experiences. HIE supports one place on each of the two programmes which run in May and October every year and this year hosted an alumni event.

Upgrades and improvements to HR digital systems for employee data and performance review and development planning (OpenHR and Halogen) have introduced better self-service functionality for all employees, as well as dashboard information for better management information and reporting.

Board and staff by gender

At the end of March 2019, the number of HIE staff and board members of each gender was as follows:

	Male	Female	Total
Board*	7	6	13
Leadership Team*	3	4	7
Other employees	106	195	301

* Mrs C Wright (Chief Executive) is a member of both the Board and the Leadership Team.

HIE is committed to the Scottish Government's aspiration for public sector boards to comprise equal numbers of men and women, known as '50:50 by 2020'.

Compensation and exit packages

Nil return.

Sickness absence

Highlands and Islands Enterprise employees:

The attendance record for HIE employees for the year to 31 March 2019 was 1,279.5 (2018 1,310) days sick leave out of a total of 61,687 (2018 62,732) possible working days. This represents a lost time through sickness rate of 2.07% (2018 2.09%).

Trade union facility time

Highlands and Islands Enterprise recognises one trade union for the purpose of collective bargaining. This is the Public and Commercial Services Union (PCS).

We recognise the benefits of a positive and open relationship with our recognised trade union. As part of our commitment to working in partnership we offer paid facility time to our work place representatives to enable them to carry out union activities and duties. As an organisation, we derive benefits from allowing paid facility time.

One staff member was a trade union official during 2018/19.

Percentage of working hours spent on facility time	Union officials No.
1 – 50%	1

The total cost of facility time amounted to 0.01% of the total pay bill, including the gross amount spent on wages, pension contributions, and National Insurance contributions. Two per cent of the total paid facility time hours was spent on trade union activities.

Sustainability and environment

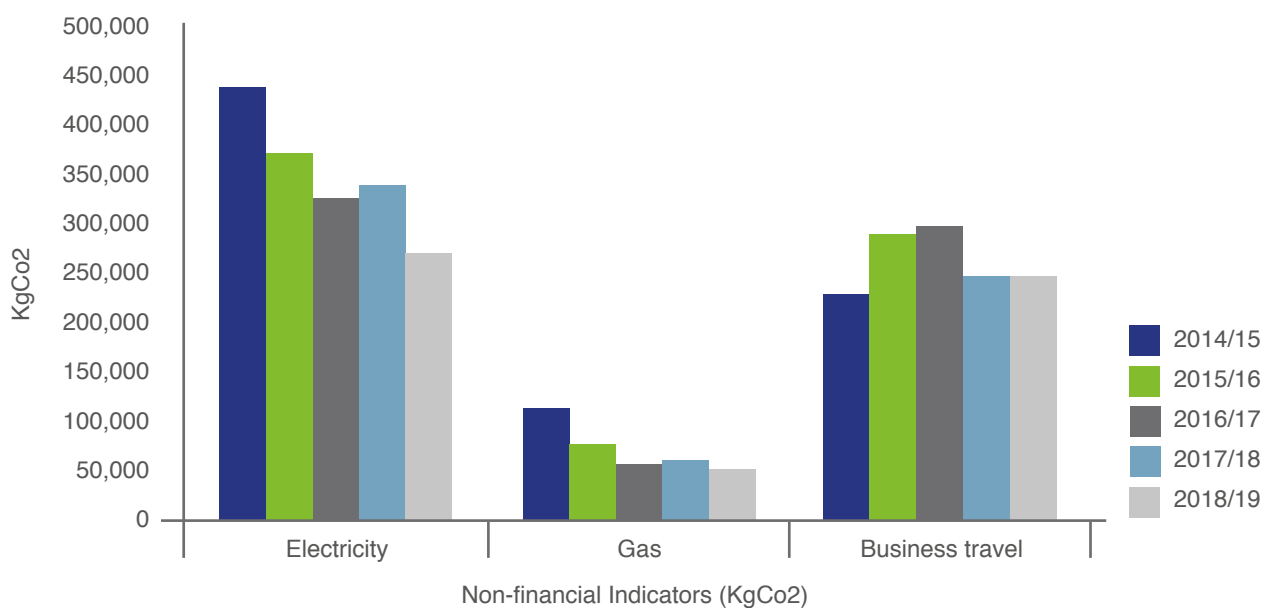
HIE is committed to the reduction of carbon usage, our internal carbon management plan was launched in March 2011. HIE are one of 14 organisations within the Highlands and Islands who signed up to the Joint climate change declaration in June 2010.

We encourage our clients to reduce their carbon consumption and are committed to creating the conditions for a competitive and low carbon region. Further details can be found in our strategy at www.hie.co.uk/about-hie/policies-and-publications/strategic-plan.html

Utilities and travel

Utilities and business travel		2014-15	2015-16	2016-17	2017-18	2018-19
Non-financial indicators (KgCO ₂)	Electricity	436,151	369,654	324,639	337,080	267,803
	Gas	108,616	72,274	45,940	54,269	50,267
	Business travel	227,952	286,437	292,376	248,049	245,274
Related energy consumption (KWh)	Electricity	889,687	806,224	792,634	966,262	953,442
	Gas	587,113	390,672	225,139	277,008	234,684
Financial indicators (£)	Electricity	104,674	108,677	117,113	120,675	107,546
	Gas	23,705	15,865	14,971	14,459	14,563
	Business travel	692,167	732,738	700,263	694,228	672,018

Greenhouse gas emissions from buildings and business travel



802

people attended our community events – 58% were women

Performance

We reduced our electricity and gas usage in comparison with the previous year's baseline figure and achieved a 20% reduction in carbon emitted from our electricity consumption. The cost of electricity and gas remained fairly consistent, with a small saving made on electricity.

More initiatives and targets will be implemented to further minimise our carbon footprint. Targets will be ambitious but also achievable for HIE to continue to make progress year on year.

Business travel emissions remained consistent with the previous year. Reporting on business travel will be improved in 2019-20 to set targets for individual business units. This will help reduce the carbon emitted by HIE through greater transparency in reporting.

Controllable impacts

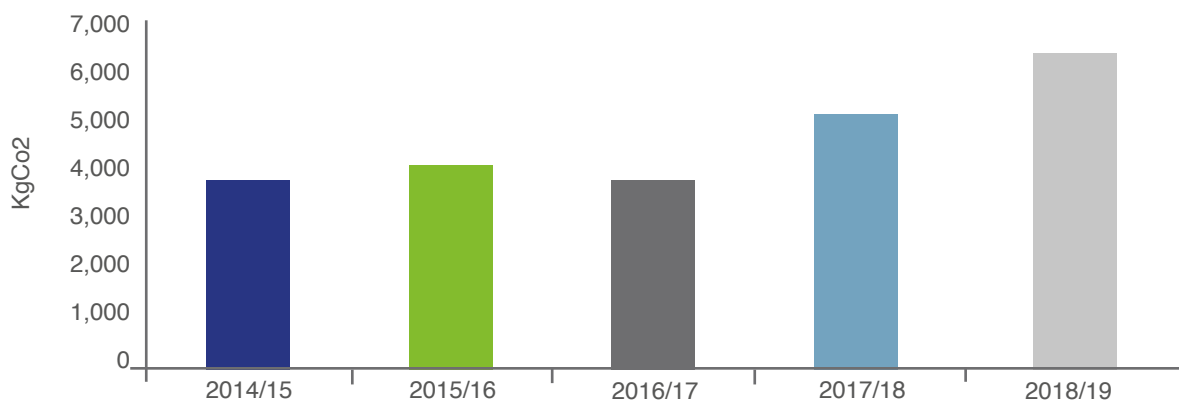
Reducing carbon emissions and continuing to move towards a low carbon region stands as a key priority and is embedded in our strategy and operating plan. This continues to be reviewed on a regular basis by our Board and senior management team. We monitor carbon emitted throughout the organisation and work with employees to generate ideas and new ways of working to achieve future reductions.

Our relationship with suppliers has been a key factor in meeting sustainability targets. We will continue to work with suppliers and learn from best practice elsewhere to deliver future reductions.

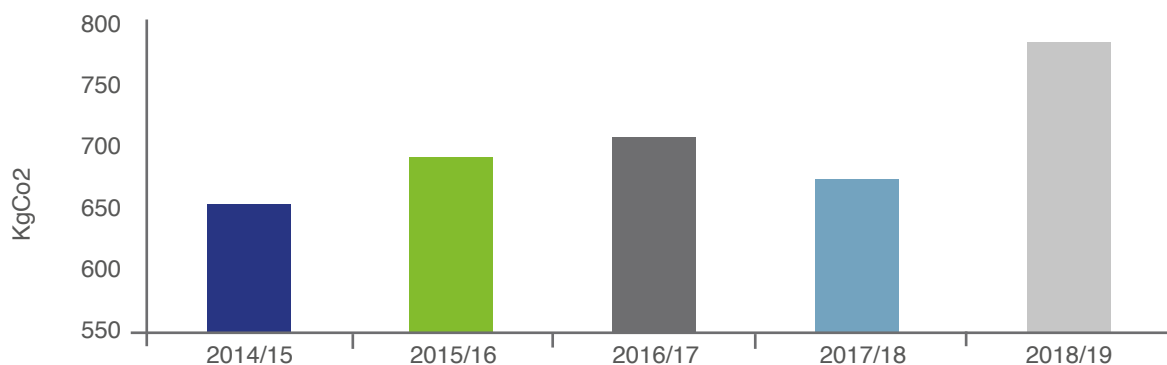
Waste and water

Waste and water		2014-15	2015-16	2016-17	2017-18	2018-19
Non-financial Indicators (KgCO ₂ e)	Total greenhouse emissions from general waste	3,946	4,233	3,811	5,183	6,344
	Measurable greenhouse emissions from water	653	688	707	666	782
Non-financial Indicators	General waste (kg)	13,615	9,222	9,051	8,801	10,817
	Recycled waste(kg)	26,563	25,670	22,280	16,520	18,167
	Measurable consumption (m ³)	1,897	2,000	2,054	1,937	2,272
Financial Indicators (£)	Disposal cost	48,518	51,849	54,852	47,266	27,705
	Measurable water cost	37,414	25,850	38,548	18,156	15,814

Greenhouse gas emissions from waste



Greenhouse gas emissions from water



Performance

The volume of waste produced and carbon emitted rose in 2018-19. This was expected, however, and attributable to a project to destroy historic paper files as part of an organisation-wide exercise relating to the General Data Protection Regulations (GDPR). This exercise will continue during 2019-20, after which we expect levels to reduce. The cost saving is due to HIE changing the way waste is uplifted.

HIE has also seen a slight increase in water consumption in 2018-19. This will be monitored in the coming year to identify possible reductions.

Controllable impacts

HIE's waste supplier will develop a quality plan, to ensure maximum recycling of waste. Improved weighing technology will also reduce the risk of human error when measuring impact and allow us to set targets with greater confidence. Reports will detail the type of waste as well as percentage recycled, helping us identify opportunities for future carbon savings.

The figure for water consumption in 2018-19 is more accurate than the estimate used the previous year. This provides a baseline for future target setting and implementing best practice.

C BUXTON

Interim Chief Executive and Accountable Officer
Highlands and Islands Enterprise

Date 15 August 2019

CORPORATE GOVERNANCE REPORT

Directors' report

Board

The members of the Highlands and Islands Enterprise board, with the exception of the Chief Executive, are appointed by the Scottish Ministers.

Board membership

Prof L D Crerar CBE (Chair)
Ms C Wright (Chief Executive)
Mr A Dodds CBE (Deputy Chair)
Ms A Bryan
Mr A Campbell (appointed 1 September 2018)
Mr P Crerar CBE
Ms A Gray
Mr D MacDonald (appointment ended 30 June 2018)
Mr R McIntosh CBE
Prof D MacRae OBE
Ms I Mactaggart (appointment ended 30 June 2018)
Ms F Newton MBE (appointed 1 September 2018)
Ms A B Oldfield
Mr C Ross (appointed 1 September 2018)
Mr W Swann (appointment ended 30 June 2018)
Ms M Gibson (Shadow board member appointed November 2018)

Leadership team

The leadership team is responsible for the day-to-day management of Highlands and Islands Enterprise operations and activities. The Chief Executive is a member of both the Board and the leadership Team.

Leadership team membership

Ms C Wright (Chief Executive)*
Mr N B Kenton (Director of Finance and Corporate Services)
Ms C Buxton (Director of Regional Development) (Appointed Interim Chief Executive 01/04/19)*
Mr D Cowan (Director of Strengthening Communities)
Mr D J Oxley (Director of Business and Sector Development)
Ms S Dunbar (Director of Business Improvement and Internal Audit)
Ms K Moncrieff (Director of Human Resources)

*HIE's Chief Executive is currently on an extended period of leave. During this period Carroll Buxton has been appointed Interim Chief Executive and Interim Accountable Officer.

Register of Board members' interests

Highlands and Islands Enterprise supports the highest standards of corporate governance and has in place codes of conduct both for Board members and staff. In compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000, the HIE Code of Conduct for Board Members is published on our website, together with details of company directorships and other significant interests held by Board members.

www.hie.co.uk/about-hie/who-we-are/board-members/default.html

Performance report

In accordance with section 414(c) (11) of the Companies Act 2006, Highlands and Islands Enterprise has chosen to include several matters in the performance report which would otherwise be included in the Directors Report.

These matters are:

- Review of business and performance against key performance indicators
- Future developments
- Sustainability and environmental matters
- Information about employees and social and community issues

Funding

Highlands and Islands Enterprise primary source of funding is Grant in Aid from the Scottish Government. The budget allocation for 2019-20 is £61.0m and together with in year budget revisions and funds generated by Highlands and Islands Enterprise from the use or sale of assets, European income and other partner contributions are deemed adequate for HIE to continue for the foreseeable future.

Financial Instruments

Highland and Islands Enterprise has exposure to liquidity, credit and market risks from its use of financial instruments. The extent of these risks is set out in note 25 to the accounts.

Retirement benefits

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme unless they opt out. Further details are provided in the Remuneration and staff Report and in notes 1 and 17 to the accounts.

Data loss

There were no reported instances of data loss during the financial year.

Appointment of auditors

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2019 was Gordon Smail, Audit Director, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £136,160 (2018 - £133,490). There were no fees payable to Audit Scotland for non-audit work during the year (2018 Nil).

Severance payments

Detail of severance payments are included within the exit packages section of the remuneration and Staff report.

We supported
321 NEW
existing and potential exporters through our
International Highland and Islands programme

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

The Interim accountable officer is responsible for the maintenance and integrity of the corporate and financial information included on Highlands and Islands Enterprise's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

As the Interim accountable officer, as far as I am aware there is no relevant information of which Highlands and Islands Enterprise's auditors are unaware and that I have taken all necessary steps to make myself aware of any relevant audit information and to establish that Highlands and Islands Enterprise's auditors are aware of that information.

Furthermore, I confirm that the annual report and accounts as a whole is fair, balanced and understandable and as Interim accountable officer am personally responsible for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Scope of responsibility

The HIE Chief Executive is currently on a period of extended leave. During this time, I have been appointed as Interim Chief Executive and Interim accountable officer. In this role 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 Interim 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 Interim accountable officer is to ensure HIE’s internal control systems comply with the requirements of the SPFM. No written authorities have been provided to the accountable officer in 2018-19.

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 them 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 Scottish Government’s purpose to create opportunities for all in Scotland to flourish through increasing sustainable economic growth. Ministers expect HIE to do this by pursuing Scotland’s Economic Strategy.

A Framework Agreement, drawn up by the Scottish Government, 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.

HIE regularly reviews and updates its governance framework in line with developments in good practice, changes in external regulation and its own reviews of effectiveness.

HIE requires high standards of integrity for all staff, clients and suppliers and has policies and controls in place to minimise risk and ensure a strong control framework operates. An Information Security and Fraud Governance Group exists to consider reports and make recommendations for action required on suspected fraud or irregularity and suspected security breaches. It also makes recommendations for strengthening existing controls and communicating lessons learned. HIE is taking part in the National Fraud Initiative for 2018-19 which further enhances our consideration of the control environment. HIE has also signed up to a one-year fraud prevention partnership with NHS Scotland Counter Fraud Services to give access to a wide resource of preventative fraud information.

Enterprise and Skills Strategic Board

In 2017, the Scottish Government’s Enterprise and Skills Review produced a new blueprint for Scotland’s four enterprise and skills agencies - Highlands and Islands Enterprise, Scottish Enterprise, Skills Development Scotland and the Scottish Funding Council. It detailed how the agencies should work together more closely to deliver the Scottish Government’s economic agenda. This aimed to maximise the collective impact Scotland makes in enterprise and skills development, and to create the best conditions for delivering inclusive and sustainable growth.

The review included the planned establishment of a new economic development agency for the South of Scotland, and the creation of a Strategic Board.

The Strategic Board published its Strategic Plan, setting out its vision and priorities with clear actions for the four agencies. Work is focused on four connected missions, where economic performance could be improved both rapidly and substantially.

HIE continues to work with our partner agencies on progressing these missions and taking the lead on Business Creation and Growth. The actions are reflected in our 2019-22 strategy and 2019-20 operating plan.

Aligned to the Strategic Board objectives, we have been collaborating with our partners as part of the Business Support Programme in creating a new client delivery environment. During the year particular emphasis has been on establishing a Target Operating Model to streamline the system of business support and working on projects such as a new Shared Entry Portal to enterprise and skills support in Scotland.

Operation of the Board and sub-committees

At 31 March 2019, the Board of Highlands and Islands Enterprise comprised the Chair, ten non-executive members, one shadow member, as a development opportunity, and the 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.

The Board met in full as planned six times in year. A further five special Board meetings were held to discuss specific subjects.

Additionally, two financial planning workshops were held, attended by six members across the two workshops, and three new members attended an induction session.

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 Directorate for Economic Development
- 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. In year, an additional Board Sub-Group was created to specifically consider issues related to Cairngorm Mountain.

Risk and Assurance Committee

The Risk and Assurance Committee comprises a Chair and three non-executive members. Representatives of the Scottish Government departmental interim accountable officer and Audit Scotland, the Chief Executive, Director of Finance and Corporate Services and Head of Business Improvement and Internal Audit normally attend these meetings. The Shadow Board member attended the March 2019 meeting.

The committee met in full as planned four times in the year and a further two meetings were held to consider specific issues. 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:

Mr A Dodds (Chair) CBE
Prof D MacRae OBE
Mr D MacDonald (to June 2018)
Ms A Gray (to August 2018)
Mr A Campbell (from December 2018)
Ms B Oldfield (from December 2018)

The work of the Risk and Assurance Committee during the year was comprehensive and provided positive assurance for the Board in relation to the Internal Control environment. The work of Internal and External Audit identified a number of areas where action is required on an ongoing basis and the Risk and Assurance Committee will continue to monitor these areas.

Remuneration Committee

The Remuneration Committee has been set up to deal specifically with the reward arrangements of HIE's Chief Executive and the HIE Executive Directors. The Committee met once in year.

The members of the committee during the year were:
Prof D MacRae OBE (Chair)
Prof L Crerar CBE
Mr D MacDonald (to 30 June 2018)
Mr P Crerar CBE (from August 2018)

Cairngorm Sub-Group

A sub-group of the Board was formed in November 2018 specifically to consider issues related to the operations at Cairngorm. The Cairngorm Sub-Group met six times in year to consider governance issues and to make recommendations for improvement. The sub-group report on their activity to the full Board.

The Sub-Group comprises a Chair and three non-executive members. The HIE chief executive and key senior staff would normally attend these meetings.

The members of this Committee during the year were:

Prof L Crerar CBE (Chair)
Mr A Dodds CBE
Prof D MacRae OBE
Mr P Crerar CBE

Health and Safety Committee

The Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation, report on issues related to Health and Safety and to implement improvement plans as appropriate. The Committee met in full four times during the year.

Information Security and Fraud Governance Group

The Information Security and Fraud Governance Group, chaired by an executive director, is in place to support HIE in ensuring its governance environment for information management, information and systems security and fraud is appropriate.

It has accountability for ensuring, in relation to systems and information, that HIE complies with legislation, manages the governance of information throughout HIE, develops staff understanding of information governance, has appropriate supportive policies and ensures collaboration opportunities with partner organisations are taken. It also has responsibility for considering any issues relating to potential fraud and security breaches relating to HIE. The Group met in full six times during the year.

STRATEGIC AND OPERATIONAL FRAMEWORK

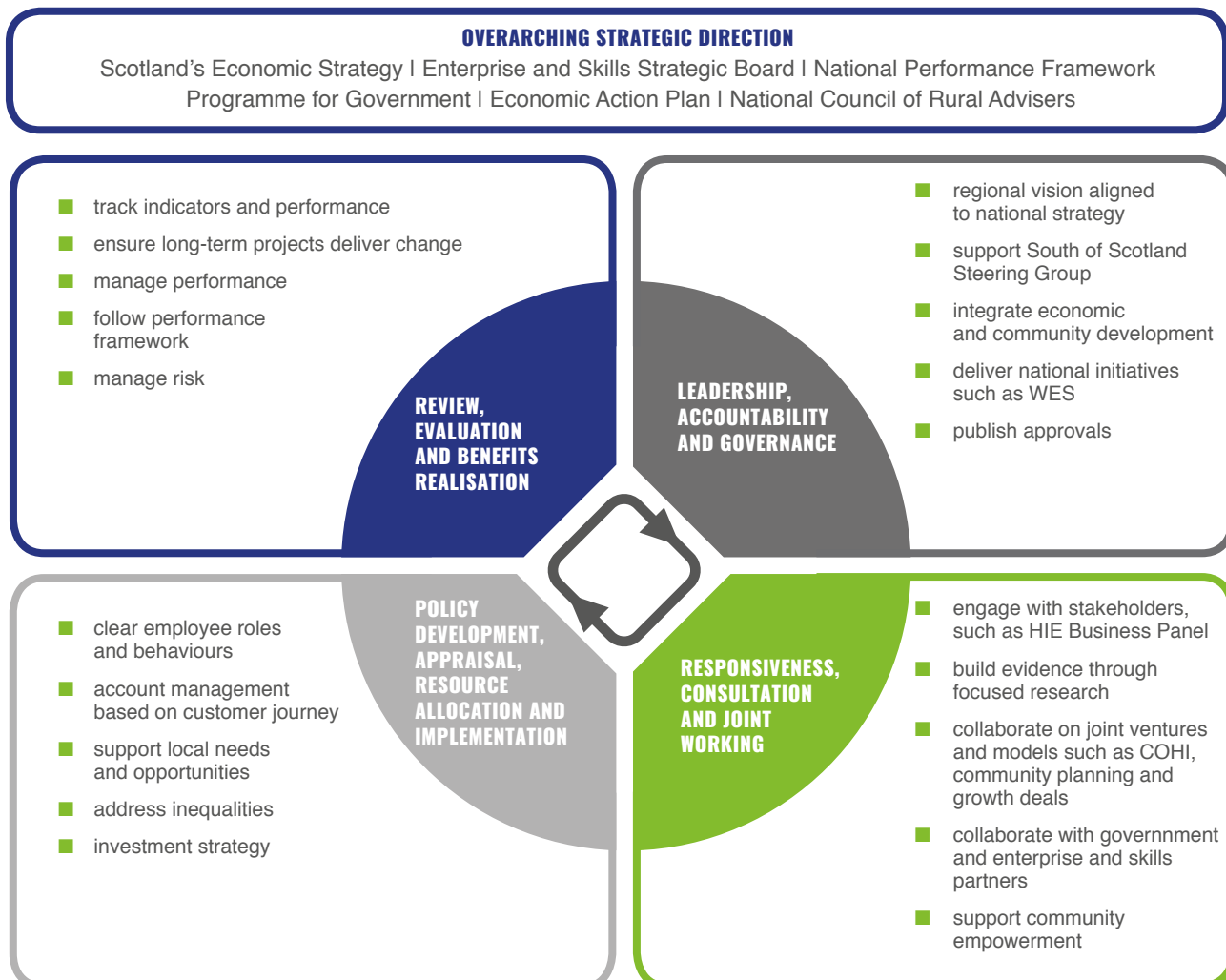
Strategy and planning

Due to development of the arrangements for the Enterprise and Skills Strategic Board, HIE had a one-year operating plan in 2018-19, reflecting our statutory duties and priorities set by the Scottish Ministers. It set out HIE's key objectives and performance measures for the year, linked to Scotland's Economic Strategy and the National Performance Framework. Our Board and Leadership team have responsibility for the development of strategy and operating plan.

Business improvement

HIE has a single strategic programme of continuous improvement activity to ensure that, internally and externally, we are regarded as an organisation which delivers best value, inspires innovation and achieves successful outcomes. This includes working with our partners to develop effective solutions which help ensure efficiency. In year, a significant output was to establish a business transformation programme which will transform HIE's delivery environment and ensure alignment with the development of the Target Operating Model for business support which is being developed with our partners.

Best value



To deliver best value we focus on clear strategic direction. We have put in place robust operational arrangements based on integrity, accountability and value and we continually monitor, evaluate and improve our impact.

What we do is determined by listening to and understanding our stakeholders. For example:

- Our Strengthening Communities Conference Scotland, celebrates the people and stories behind 20 years of community asset ownership, focusing on topics identified by communities themselves.
- We hold our board meetings across the region, engaging with and listening to local communities and businesses.
- Our Business Panel surveys inform us of the challenges and opportunities facing businesses, community groups and social enterprises across the Highlands and Islands.
- Our research, such as Young People and the Highlands and Islands informs our own and partnership interventions.

We develop a clearer understanding of how we can address inequalities using the framework of the Public Sector Equality duties, including the Fairer Scotland Duty, and through engaging with our Equality Advisory Panel in the development of our equality outcomes.

We have a rich history of partnership working, routinely sharing ideas and working in partnership. We are a very active member of the Convention of the Highlands and Islands and contribute to community planning partnerships across the region.

We are currently jointly developing a shared portal and performance measurement framework through enterprise and skills agency collaboration, to ensure that we establish consistent models with partner agencies.

Importantly we keep an eye on both the short term and long future of the Highlands and Islands. Our performance indicators and performance measurement framework help us identify how our interventions make a difference to support a region-wide vision aligned to national strategy.

Continuing to support inclusive and sustainable growth in a changing economic environment requires us to be alert to emerging challenges, particularly the implications of Brexit. HIE is fully engaged in delivering the Prepare for Brexit campaign in partnership with Scottish Government and other agencies to support businesses planning in Scotland. Incorporating Brexit questions in our Business Panel research helps us assess business confidence over time.

We strive to develop our understanding of risk in relation to project management and to source and manage funding and other resources in a way which maximises our impact. Above all we aim to increase transparency and accountability in all we do so that we truly represent the changing needs of our clients.

Performance management

HIE has a Corporate Reporting Framework which is in place to consider organisational performance throughout the year. This was discussed by the Board at each Board meeting.

Corporate governance

HIE complies with generally accepted best practice and relevant guidance related to governance matters.

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 Scottish Public Finance Manual 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 manual.

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 process for the risk register by the Risk and Assurance Committee and the Board.

Implementation of the strategy includes:

- Financial planning model
- Assessment of risk by management on at least a quarterly basis
- Maintenance of business unit risk registers
- Maintenance of an overarching corporate risk register
- Assessment of risk at individual project level
- Independent reviews for high risk projects
- Action plans with clear accountability and timescales to address significant risks
- Consideration of actions taken to address risks
- Provision of the corporate risk register to the Board at each meeting
- Alignment to the HIE corporate reporting framework

The risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year. The Risk and Assurance Committee also considered the effectiveness of the process in year, including consideration and development of risk appetite. HIE continually assesses those risks which are considered significant to the achievement of its objectives and an annual refresh is undertaken on the corporate risk register. Current significant risk areas are:

- Risks and uncertainties relating to Cairngorm
- Space Hub Sutherland and wider space activity
- Financial challenges including access to funding
- Brexit preparedness
- Internal capacity and expertise in a changing external environment

Key risks as identified at the end of 2018-19 are included in full in the Performance Summary, Principal risks and uncertainties.

Human rights

In line with Scottish Government policy, we have adopted a process to establish that our clients and prospective clients are responsible employers. This involves seeking to understand their approach to upholding human rights as part of our due diligence processes.

Prevention of fraud, corruption and bribery

Our fraud liaison officer is the key contact with the NHS Counter Fraud Services with whom we have a one-year support contract. This contract supports our fraud prevention plan and provides updates on relevant legislative changes. We also align to the Scottish Government's Scottish Public Finance Manual which provides clear guidance on the approach to, and methodology for counter fraud, anti-corruption and bribery. Training to increase staff awareness of fraud, bribery and corruption, has been delivered, and is continuing in 2019-20.

Non-dormant group companies

Wave Energy Scotland (WES) is a subsidiary of HIE which was created to address issues in the wave energy sector. We have worked to ensure appropriate governance arrangements and controls are in place to allow this subsidiary to meet its remit. An internal control checklist and annual assurance statement was provided for WES which highlighted no issues.

HIE-Ventures Ltd is a subsidiary of HIE established to provide equity and loan capital to companies located through the Highlands and Islands. An annual assurance statement was provided and noted no significant control issues during the financial year.

Orkney Research and Innovation Campus (ORIC) was established as a joint venture with Orkney Islands Council to establish a multi-disciplinary academic/business campus, based around the acknowledged marine energy/sustainability expertise which exists in Stromness/Orkney. The project will undertake the desired physical re-development of property assets in Stromness and own and operate the resultant campus facilities. An internal control checklist and annual assurance statement was provided for ORIC which highlighted no issues.

In year, HIE created Cairngorm Mountain (Scotland) Ltd (CMSL), a wholly-owned subsidiary with the remit of delivery of operations at Cairngorm Mountain. Significant support has been provided to ensure appropriate governance arrangements and controls are in place which will allow the subsidiary to meet this remit. An Advisory Group, comprising three non-executive Board members with significant experience of the tourism sector, has been formed to provide advice to HIE. This Group met once in year.

SIGNIFICANT RISKS

Data protection

HIE requires to comply with the General Data Protection Regulations (GDPR) which became enforceable from 25 May 2018. These regulations significantly change the data protection environment and carries the potential for increased penalties. A project team was in place to ensure ongoing compliance with data protection, with regular updates provided to the Information Security and Fraud Governance Group on work undertaken. The Information Security and Fraud Governance Group now oversees business as usual.

Cyber security

Given the increased general risk relating to cyber security, alongside our partners we continue to strengthen our control environment in this area. Through our partnership with Scottish Enterprise and Skills Development Scotland for the delivery of Information Systems services through Enterprise Information Systems (EIS), this includes new overarching security governance arrangements led by EIS which look at issues such as systems, policy, education and incident management for those systems hosted by EIS. HIE are working with EIS towards achieving Cyber Essentials accreditation under those governance arrangements.

Cairngorm Mountain

HIE is long-term owner and custodian of Cairngorm Mountain. This comes with responsibilities to ensure there are effective arrangements in place to manage and maintain the mountain environment and provide a stable operating environment. Following the unexpected closure of the Funicular railway and the operating company going into administration the HIE Board took the decision to create an operating subsidiary. Significant activity has been and continues to be undertaken to ensure appropriate governance is in place for Cairngorm Mountain (Scotland) Ltd.

Issues affecting Cairngorm were considered in depth at three scheduled meetings of the Board, and at a further three special meetings. We also established a Cairngorm Sub-group of the Board (see p46). The sub-group met six times during 2018-19.

There are significant financial implications for HIE in funding the operating subsidiary and in meeting costs associated with a solution for the funicular railway.

Space activity

Successful delivery of a vertical launch site for small satellites in Sutherland, and realising the significant benefits for the region and for Scotland are significantly challenging. Arrangements have been introduced in-year to help support successful delivery and robust governance of projects, including access to expertise as required. As part of governance process we undertook a Scottish Government Gateway Review during the year, and have since implemented its recommendations. An Advisory Group, comprising four non-executive Board members has been formed to provide advice and oversight of Space Hub Sutherland.

Business transformation programme

There is a need to ensure that HIE's delivery arrangements support the future needs of HIE and our clients and to ensure our Information Systems meet our ongoing requirements. We have developed a vision for a new customer focused data driven delivery environment and we are progressing a programme of transformation enabled by digital technology to deliver this. A significant element of this delivery will be to realise opportunities to collaborate with our partners.

Assurance activity

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

- The Leadership team who have responsibility for the development and maintenance of HIEs governance, performance and internal control frameworks and normally meets weekly
- The Board who 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
- Other assurance undertaken in year, through procured arrangements
- 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 the attention of the Interim accountable officer. Information provided is used to complete an organisational internal control checklist and Certificate of Assurance for HIE. We also received assurance from the EIS Chief Information Officer for IT services that they were not aware of any issues.

During 2017-18 we identified opportunities to improve the control environment relating to VAT accounting, we have been working with our tax advisers and HMRC during 2018-19 to develop a new VAT recovery method for HIE. Appropriate accruals and provisions have been included in the accounts to reflect any liabilities which may rise from the new VAT recovery method.

Data security and information security (IS) assurance

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. There have been no reported or recorded instances of data breaches during the year.

Revised arrangements for our IT provision were introduced during 2015-16, these arrangements are delivered by Enterprise Information Systems who sit within Skills Development Scotland and are delivered in partnership with Skills Development Scotland and Scottish Enterprise. These arrangements are due to be refreshed in 2019-20. During 2018-19, the Business Improvement and Internal Audit team liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to the provision of IS services in the period.

We have a programme of IS assurance work with our partners and have identified specific reviews and actions to be taken. Through this programme reviews were undertaken in year on EIS governance; disaster recovery; cyber; and EIS strategy. Areas for improvement have been identified in these reviews and prioritised action plans developed to take forward the required activity.

Internal audit

HIE has a Business Improvement and Internal Audit team which is independent of any operational group and the Head of Business Improvement and Internal Audit reports directly to me as Interim 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. Opportunities to learn lessons and enhance effective project delivery arrangements for complex projects were noted during the year.
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings
- Supported HIE in developing appropriate and fit for purpose governance arrangements for key investments and complex projects

As part of HIEs Internal Audit programme of assurance reviews, improvement opportunities have been noted including for the controls around the counter-fraud environment, governance processes and communication for priority projects.

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 their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2019 and on the regularity of transactions reflected in the accounts

Review of effectiveness and conclusion

As Interim 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 2019 and to the date of signature of the accounts.

Section 1 – General information

Highlands and Islands Enterprise's sponsoring body, the Scottish Government, approves changes to Highlands and Islands Enterprise's staff terms and conditions, including pay. Highlands and Islands Enterprise'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 Highlands and Islands Enterprise's performance management system, introduced in April 2004.

Remuneration Committee

HIE's remuneration committee reviews annually the broad policy framework for the remuneration of the HIE Chief Executive and the HIE Executive Directors.

This is set within pay policy guidelines and recommendations are approved by HIE's Scottish Government sponsor team.

Committee membership

Prof D MacRae OBE (Chair)

Prof L Crerar CBE

Mr P Crerar CBE

The information contained in the following section of this report has been subject to audit.

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 not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2019.

Professor L Crerar was appointed the Chairman on 20 February 2012, re-appointed 1 March 2018.

The remuneration of HIE Board members for the year ended 31 March 2019 was as follows:

	2019 £000	2018 £000	Appointment expires
Prof L Crerar CBE (Chair)	35-40	35-40	29 February 2020
Ms A Bryan	10-15	10-15	31 March 2022
Mr A Campbell	5-10	n/a	31 August 2021
Mr P Crerar CBE	10-15	10-15	31 March 2020
Mr A Dodds CBE	10-15	10-15	31 March 2020
Ms A Gray	10-15	10-15	31 March 2022
Mr D MacDonald	0-5	10-15	30 June 2018
Prof D MacRae OBE	10-15	10-15	31 March 2020
Ms I Mactaggart	0-5	10-15	30 June 2018
Mr R McIntosh CBE	10-15	10-15	31 March 2022
Ms F Newton MBE	5-10	n/a	31 August 2021
Ms A B Oldfield	10-15	10-15	31 March 2022
Mr C Ross	5-10	n/a	31 August 2021
Mr W Swann	0-5	10-15	30 June 2018
Ms M Gibson (Shadow)	0-5	n/a	10 December 2019

The above figures represent emoluments earned as Board members during the relevant financial year. The board members above have not received any benefits in kind or any pension benefits in the last two financial years. The figure for Prof L Crerar CBE includes £nil (2018 - £nil) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Prof Crerar was £nil (2018 - £nil).

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2019 £60,559 (2018 - £91,046) was paid to these former members.

Remuneration of 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 Highland and Islands Enterprise Superannuation scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS) and D Cowan who is a member of the Strathclyde Local Government Pension Scheme (LGPS).

The ordinary members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 24.9% of the employees' pensionable salary throughout the year. C Wright contributes 10% of pensionable salary to the Highland Council LGPS while D Cowan contributes 9.4% of pensionable salary to the Strathclyde LGPS. HIE contributes 30.1% to all members of the Highland Council LGPS and 33.6% towards the Strathclyde LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. Further information about the pension funds can be found in the Notes to the accounts (note 17).

We delivered **31**
exporting awareness and training events to
businesses and other organisations

The remuneration of members of the HIE leadership team for the year ended 31 March 2019 was as follows:

	2018-19					2017-18				
	Salary	Performance related pay (for 17/18)	Benefits in kind	Pension Benefits	Total	Salary	Performance related pay (for 16/17)	Benefits in kind	Pension benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
C Wright	110-115	-	-	34+	145-150	105-110	-	-	84+	190-195
C Buxton	85-90	-	-	17	105-110	85-90	-	-	20	105-110
D Cowan	85-90	-	-	30+	115-120	85-90	-	-	81+	165-170
D J Oxley	85-90	-	-	36	120-125	75-80	-	-	31	105-110
N Kenton (appointed 04/07/17)	85-90	-	-	20	100-105	60-65 80-85*	-	-	14	75-80 90-95*
S Dunbar	70-75	-	-	39	110-115	65-70	-	-	34	100-105
K Moncrieff	70-75	-	-	48	120-125	65-70	-	-	42	110-115

*Full time equivalent wage

+Pension benefits accruing under the LGPS scheme are accrued at a higher rate than under the HIE scheme

Note: In line with Government guidance on pay restraint there were no Performance Related Pay payments in 2017/18 or 2018/19.

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 Highland and Islands Enterprise in the financial year 2019 was £110k-£115k (2018 £105k-£110k). This was 2.7 times (2018 2.9 times) the median salary of the workforce, which was £40,588 (2018 £37,853). Staff remuneration ranged between £17k and £111k (2018 £17k-£108k).

In 2019 no employees (2018 none) received remuneration in excess of the highest-paid director.

	2018-19	2017-18
Highest paid director's total	£110k-£115k	£105-£110k
Median total remuneration	40,588	37,853
Ratio	2.8	2.9

Retirement benefits of members of HIE leadership team:

	Accrued pension at age 65 as at 31/3/19 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/19	CETV at 31/3/18	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
C Wright	50-55 Lump sum 90-95	2.5-5 Lump sum 2.5-5	832	775	22
C Buxton	20-25 Lump sum 70-75	0-2.5 Lump sum 2.5-5	571	511	39
D Oxley	15-20 Lump sum 45-50	0-2.5 Lump sum 5-10	383	318	318
D Cowan	30-35 Lump sum 50-55	2.5-5 Lump sum 0-2.5	576	519	33
N Kenton	0-5 Lump sum 5-10	0-2.5 Lump sum 2.5-5	35	14	16
S Dunbar	25-30 Lump sum 80-85	2.5-5 Lump sum 7.5-10	675	586	68
K Moncrieff	20-25 Lump sum 70-75	2.5-5 Lump sum 7.5-10	594	501	73

The Opening value of the CETV also includes benefits that have been transferred into the scheme

The Chief Executive and senior members of the HIE leadership team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPS. The assets of these Career Average Revalued Earning (CARE) 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. In addition, a lump sum equivalent to three years' pension is payable on retirement.

LGPS 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.

At the end of 2018-19,
HIE was supporting
262
pipeline referrals to the Scottish
Land Fund across 30 local authority areas

SECTION 3 - 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 spouses 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.

STAFF REPORT

	GROUP			GROUP		
	2019			2018		
	Permanent UK staff	Other staff	Total staff	Permanent UK staff	Other staff	Total staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,151	3,250	11,401	8,083	2,954	11,037
Voluntary severance packages	-	-	-	-	101	101
Social security costs	981	327	1,308	913	311	1,224
Other pension costs	3,405	732	4,137	2,811	726	3,537
Contract/temporary staff	-	154	154	-	153	153
	12,537	4,463	17,000	11,807	4,245	16,052
Board members' remuneration	369	-	369	395	-	395
	12,906	4,463	17,369	12,202	4,245	16,447

The average number of employees was as follows:

	GROUP			GROUP		
	2019			2018		
	Permanent UK staff	Other staff	Total staff	Permanent UK staff	Other staff	Total staff
Senior management	52	21	73	51	16	67
Operational staff	51	73	124	60	18	78
Administration and support staff	113	65	178	102	60	162
	216	159	375	213	94	307

The figures for 'total staff' reflect the full-time equivalent average number of staff employed over the course of the year. In addition to permanent UK staff employed directly by HIE, the figures for other staff include staff in short-term posts and staff employed by subsidiaries: Wave Energy Scotland Limited and Cairngom Mountain (Scotland) Limited.

	HIE			HIE		
	2019			2018		
	Permanent UK staff	Other staff	Total staff	Permanent UK staff	Other staff	Total staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	7,454	2,943	10,397	7,511	2,954	10,465
Voluntary severance packages	-	-	-	-	101	101
Social security costs	903	303	1,206	848	311	1,159
Other pension costs	3,341	725	4,066	2,754	726	3,480
Contract/temporary staff	-	154	154	-	153	153
	11,698	4,125	15,823	11,113	4,245	15,358
Board members' remuneration	369	-	369	389	-	389
	12,067	4,125	16,192	11,502	4,245	15,747

The average number of employees was as follows:

	HIE			HIE		
	2019			2018		
	Permanent UK staff	Other staff	Total staff	Permanent UK staff	Other staff	Total staff
Senior management	51	15	66	50	16	66
Operational staff	51	14	65	48	18	66
Administration and support staff	101	57	158	102	60	162
	203	86	289	200	94	294

The figures for 'total staff' reflect the full-time equivalent average number of staff employed over the course of the year.

Compensation and exit packages

No staff (2018: 6) left under voluntary severance terms between 1st April 2018 and 31 March 2019. The total cost of lump sum payments to staff was £0 (2018: £101,514.31).

	2018-19		2017-18	
	Number of departures agreed	Total	Number of departures agreed	Total
Exit package cost band:				
< £10,000	-	-	1	£5,382
£ 10,001 - £25,000	-	-	5	£96,132
£ 25,001 - £50,000	-	-	-	-
£ 50,001 - £100,000	-	-	-	-
£100,001 - £150,000	-	-	-	-
£150,001 - £200,000	-	-	-	-
£200,001 - £250,000	-	-	-	-
			6	£101,514

Redundancy and other departure costs have been paid and approved by Scottish Ministers. 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.

The information contained in the following section of this report has not been subject to audit.

Employees by sex

At the end of the financial year the number of persons of each sex was as follows:

Highlands and Islands Enterprise staff:

	Male	Female	Total
Board*	7	6	13
Leadership Team*	3	1	4
Other employees	106	195	301

* Mrs C Wright (Chief Executive) is included as a member of the Board in the table above. She is also a member of the Leadership Team.

HIE is committed to the Scottish Government's aspiration for public sector boards to comprise equal numbers of men and women, known as '50:50 by 2020'.

Sickness absence

Highlands and Islands Enterprise staff:

The attendance record for HIE employees for the year to 31 March 2019 was 1,327 (2018 1,310) days sick leave out of a total of 61,970 (2018 62,732) possible working days representing a lost time through sickness rate of 2.14% (2018 2.09%).

Trade union facility time

Highlands and Islands Enterprise recognises one trade union for the purpose of collective bargaining, Public and Commercial Services Union (PCS).

We recognise the benefits of a positive and open relationship with our recognised trade union. As part of our commitment to working in partnership we offer paid facility time to our work place representatives to enable them to carry out union activities and duties. As an organisation, we derive benefits from allowing paid facility time.

There was one staff member who was a trade union official during 2018-19.

Percentage of working hours spent on facility time officials	Union No.
1 – 50%	1

The total cost of facility time amounted to 0.01% of the total pay bill, including the gross amount spent on wages, pension contributions, and national insurance contributions. 2% of the total paid facility time hours was spent on trade union activities.

Staff policies in respect of disabled persons

HIE is recognised as a Disability Confident employer, and as such has reached the 2nd level of the Government's Disability Confident Scheme which replaced the former Positive About Disabled People 'Two Ticks' scheme. As such, HIE has demonstrated that it has met all core criteria associated with the two following 'themes':-

Getting the right people for your business (7 criteria):

- actively looking to attract and recruit disabled people
- providing a fully inclusive and accessible recruitment process
- offering an interview to disabled people who meet the minimum criteria for the job
- flexibility when accessing people so disabled job applicants have the best opportunity to demonstrate that they can do the job
- proactively offering and making reasonable adjustments as required
- encouraging our suppliers and partner firms to be Disability Confident
- ensuring employees have appropriate disability equality awareness

Keeping and developing your people (6 criteria):

- promoting a culture of being Disability Confident
- supporting employees to manage their disabilities or health conditions
- ensuring there are no barriers to the development and progression of disabled staff
- ensuring managers are aware of how they can support staff who are sick or absent from work
- valuing and listening to feedback from disabled staff
- reviewing this Disability Confident employer self-assessment regularly

HIE is in the process of reviewing the criteria associated with the next and top level of the Scheme, that of Disability Confident Leader, with a view to seeking accreditation in due course. Amongst other requirements, this level requires an employer to have their self-assessment formally validated and to focus externally as well as internally, via networking with other local employers in order to promote and share best practice in this very important area.

Proactive disclosure of information

The HIE website contains details of HIE's publication scheme and information which we routinely publish, including approvals and Leadership team/Board minutes -

www.hie.co.uk/publicationscheme

In addition, under the Public Services Reform (Scotland) Act 2010 we have, along with other public bodies in Scotland, a duty to publish annual public statements relating to our expenditure in the following areas:

- Public relations
- Overseas travel
- Hospitality and entertainment
- External consultancy
- Payments with a value in excess of £25,000
- Employee/members who receive remuneration in excess of £150,000.

The results for the year to 31 March 2019 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 (HIE) is mainly financed by Scottish Ministers through the Scottish Government Directorate for Economic Development. In addition, however, HIE also generates additional income from rents, loan interest, European Union funding and, furthermore, generates capital receipts from loan repayments and the sale of assets.

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2019 (excluding non-cash costs) was as follows:

SOURCES OF FINANCE 2018-2019	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
	£000	£000	£000
Expenditure			
Operations	52,100	68,785	70,618
Management and admin.	16,000	15,432	15,442
Total expenditure	68,100	84,217	86,060
Income			
Grant-in-aid	56,600	63,967	63,967
European Union	5,000	3,534	3,534
Business receipts	6,500	16,716	16,744
Total Income	68,100	84,217	84,245
Net over spend	-	-	(1,816)
Cash budget out-turn			
Revenue expenditure		34,609	34,175
Capital expenditure		31,690	31,608
Net spend		66,299	65,783
The group out-turn against the elements of the budget allocation from the Scottish Government was as follows:			
Resource budget out-turn			
Resource DEL		32,277	34,175
Capital DEL		31,690	31,608
Non-cash DEL cost including depreciation, provisions, property revaluation		5,000	2,115
Total resource budget		68,967	67,898
Non-cash AME cost including pension, provisions, property revaluation		7,500	22,740
Total funding provision		76,467	90,638

Cash Financial Budgets

HIE drew down the allocated £63.9 million of grant in aid from the Scottish Government. At the year-end HIE had an authorised overspend of £1.8 million.

HIE was provided with approval by the Scottish Government to overspend by up to £2.3 million during the year to cover the cost of operating Cairngorm Mountain(Scotland) Limited

During the year HIE invested £31.6 million in capital projects across the Highlands and Islands region which included £8.1 million on property construction and plant and equipment additions.

HIE received an additional £16.7 million in business receipts during the year. The largest element of the additional business receipts was £7.8m from the Scottish government to fund the broadband infrastructure project.

Non-Cash Financial Budgets

The non-cash resource accounting and budget (RAB) spend was £2.1 million, £2.9 million under the provision set by the Scottish Government.

The Annually Managed Expenditure was £22.7 million against a budget of £7.5 million. The overspend related to an additional provision for VAT (£4.2m) and a provision for the repair of the cairngorm funicular railway (£9.6m).

The Resource Budget for 2018/19 of £61.0 million 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.

	GROUP		HIE	
	No of cases	£000	No of cases	£000
Financial Asset losses (losses arising from the disposal of financial assets)	Nil	Nil	Nil	Nil
Claims waived (amounts written off)	1	309	1	309

Group claims waived contain a number of historic debts inherited by HIE from the LEC's which were valued at a higher value in the group than HIE

In the year to 31 March 2019 there was Nil (2018 - 2) financial asset loss which exceeded £250,000.

	2019
	£000

In the year to 31 March 2019 there was 1 (2018 - 2 case) claims waived which exceeded £250,000.

	2019
	£000
Burntisland Fabrications Limited	309

Highlands and Islands Enterprise continues to pursue all outstanding debts.

Losses and claims waived

Due to the high-risk nature of its investments, there are occasions when Highlands and Islands Enterprise is required to write off balances which are no longer recoverable.

Fees and charges

As required in the Fees and Charges guidance in the Scottish Public Finance Manual, Highlands and Islands Enterprise charges market rates whenever applicable.

C BUXTON

Interim Chief Executive and Accountable Officer
Highlands and Islands Enterprise

Date 15 August 2019

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

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Highlands and Islands Enterprise and its group for the year ended 31 March 2019 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure, Group and Highlands and Islands Enterprise Statement of Financial Position, Group and Highlands and Islands Statement of Cash Flows, Group Statement of Changes in Taxpayers' Equity and Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In my opinion the accompanying 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 affairs of the body and its group as at 31 March 2019 and of the 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 2018/19 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.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 26 May 2017. The period of total uninterrupted appointment is two years. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of Interim Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the ability of the body and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In my opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report and accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

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 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gordon Smail

Audit Director, Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

16 August 2019

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF COMPREHENSIVE NET EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2019**

	Notes	GROUP		HIE	
		2019 £000	2018 £000	2019 £000	2018 £000
Expenditure					
Operating expenditure	4	69,731	73,374	68,933	73,906
Net management expenditure on staff costs	5	13,099	12,202	12,259	11,502
Other management expenditure	5	20,664	7,140	20,831	6,520
Depreciation and amortisation	5	1,208	1,037	1,150	1,037
		104,702	93,753	103,173	92,965
Income					
Income from activities	3	(3,737)	(3,829)	(3,701)	(3,708)
Other income	3	(21,320)	(15,703)	(19,608)	(15,423)
		(25,057)	(19,532)	(23,309)	(19,131)
Net operating expenditure from activities					
		79,645	74,221	79,864	73,864
Net operating expenditure		79,645	74,221	79,864	73,864
Interest payable and similar charges	7	2	63	1	63
Share of (profits)/losses in equity accounted investees	10	1,180	(1,534)	-	-
Income from investments	6	-	-	-	-
Interest receivable	6	(118)	(134)	(118)	(134)
Other finance charges/(income)	6	992	1,426	992	1,426
Net expenditure after interest		81,701	74,042	80,739	75,189
Taxation	8	(69)	123	(69)	123
Net expenditure after taxation		81,632	74,165	80,670	75,312
Minority interests		1	26	-	-
Net expenditure		81,633	74,191	80,670	75,312
Other comprehensive expenditure/(Income)					
Items that will not be reclassified to Net Expenditure					
Net (gains)/losses on revaluation of property, plant and equipment		(1,480)	9	(1,480)	9
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		-	-	-	-
Actuarial (gains)/losses recognised in retirement benefit scheme	18	6,114	(18,519)	6,114	(18,519)
Items that may be reclassified to net expenditure					
(Gains)/ losses in revaluation of available for sales assets	11	-	210	-	210
Reclassification to net expenditure in the year		-	-	-	-
Other comprehensive expenditure/(Income) for the year		4,634	(18,300)	4,634	(18,300)
Total comprehensive net expenditure/(Income) for the year		86,267	55,891	85,304	57,012

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2019**

	Notes	GROUP		HIE	
		2019 £000	2018 £000	2019 £000	2018 £000
Non-current assets					
Property, plant and equipment	9	33,554	39,421	32,920	39,411
Intangible assets		-	-	-	-
Financial assets	10	1,683	2,611	2,345	2,971
Receivables due over 1 year		49	-	49	-
Investment in associate	10	616	1,796	-	-
Total non-current assets		35,902	43,828	35,314	42,382
Current assets					
Inventories	12	18	-	-	-
Trade and other receivables	12	14,393	8,973	15,225	8,307
Cash and cash equivalents	13	2,286	2,393	811	1,365
Assets classified as held for sale	14	9,579	525	9,579	525
Total current assets		26,276	11,891	25,615	10,197
Total assets		62,178	55,719	60,929	52,579
Current liabilities					
Trade payables and other current liabilities	15	(17,918)	(13,496)	(18,347)	(12,944)
Taxation	15	(433)	(477)	(326)	(319)
Provisions and other charges	16	(14,116)	(321)	(14,116)	(321)
Total current liabilities		(32,467)	(14,294)	(32,789)	(13,584)
Non-current assets plus net current assets less current liabilities		29,711	41,425	28,140	38,995
Non-current liabilities					
Trade payables and other payables	17	(1,585)	(1,567)	(1,481)	(1,567)
Retirement benefit obligation	18	(47,430)	(39,019)	(47,430)	(39,019)
Total non-current liabilities		(49,015)	(40,586)	(48,911)	(40,586)
Assets less liabilities		(19,304)	839	(20,771)	(1,591)
Tax payers' equity					
Revaluation reserve		1,883	397	1,883	397
Other reserve		15	136	12	133
Pension reserve		(47,430)	(39,019)	(47,430)	(39,019)
Minority Interests		398	398	-	-
General reserve		25,830	38,927	24,764	36,898
		(19,304)	839	(20,771)	(1,591)

C BUXTON

Interim Chief Executive and Accountable Officer
Highlands and Islands Enterprise

Date 15 August 2019

The Interim Accountable Officer authorised these financial statements for issue on 15 August 2019

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2019**

	Notes	GROUP		HIE	
		2019 £000	2018 restated £000	2019 £000	2018 restated £000
Cash flow from operating activities					
Profit/(Loss) before taxation	19	(80,932)	(72,840)	(79,971)	(73,987)
Share of associates profit/(loss)	10	1,180	(1,534)	-	-
Depreciation	5	1,208	1,037	1,149	1,036
Surplus on disposal of assets	3	223	225	224	225
Amortisation of Intangibles		-	-	-	-
Dividend income	6	-	-	-	-
Interest income	6	(118)	(134)	(118)	(134)
Interest expense	7	1	63	1	63
		(78,438)	(73,183)	(78,715)	(72,797)
(Increase)/decrease in trade and other receivables		(5,726)	184	(7,220)	715
Provision for irrecoverable debts & losses		(93)	(111)	(93)	(111)
(Increase)/decrease in Inventories		(18)	-	-	-
Increase/(decrease) in trade and other payables		18,140	500	19,173	511
(Increase)/decrease in long term debtors		(48)	-	(48)	-
Movement in pension provision		1,305	(201)	1,305	(201)
Investments written off, net of provision		1,215	1,330	2,110	1,330
Loss/(profit) on sale of property, plant & equipment		(21)	(45)	(22)	(45)
Loss/(profit) on sale of assets classified as held for sale		(195)	(221)	(194)	(181)
Surplus of investments		(37)	(191)	-	(95)
Revaluation of assets property plant & equipment		5,412	3,682	5,407	3,675
Movement in deferred income		87	(19)	(17)	(17)
Cash outflow from operating activities		(58,417)	(68,275)	(58,314)	(67,216)
Taxes paid		-	-	-	-
Net cash outflow from operating activities		(58,417)	(68,275)	(58,314)	(67,216)
Net cash outflow from operating activities - Continuing operations		(58,417)	(68,275)	(58,314)	(67,216)
Net cash outflow from operating activities - Discontinued operations		-	-	-	-
Cash flows from investing activities					
Payments to acquire shares		-	-	(461)	-
Payments for the construction of property		(6,836)	(3,343)	(6,836)	(3,343)
Payments for tenants Improvements		(62)	-	(62)	-
Payments to acquire plant & equipment		(1,883)	13	(1,192)	(25)
Purchase of assets classified as held for sale		-	-	-	-
Proceeds from sale of plant, property and equipment		51	57	44	57
Proceeds from sale of assets classified as held for sale		655	901	655	901
Receipts from sale of shares		38	257	-	95
Loans advanced	10	(794)	(2,535)	(1,494)	(2,535)
Loans repaid	10	715	917	679	917
Interest received		129	117	129	117
Dividends received		-	-	-	-
Net cash from investing activities		(7,987)	(3,616)	(8,538)	(3,816)
Net cash from investing activities - continuing operations		(7,987)	(3,616)	(8,538)	(3,816)
Net cash from investing activities - discontinued operations		-	-	-	-
Cash flows from financing activities					
Grant-in-aid		66,299	69,530	66,299	69,530
Debenture loan repayments		-	-	-	-
Interest paid	7	(2)	(63)	(1)	(63)
Net cash from financing activities		66,297	69,467	66,298	69,467
Net cash from financing activities - continuing operations		66,297	69,467	66,298	69,467
Net cash from financing activities - discontinued operations		-	-	-	-
Net increase/(decrease) in cash and cash equivalents	13	(107)	(2,424)	(554)	(1,565)
Cash and cash equivalents at beginning of period	13	2,393	4,817	1,365	2,930
Cash and cash equivalents at end of period	13	2,286	2,393	811	1,365

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2019	Revaluation reserve	Other reserve	Pension reserve	Minority interest	General reserve	Total reserves
	£000		£000		£000	£000
Balance at 31 March 2017	396	356	(56,313)	372	42,363	(12,826)
Adjustments	-	-	-	-	-	-
Balance at 31 March 2017	396	356	(56,313)	372	42,363	(12,826)
Changes in taxpayers' equity for 2017-18						
Net gain/(loss) on revaluation of property, plant and equipment	1	(10)				(9)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments		(210)				(210)
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves (IAS19)			(1,225)		1,225	-
Actuarial gain/(loss)			18,519			18,519
Retained surplus/deficit				26	(74,191)	(74,165)
Total recognised income and expense for 2017-18	1	(220)	17,294	26	(72,966)	(55,865)
Grant from Scottish Government					69,530	69,530
Balance at 31 March 2018	397	136	(39,019)	398	38,927	839
IFRS 9 Adoption adjustment					(175)	(175)
IFRS 9 Investment reclassification		(115)			115	-
Revised balance at 31 March 2018	397	21	(39,019)	398	38,867	664
Changes in taxpayers' equity for 2018-19						
Net gain/(loss) on revaluation of property, plant and equipment	1,486	(6)				1,480
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments						-
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees				-		-
Transfers between reserves (IAS19)			(2,297)		2,297	-
Actuarial gain/(loss)			(6,114)			(6,114)
Retained surplus/deficit				-	(81,633)	(81,633)
Total recognised income and expense for 2018-19	1,486	(6)	(8,411)	-	(79,336)	(86,267)
Grant from Scottish Government					66,299	66,299
Balance at 31 March 2019	1,883	15	(47,430)	398	25,830	(19,304)

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 £12k (2018 £18k), and the share of equity accounted investee reserves £3k (2018 £3k).

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 2019

	Revaluation reserve	Other reserve	Pension reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2017	396	353	(56,313)	41,455	(14,109)
Adjustments	-	-	-	-	-
Balance at 31 March 2017	396	353	(56,313)	41,455	(14,109)
Changes in taxpayers' equity for 2017-18					
Net gain/(loss) on revaluation of property, plant and equipment	1	(10)			(9)
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments		(210)			(210)
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves (IAS19)			(1,225)	1,225	-
Actuarial gain/(loss)			18,519		18,519
Retained surplus/deficit				(75,312)	(75,312)
Total recognised income and expense for 2017-18	1	(220)	17,294	(74,087)	(57,012)
Grant from Scottish Government				69,530	69,530
Balance at 31 March 2018	397	133	(39,019)	36,898	(1,591)
IFRS 9 adoption adjustment				(175)	(175)
IFRS 9 Investment reclassification		(115)		115	-
Revised balance at 31 March 2018	397	18	(39,019)	36,838	(1,766)
Changes in taxpayers' equity for 2018-19					
Net gain/(loss) on revaluation of property, plant and equipment	1,486	(6)			1,480
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments					-
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves (IAS19)			(2,297)	2,297	-
Actuarial gain/(loss)			(6,114)		(6,114)
Retained surplus/deficit				(80,670)	(80,670)
Total recognised income and expense for 2018-19	1,486	(6)	(8,411)	(78,373)	(85,304)
Grant from Scottish Government				66,299	66,299
Balance at 31 March 2019	1,883	12	(47,430)	24,764	(20,771)

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 £12k (2018 £18k).

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.

42%

of projects supported by the Scottish Land Fund are in the Highlands and Islands

1. ACCOUNTING POLICIES**Basis of preparation**

The financial statements have been prepared in accordance with the 2018-19 Government Financial Reporting Manual (FReM) 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 FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context. Where FReM 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 9)
- financial assets (note 10)
- assets classified as held for sale (note 14)
- financial commitments (note 21)

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

Going concern

The financial statements for the year ended 31 March 2019 show net liabilities position of £20.8m (2018 £1.6m), Group £19.3m net liabilities (2018 £0.8m net assets). The position of net liabilities has arisen following an increase in the HIE pension fund deficit. Net current liabilities will be funded by the Scottish Government as they arise. Therefore, the financial statements have been prepared on a going concern basis.

The Board and Interim accountable officer have considered HIE's Operating Plan requirement and consider that the Resource budget awarded by the Scottish Government is adequate.

Basis of consolidation

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

(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 joint arrangements

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 arrangements 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 profit 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. Other investments which are not considered subsidiaries, joint arrangements or associates are recorded at historic cost, fair value or amortised cost as appropriate.

Critical accounting estimates and judgements

The preparation of the accounts in conformity with IFRS requires the Board and Interim 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 17.

(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 statement of financial position date.

(c) Held-to-maturity investments

The Group follows the guidance of IFRS 9 to determine, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been significant increase in credit risk when financial asset held at amortised cost 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, change in technology and operational and financing cash flow.

The expected credit loss is determined by evaluating loans and receivables and assessing whether the credit risk has increased since initial recognition. Financial assets at amortised cost are classified as follows:

- Stage 1 where the credit risk has not increased significantly then a loss allowance equal to a 12 month expected credit loss is recognised by (i) reviewing loans with shared risk characteristics and (ii) applying a probability assessment of a loss default within 12 months;
- Stage 2 where the loan is past due and based on past experience the asset is considered to be credit impaired, a loss allowance equal to a lifetime expected credit loss is recognised by (i) reviewing loans with shared risk characteristics and (ii) applying a probability assessment of a loss default;
- Stage 3 When an asset is considered to be credit impaired because to past due status and other events that have a derimental effect on future cash flows an impairment allowance is recognised.

(d) Impairment of financial assets at fair value through profit and loss

The Group follows the guidance of IFRS 9 to determine when a 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.

(e) EU Income

The group operates a series of programmes which attract financial support from the European Union. Funding is claimed in arrears at the intervention rate agreed at the start of the programmes and based upon the costs incurred to deliver the programme and the successful delivery of strategic operational outcomes. Claims submitted during the financial year are recognised as income in the financial year they are presented. At the end of each financial year an assessment is made of eligibility of the expenditure

incurred and for which the Group will be able to secure the evidence standards required to make a claim for European funding in the future. Based upon the completed verification work and extended to expenditure still to be fully verified, an estimate is made of associated income not yet claimed which is then accrued in the financial statements.

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 are recognised in the period for which the goods and services provided relate to.

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

Revenue from Contracts with Customers has been accounted for in accordance with IFRS 15 with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. This new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts is not qualitatively and quantitatively material due to minimal contracts with customers and no revenues from taxation, fines and penalties

Expenditure

Grant expenditure is 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

HIE has 4 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 IAS 16 'Property, Plant and Equipment' are followed.

Property, plant and equipment are included in the statement of financial position at their Current 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: 15-60 years
- Buildings – engineering: 15-45 years
- Buildings – specialist engineering: 15-45 years
- Plant and Equipment: 3-40 years
- Tenants' Improvements: 10 years
- IT equipment: 4 years

The Current 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 financial assets at fair value through profit and loss and are shown at Fair Value in accordance with IFRS 9. HIE holds financial assets for economic development and regeneration. These financial assets are valued at fair value through profit and loss. 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 comparable 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. A fair value hierarchy is used to categorise into three levels the inputs to valuation techniques used to measure fair value.

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, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure

From 1st April 2018, HIE assesses, on a forward looking basis, the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been significant increase in credit risk.

For Credit exposures where there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible with the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For Trade Receivables, HIE applies the simplified approach permitted by IFRS 9, which requires lifetime losses to be recognised from initial recognition to the receivables.

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 5 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 and financial assets 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 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 2016 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 career average 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 tax payers' equity.

Additional information is disclosed in note 18.

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 (Receivables and Payables) are stated at fair value.

Cash and cash equivalents

Cash and cash equivalents includes 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

A number of new accounting standards 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:

IFRS 16 – Leases

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2019-20. The standard replaces IAS 17 - Leases and largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. This is a significant change in lessee accounting. The impact on the consolidated accounts has not been determined.

IFRS 17 – Insurance contracts

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2019-20. The standard replaces provides guidance on the treatment disclosure of insurance contracts. We do not expect this standard to affect the consolidated accounts

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 2018 and 2019 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.

The management information used by HIE's Board and Leadership Team is focused on income and expenditure. Income is presented by funding source. Expenditure reflects the primary areas of investment and business support provided by HIE. HIE does not record or report assets and liabilities by operating segments or primary areas of investment.

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people from the Highlands and Islands took part in the Scotland-wide Rural Leadership programme – 25% of all participants

	2019	2018
	£000	£000
Expenditure		
Block A		
Discretionary spend	19,918	20,178
Priority investments	18,830	22,609
Business support	6,064	7,056
Cairngorm Mountain (Scotland) Limited	1,996	0
WES	10,290	10,246
	57,098	60,059
Reserve for final adjustments	0	0
	Total Block A	57,098
		60,090
Block B		
Management, staff and admin cost	15,442	15,400
	Total Block B	15,442
		15,400
	Total Gross Expenditure	72,541
		75,490
Income		
Loan repayments	679	917
Equity sales	15	95
Property sales	699	957
Property rental	3,266	3,370
Loan interest / dividend	118	147
Scottish Government grant	1,741	522
	Total Other Income	6,518
		6,009
NET EXPENDITURE FUNDED BY CORE SG INCOME	66,023	69,481
Other income and expenditure not funded through Grant-in-aid		
Expenditure		
European Funds - ERDF	3,534	1,117
Broadband	7,846	12,773
Digital Communities (formerly CBS)	399	1,531
Scottish Land fund (SLF)	414	344
Inverness and Highland City-Region Deal - Science Skills Academy	413	0
Inverness and Highland City-Region Deal - Northern Innovation Hub	818	170
Knowledge Exchange Placement Programme (KEPP)	8	6
Cyber Essentials Accreditation	2	0
Orkney the Brand	86	50
	13,520	15,991
Income		
European funds - ERDF	3,534	1,117
Broadband	7,846	12,773
Digital Communities (formerly CBS)	399	867
Scottish Land Fund (SLF)	414	490
Inverness and Highland City-Region Deal - Science Skills Academy	413	72
Inverness and Highland City-Region Deal - Northern Innovation Hub	818	54
Knowledge Exchange Placement Programme (KEPP)	8	0
Cyber Essentials Accreditation	2	40
Orkney the Brand	86	54
Other income	241	578
	13,761	16,045
Financial position (I&E)	65,782	69,426

Reconciliation to Group net operating cost before taxation:

Financial position (I&E)	(65,782)	(69,426)
Pension (IAS19)	(2,297)	(1,225)
Depreciation	(1,208)	(1,036)
Provisions and charges	(10,705)	403
Timing differences	1,901	581
Property cost of sales	(475)	(357)
Capital revaluation and additions	2,350	(1,654)
Taxation provision and charges	(4,213)	(2,921)
HIE Ventures Limited	0	76
Associate companies	(1,180)	1,534
Consolidation adjustments	(92)	(17)
Group net operating cost before taxation	(81,701)	(74,042)

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:

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Income from activities				
Property rentals	3,462	3,388	3,462	3,388
Gain/(loss) on financial assets at fair value	-	(1)	-	-
Surplus/(loss) on disposal of property	223	225	224	225
Surplus/(loss) on disposal of investments	52	217	15	95
	3,737	3,829	3,701	3,708
Other income				
Other European contributions	3,676	1,206	3,676	1,206
Scottish Government receipts	9,170	11,001	9,170	10,501
Other external income	8,474	3,496	6,762	3,716
	21,320	15,703	19,608	15,423

4. EXPENDITURE ON OPERATING ACTIVITIES

Expenditure is shown net of Value Added Tax (VAT) except where the VAT is irrecoverable.

	Regional significant Investments	Business Support	Growth Investment	Tourism Attraction Operator	Total	2018
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	35,874	13,586	19,062	-	68,522	71,375
Community broadband	411	-	-	-	411	1,531
Highlands and Islands Enterprise	36,285	13,586	19,062	-	68,933	72,906
2018	42,496	11,781	18,629	-	72,906	

Expenditure is shown net of Value Added Tax (VAT) except where the VAT is irrecoverable.

	Regional significant Investments	Business Support	Growth Investment	Tourism Attraction Operator	Total	2018
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	27,323	13,586	19,062	-	59,971	62,574
Cairngorm Mountain (Scotland) Limited	-	-	-	553	553	-
Community broadband	411	-	-	-	411	1,531
Wave Energy Scotland	8,796	-	-	-	8,796	9,269
HIE Ventures Limited	-	-	-	-	-	-
Group	36,530	13,586	19,062	553	69,731	73,374
2018	42,964	11,781	18,629	-	73,374	

Expenditure includes grants of **£20,419,474** (2018 - £27,255,044) of which **£1,238,300** (2018- £2,254,714) were made to the public sector and £19,181,174 (2018 - £25,000,330) to the private sector.

Property revaluation and management costs of **£4,167,020** (2018 - £3,684,586) are included within Business Support expenditure above.

5A. ADMINISTRATION AND MANAGEMENT CHARGES BY ORGANISATION

	GROUP	
	2019	2018
	£000	£000
Highlands and Islands Enterprise	33,317	18,840
Cairngorm Mountain (Scotland) Limited	251	-
Wave Energy Scotland Limited	1,469	1,477
Former LECs	-	-
HIE Ventures Limited	35	62
	35,072	20,379

5B. ADMINISTRATION AND MANAGEMENT CHARGES

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Continuing operations				
Staff and board member salaries	11,794	12,403	10,954	11,703
IAS 19 adjustment in respect of service costs and curtailments	1,1305	(201)	1,305	(201)
	13,099	12,202	12,259	11,502
Travel and subsistence - board members	18	17	18	17
Travel and subsistence - staff	792	809	708	711
Accommodation	1,387	1,409	1,351	1,379
Hospitality – board members	9	5	9	5
Hospitality – staff	36	28	36	28
Audit fees	143	139	138	132
Non-audit fees paid to auditors	-	-	-	-
Operating lease rentals – equipment	16	15	16	15
Equipment and furnishings	58	130	58	130
Provision for irrecoverable debts, losses and write off of debts	185	168	185	159
Movement in investment provisions and write off of investments	1,467	1,151	2,097	1,151
Investment fair value adjustments	(253)	274	11	275
Other provisions	13,794	321	13,794	321
Other administration costs	3,012	2,674	2,409	2,197
	20,664	7,140	20,830	6,520
Depreciation of fixed assets	1,208	1,037	1,149	1,036
Amortisation of Intangible assets	-	-	-	-

Fees chargeable for audit services provided by Audit Scotland amounted to £136,160 (2018 - £133,490).

Details of staff and board members' salaries, including staff numbers can be found in the Remuneration and Staff report.

6. INVESTMENT INCOME AND OTHER FINANCE INCOME / (CHARGES)

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Investment income				
Dividends received	-	-	-	-
Interest receivable				
Loan interest receivable	(108)	(127)	(108)	(127)
Bank interest receivable	(10)	(7)	(10)	(7)
Other Interest receivable	-	-	-	-
	(118)	(134)	(118)	(134)
Other finance (income) / charges				
Interest income on retirement benefit assets	(2,919)	(2,835)	(2,919)	(2,835)
Interest on retirement benefit scheme obligations	3,911	4,261	3,911	4,261
	992	1,426	992	1,426

7. INTEREST PAYABLE

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Other	2	63	1	63
	2	63	1	63

8. TAXATION

Corporation tax is charged at 19 per cent (2018 19 per cent) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on the taxable income of its subsidiaries.

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Current tax				
Current tax on profits for the year	-	-	-	-
Adjustment in respect of prior years	-	-	-	-
Total current tax	-	-	-	-
Deferred tax				
Current year	(136)	(148)	(136)	(148)
Adjustment in respect of previous periods	53	255	53	255
Effect of changes in tax rates	14	16	14	16
Total deferred tax	(69)	123	(69)	123
Tax per statement of comprehensive net expenditure	(69)	123	(69)	123
Factors affecting tax charge for the period				
Net expenditure after interest	81,765	74,042	80,953	75,189
Tax on loss at 19% (2018 19%)	(15,536)	(14,068)	(15,381)	(14,286)
Tax under/(over) provided in previous years	53	255	53	255
Nontaxable income and disallowable expenditure	15,399	14,128	15,245	14,346
Effect of changes in tax rates	14	16	14	16
Revaluation	-	(208)	-	(208)
Current tax charge	(69)	123	(69)	123

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

9. PROPERTY PLANT AND EQUIPMENT

At 31 March 2019, 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 purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2017	34,084	3,450	556	38,090	1,227	652	5,688	45,657
Additions	1,745	987	611	3,343	-	-	7	3,350
Write down	-	-	-	-	-	-	-	-
Disposals	(11)	-	-	(11)	-	-	-	(11)
Reclassifications	123	-	(556)	(433)	-	-	-	(433)
Revaluations	(2,726)	(1,037)	-	(3,763)	-	-	-	(3,763)
Impairment	-	-	(380)	(380)	-	-	(8)	(388)
At 31 March 2018	33,215	3,400	231	36,846	1,227	652	5,687	44,412
Depreciation								
At 1 April 2017	-	-	-	-	1,148	382	2,884	4,414
Charged in year	399	61	-	460	70	90	417	1,037
Write down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(399)	(61)	-	(460)	-	-	-	(460)
At 31 March 2018	-	-	-	-	1,218	472	3,301	4,991
Net book value								
At 31 March 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
At 1 April 2018	33,215	3,400	231	36,846	1,227	652	5,687	44,412
Additions	1,743	405	4,718	6,866	62	205	1,677	8,810
Write down	-	-	-	-	-	-	-	-
Disposals	(21)	-	-	(21)	-	-	(82)	(103)
Reclassifications	(9,514)	-	-	(9,514)	-	-	8	(9,506)
Revaluations	(773)	(327)	-	(1,100)	-	-	-	(1,100)
Impairment	-	-	(3,164)	(3,164)	-	-	-	(3,164)
At 31 March 2019	24,650	3,478	1,785	29,913	1,289	857	7,290	39,349
Depreciation								
At 1 April 2018	-	-	-	-	1,218	472	3,301	4,991
Charged in year	248	90	-	338	11	141	705	1,195
Write down	-	-	-	-	-	-	13	13
Disposals	-	-	-	-	-	-	(74)	(74)
Reclassifications	-	-	-	-	-	-	8	8
Revaluations	(248)	(90)	-	(338)	-	-	-	(338)
At 31 March 2019	-	-	-	-	1,229	613	3,953	5,795
Net book value								
At 31 March 2019	24,650	3,478	1,785	29,913	60	244	3,337	33,554
At 1 April 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
At 1 April 2017	34,084	3,450	556	38,090	79	270	2,804	41,243

ANALYSIS OF ASSET FINANCING:	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total Land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	32,723	3,400	231	36,354	9	180	2,385	38,928
Finance leased	492	-	-	492	-	-	1	493
Net book value								
At 31 March 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
Owned	24,043	3,478	1,785	29,306	60	244	3,233	32,843
Finance leased	607	-	-	607	-	-	104	711
Net book value								
At 31 March 2019	24,650	3,478	1,785	29,913	60	244	3,337	33,554
At 1 April 2018	33,215	3,400	231	36,846	9	180	2,386	39,421
At 1 April 2017	34,084	3,450	556	38,090	79	270	2,804	41,243

Our innovation programme
2015-18 supported
794
businesses across the region

HIE	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2017	34,083	3,450	558	38,091	1,227	653	5,605	45,576
Additions	1,746	987	611	3,344	-	-	5	3,349
Write down	-	-	-	-	-	-	-	-
Disposals	(11)	-	-	(11)	-	-	-	(11)
Reclassifications	123	-	(556)	(433)	-	-	-	(433)
Revaluations	(2,726)	(1,037)	-	(3,763)	-	-	-	(3,763)
Impairment	-	-	(380)	(380)	-	-	-	(380)
At 31 March 2018	33,215	3,400	233	36,848	1,227	653	5,610	44,338
Depreciation								
At 1 April 2017	-	-	-	-	1,149	383	2,819	4,351
Charged in year	399	61	-	460	70	90	416	1,036
Write down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(399)	(61)	-	(460)	-	-	-	(460)
At 31 March 2018	-	-	-	-	1,219	473	3,235	4,927
Net book value								
At 31 March 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
At 1 April 2018	33,215	3,400	233	36,848	1,227	653	5,610	44,338
Additions	1,743	405	4,718	6,866	62	205	987	8,120
Write down	-	-	-	-	-	-	-	-
Disposals	(21)	-	-	(21)	-	-	(9)	(30)
Reclassifications	(9,514)	-	-	(9,514)	-	-	-	(9,514)
Revaluations	(773)	(327)	-	(1,100)	-	-	-	(1,100)
Impairment	-	-	(3,164)	(3,164)	-	-	-	(3,164)
At 31 March 2019	24,650	3,478	1,787	29,915	1,289	858	6,588	38,650
Depreciation								
At 1 April 2018	-	-	-	-	1,219	473	3,235	4,927
Charged in year	267	71	-	338	11	141	646	1,136
Write down	-	-	-	-	-	-	13	13
Disposals	-	-	-	-	-	-	(8)	(8)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(267)	(71)	-	(338)	-	-	-	(338)
At 31 March 2019	-	-	-	-	1,230	614	3,886	5,730
Net book value								
At 31 March 2019	24,650	3,478	1,787	29,915	59	244	2,702	32,920
At 1 April 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
At 1 April 2017	34,083	3,450	558	38,091	78	270	2,786	41,225

ANALYSIS OF ASSET FINANCING:	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	32,723	3,400	233	36,356	8	180	2,374	38,918
Finance leased	492	-	-	492	-	-	1	493
Net book value								
At 31 March 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
Owned	24,043	3,478	1,787	29,308	59	244	2,701	32,312
Finance leased	607	-	-	607	-	-	1	608
Net book value								
At 31 March 2019	24,650	3,478	1,787	29,915	59	244	2,702	32,920
At 1 April 2018	33,215	3,400	233	36,848	8	180	2,375	39,411
At 1 April 2017	34,083	3,450	558	38,091	78	270	2,786	41,225

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Government grant	7,627	3,153	6,937	3,152
EU	1,183	197	1,183	197
Total	8,810	3,350	8,120	3,349

	GROUP	
	2019	2018
	£000	£000
Sales value of disposals	706	957
Net book value of disposals	(482)	(732)
Profit on sales	224	225

10. FINANCIAL ASSETS - GROUP

Financial assets	GROUP	
	2019	2018
	£000	£000
Financial assets at fair value through profit and loss	195	132
Unlisted equity shares		

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 comparable, other valuation methodologies were not considered appropriate.

LOANS AND RECEIVABLES	Preference shares	Loans and receivables*	Total	2018
	£000	£000	£000	£000
Amortised cost				
At 1 April 2018	2,773	6,103	8,876	9,565
Additions	-	793	793	2,535
Repayments	-	(716)	(716)	(916)
Disposals	-	-	-	(52)
Fair value adjustment	-	189	189	(19)
Reclassification	-	-	-	-
Written off	-	-	-	(2,237)
At 31 March 2019	2,773	6,369	9,142	8,876
Diminution in value				
At 1 April 2018	2,773	2,967	5,740	6,788
Additions	-	1,635	1,635	1,660
Disposals	-	-	-	(41)
Released	-	(158)	(158)	(605)
Reclassification	-	-	-	-
Risk premium	-	(9)	(9)	-
Written off	-	-	-	(2,237)
At 31 March 2019	2,773	4,435	7,208	5,565
Net book value				
At 31 March 2019	-	1,934	1,934	3,311
At 1 April 2018	-	3,311	3,311	
Analysis of loan and receivables				
Due within 1 year	-	446	446	832
Due over 1 year	-	1,488	1,488	2,479

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. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

*Loan additions includes a £32k for a loan issued in 2012 not previously recognised

10. FINANCIAL ASSETS - HIE

Financial assets	HIE	
	2019	2018
	£000	£000
Financial assets at fair value through profit and loss	770	511
Unlisted equity shares		

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 comparable, other valuation methodologies were not considered appropriate.

LOANS AND RECEIVABLES	Preference shares	Loans and receivables*	Total	2018
	£000	£000	£000	£000
Amortised cost				
At 1 April 2018	2,773	6,084	8,857	9,538
Additions	-	1,494	1,494	2,535
Repayments	-	(680)	(680)	(917)
Disposals	-	-	-	(41)
Fair value adjustment	-	189	189	(21)
Reclassification	-	-	-	-
Written off	-	-	-	(2,237)
At 31 March 2019	2,773	7,087	9,860	8,857
Diminution in value				
At 1 April 2018	2,773	2,967	5,740	6,788
Additions	-	1,635	1,635	1,660
Disposals	-	-	-	(41)
Released	-	(157)	(157)	(605)
Reclassification	-	-	-	-
Risk premium	-	621	621	-
Written off	-	-	-	(2,237)
At 31 March 2019	2,773	5,066	7,839	5,565
Net book value				
At 31 March 2019	-	2,021	2,021	3,292
At 1 April 2018	-	3,292	3,292	-
Analysis of loan and receivables				
Due within 1 year	-	446	446	832
Due over 1 year	-	1,575	1,575	2,460

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. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

All non-current assets acquired were financed by government grant

*Loan additions includes a £32k for a loan issued in 2012 not previously recognised

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

Name of company	Country of incorporation	Holding of voting rights and shares held	Proportion	Nature of business
HIE Ventures Limited	Scotland	Ordinary Shares 'A' Ordinary Shares (non-voting)	55% 80%	Venture Capitalist
Wave Energy Scotland Limited	Scotland	Limited by Guarantee	100%	Promote and assist the development of wave energy technology in Scotland
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Innse Gall	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Moray	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Orkney	Scotland	n/a	n/a	Local enterprise company (Dormant)
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Shetland	Scotland	n/a	n/a	Local enterprise company (Dormant)
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company (Dormant)
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives. (Dormant)
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 Mountain (Scotland) Limited	Scotland	Ordinary Shares	100%	All year-round tourist attraction including mountain railway and winter skiing facilities

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

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 non-controlling interest amounts to 45% as at 31 March 2019.

On 26 November Cairngorm Mountain (Scotland) Limited was incorporated. HIE is the sole shareholder in Cairngorm Mountain (Scotland) Limited. On 14 December 2018 Cairngorm Mountain (Scotland) Limited began operating the Cairngorm Ski area

**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 recognised in the accounts 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 Intellectual Asset Management Limited*	Scotland	31 March	50	Help build Scotland's competitiveness in modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets
This is Remarkable Limited	Scotland	31 March	50	Assessment of organisations against the This is Remarkable Ltd national standard

Scottish Intellectual Asset Management and This is Remarkable Limited are treated as Associates within the HIE accounts by virtue of Scottish Enterprise having control of the entities through Board and contractual terms

*The results of Scottish Intellectual Asset management are not recognised within the HIE accounts as they are a dormant company and are not considered material to the results of HIE or the group. The results are consolidated within the Scottish Enterprise accounts.

LIMITED BY SHARES

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business
Inverness Airport Business Park Limited	Scotland	31 March	25.0	Construction and development of a business park adjacent to Inverness airport

The results of Inverness Airport Business Park Limited are recognised in HIE's accounts by virtue of the controlling interest of 25%. HIE's shareholding of 5% would not be sufficient for IABP to be recognised in the accounts. HIE's controlling interest arises due to HIE having the right to appoint 2 of the 8 IABP directors.

LIMITED BY SHARES

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business
Orkney Research and Innovation Campus	Scotland	31 March	50.0	Construction, development and management of a research and Innovation Campus

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	Expenses	Profit/(Loss)
As at March 2017	63	2,145	2,208	(1,365)	(19)	(1,384)	-	(7,664)	(7,664)
As at March 2018	46	2,306	2,352	(1,440)	(19)	(1,459)	638	(10,808)	(10,170)
As at March 2019	634	5,258	5,892	(5,061)	(123)	(5,184)	2,185	(10,896)	(8,711)

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	Expenses	Profit/(Loss)
As at March 2017	5,263	1,265	6,528	(2,902)	(2,885)	(5,787)	2,204	(2,494)	(290)
As at March 2018	8,035	2,878	10,913	(1,841)	(4,897)	(6,738)	2,794	(2,965)	(171)
As at March 2019	7,320	2,313	9,633	(4,315)	(3,550)	(7,865)	3,586	(7,097)	(3,511)

Movements in carrying amount of investment in equity accounted investees

	£000
Carrying amount as at April 2017	262
Share of net profit/(Loss)	1,534
Carrying amount as at 31 March 2018	1,796
Carrying amount as at April 2018	1,796
Share of net profit/(Loss)	(1,180)
Carrying amount as at 31 March 2019	616

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

SIGNIFICANT HOLDINGS				
Name of company - activity	% of voting rights	Holding as at 31 March 2019	Shares value paid £000	Original Loan Capital £000
Balcas Limited – production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000	
Inverness Airport Business	25%	500 class 'C' ordinary shares	-	1,423
Park Limited – construction and operation of Business park		24,997 class 'D' ordinary shares	29	-
		275,000 redeemable preference shares	550	-
HIE Ventures Limited - Equity investment company	55%	110,000 Ordinary Shares	61	1,000
		40,000 class A ordinary shares	40	-
Cairngorm Mountain (Scotland Limited)		460,852 Ordinary Shares	461	700
Investments in 39 other businesses			1,250	6,044
			4,391	9,167

11 FAIR VALUE AND IMPAIRMENTS

Revaluations to fair value and impairment charges for the year.

Group	Statement of comprehensive net expenditure	Revaluation reserve	Total	2018
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	762	1,486	2,248	3,764
Financial assets	(253)	-	(253)	276
	509	1,486	1,995	4,040
Impairments				
Property, plant and equipment	3,164	-	3,164	388
Financial assets	(1,626)	-	(1,626)	(1,660)
	1,538	-	1,538	(1,272)

HIE	Statement of comprehensive net expenditure	Revaluation reserve	Total	2018
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	762	1,486	2,248	3,764
Financial assets	12	-	12	275
	774	1,486	2,260	4,039
Impairments				
Property, plant and equipment	3,164	-	3,164	380
Financial assets	(2,256)	-	(2,256)	(1,660)
	908	-	908	(1,280)

12. TRADE AND OTHER RECEIVABLES

Revaluations to fair value and impairment charges for the year.

	Note	GROUP		HIE	
		2019	2018	2019	2018
		£000	£000	£000	£000
Trade receivables		10,135	4,814	10,099	4,716
Provision for bad debts		(428)	(522)	(428)	(522)
		9,707	4,292	9,671	4,194
Taxation recoverable		370	200	355	200
Accrued income and prepayments		3,870	3,649	3,611	3,081
Owed by subsidiary undertakings		-	-	1,142	-
Loans and other receivables	10	446	832	446	832
		14,393	8,973	15,225	8,307

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

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Balances with other central government bodies	419	203	404	607
Balances with local authorities	315	95	315	151
Balances with similar public bodies	78	34	76	56
	812	332	795	814
Balances with bodies external to government	13,581	8,641	14,430	7,493
	14,393	8,973	15,225	8,307

13. CASH AND CASH EQUIVALENTS

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Balance at 1 April	2,393	4,817	1,365	2,930
Net change in cash and cash equivalent balances	(107)	(2,424)	(554)	(1,565)
	2,286	2,393	811	1,365

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Group and HIE funds	1,476	1,028	1	-
Other scheme funds held	810	1,365	810	1,365
	2,286	2,393	811	1,365

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

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Community Broadband Scotland	668	1,303	668	1,303
KEPP	142	62	142	62
	810	1,365	810	1,365

14. ASSETS CLASSIFIED AS HELD FOR RESALE

Assets held for resale

Financial Assets, Land and buildings, plant and equipment 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.

Group	Land and buildings	Plant and equipment	Financial Assets	Total
	£000	£000		
As at 1 April 2017	813	-	-	813
Transfers to assets Held for resale	414	-	-	414
Other costs associated with sale of assets		-	-	-
Disposals of non current assets held for sale	(702)	-	-	(702)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2018	525	-	-	525

Group	Land and buildings	Plant and equipment	Financial Assets	Total
	£000	£000		
As at 1 April 2018	525	-	-	525
Transfers to assets Held for resale	9,514	-	-	9,514
Other costs associated with sale of assets	(30)	-	-	(30)
Disposals of non current assets held for sale	(430)	-	-	(430)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2019	9,579	-	-	9,579

During the year it was decided 3 assets (2018 - Nil) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

HIE	Land and buildings	Plant and equipment	Financial Assets	Total
	£000	£000		
As at 1 April 2017	813	-	-	813
Transfers to assets Held for resale	414	-	-	414
Other costs associated with sale of assets		-	-	-
Disposals of non current assets held for sale	(702)	-	-	(702)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2018	525	-	-	525

HIE	Land and buildings	Plant and equipment	Financial Assets	Total
	£000	£000		
As at 1 April 2018	525	-	-	525
Transfers to assets Held for resale	9,514	-	-	9,514
Other costs associated with sale of assets	(30)	-	-	(30)
Disposals of non current assets held for sale	(430)	-	-	(430)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2019	9,579	-	-	9,579

During the year it was decided 3 assets (2018 - Nil) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

15. TRADE PAYABLES AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Trade payables	11,431	7,067	8,920	6,031
Accruals and deferred Income	5,865	5,817	5,586	5,597
Prepaid rental income	622	612	622	612
Owed to subsidiary undertakings	-	-	3,219	704
	17,918	13,496	18,347	12,944
Taxation and social security	433	477	326	319
Corporation tax	-	-	-	-
	433	477	326	319

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

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Balances with other central government bodies	758	3,308	651	3,150
Balances with local authorities	117	94	117	94
Balances with similar public bodies	116	50	85	1,056
	991	3,452	853	4,300
Balances with bodies external to government	17,360	10,521	17,820	8,963
	18,351	13,973	18,673	13,263

16. PROVISIONS AND OTHER CHARGES:

	GROUP		HIE	
	Tax	Construction costs	Tax	Construction costs
	£000	£000	£000	£000
Opening balance as at 1 April 2017	-	-	-	-
Additions	321	-	321	-
Used (amounts charged against provision)	-	-	-	-
Unused amounts reversed	-	-	-	-
Unwinding of the discount, or changes in discount rate	-	-	-	-
Closing balance at 31 March 2018	321	-	321	-

	GROUP		HIE	
	Tax	Construction costs	Tax	Construction costs
	£000	£000	£000	£000
Opening balance as at 1 April 2018	321	-	321	-
Additions	4,214	9,581	4,214	9,581
Used (amounts charged against provision)	-	-	-	-
Unused amounts reversed	-	-	-	-
Unwinding of the discount, or changes in discount rate	-	-	-	-
Closing balance at 31 March 2019	4,535	9,581	4,535	9,581

The tax provision relates to liabilities arising from the development of a new partial exemption special method of VAT recovery.

The construction cost provision arises due to the decision to repair the funicular railway on Cairngorm Mountain.

**17. TRADE PAYABLES AND OTHER LIABILITIES:
AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Deferred income – other schemes	429	342	325	342
Deferred Tax	1,156	1,225	1,156	1,225
	1,585	1,567	1,481	1,567

18. RETIREMENT BENEFIT OBLIGATION

New employees are automatically enrolled into the Highlands and Islands Enterprise Superannuation Scheme.

HIE also have staff in the LGPS between Highland, Orkney and Strathclyde which are all now closed schemes. In 2018-19 there were 29 HIE employees in the LGPS.

The HIE Pension Scheme is a defined benefit scheme, it was a final pensionable salary scheme until 31st July 2014 then changed to a Career Average Revalued Earnings (CARE) Scheme on 1st August 14 2019.

Benefits in the HIE Scheme for service prior to 1st August 14 are a pension of 1/80 x Final Pensionable Salary x Pensionable Service up to and including 31st July 14 2014.

From 1st August 2014 a pension of 1/80 x your Pensionable Salary during the year for each year of service accrues. The LGPS is also a defined benefit scheme, the assets of which are held in independently administered funds. It was a final pensionable salary scheme until 31st March 2015 then changed to a Career Average Revalued Earnings (CARE) Scheme on 1st April 2015.

Membership in the LGPS from 1st April 2015 is 1/49 x your Pensionable Salary during the year for each year.

The pension scheme operated by Wave Energy Scotland is a trust based defined contribution scheme. It is separate from HIE and involves no HIE employees. Further information about WES pension arrangements can be found in that company's annual report and accounts.

**Highlands and Islands Enterprise
Superannuation Scheme**

The valuation at 5 April 2019, indicated a potential deficit of £41.8 million in the HIE pension fund. In December 2013 HIE, with agreement of the HIE Pension Fund Trustees and Scottish Government implemented a recovery plan to address the shortfall. The plan was updated in December 2018 to:

- Lump sum contributions of £548K per annum from 2019 to 2035 increasing in line with RPI over the year
- Pay additional contributions per months as a percentage of pensionable salaries from 2019 to 2035
 - From April 2019 to April 2020 9.1% of pensionable salaries
 - From April 2020 to April 2021 10.1% of pensionable salaries
 - From April 2021 to April 2035 11.1% of pensionable salaries
 - From April 2021 an annual test will apply which will determine if the additional payment should be increased by a further 1% each year

From August 2014, the HIE final salary pension scheme was closed. A new Career Average Revalued Earnings (CARE) scheme replaced the HIE final salary scheme. The retirement age under the new scheme is 65 years of age and member contributions will increase to 6% over the next 3 years.

Pension disclosure under IAS 19

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. There are six trustees in total comprising an independent chairman, three Trustees appointed by Highlands and Islands Enterprise and two nominated by members. The trustees are responsible for ensuring the scheme is run in accordance with the members' best interests and the pension laws of the United Kingdom, as overseen by the Pension Regulator.

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 5 April 2018 by a qualified independent actuary and updated to 31 March 2019 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 19	31 March 18	31 March 17	31 March 16	31 March 15
	%	%	%	%	%
Rate of salary increases (% per annum)	3.45	3.35	3.40	3.15	3.50
Rate of pension increase (% per annum)	2.45	2.35	2.40	2.15	2.00
Discount rate (% per annum)	2.40	2.65	2.60	3.50	3.30
Inflation rate (% per annum)	3.45	3.35	3.40	3.15	3.00

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

Access to fibre-based broadband now exceeds our original target and will increase further in 2019/20.

81%

of premises can access download speeds faster than 24Mbps

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

	Value at 31 March	Value at 31 March	Value at 31 March	Value at 31 March	Value at 31 March
	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Equities	70,318	70,623	70,592	47,886	50,613
Gilts	16,127	12,965	13,261	16,644	16,446
Bonds	0	0	0	8,235	8,255
Property	8,438	8,182	7,869	7,677	7,458
Cash	2,880	2,239	1,513	1,117	1,243
Estimated employer assets	97,763	94,009	93,235	81,559	84,015
Present value of scheme liabilities	(139,518)	(128,691)	(143,441)	(113,401)	(112,085)
Deficit in the scheme	(41,755)	(34,682)	(50,206)	(31,842)	(28,070)
Related deferred tax asset/ (liability)	-	-	-	-	-
Net pension liability	(41,755)	(34,682)	(50,206)	(31,842)	(28,070)

The current values show a increase in the deficit from 31 March 2018 of £7.1m to £41.8m at 31 March 2019.

Local Government Pension Funds

The local government final salary pension scheme was closed on 31 March 2015. From April 2015, the local government pension fund will be a career average salary scheme.

Pension disclosure under IAS 19

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 fund is a defined benefit scheme. A full actuarial valuation at 31 March 2017 and updated to 31 March 2019 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 19	31 March 18	31 March 17	31 March 16	31 March 15
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	3.45	3.35	3.40	4.20	4.33
Rate of pension increase (% per annum)	2.45	2.35	2.40	2.20	2.43
Discount rate (% per annum)	2.40	2.65	2.60	3.53	3.23
Inflation rate (% per annum)	3.20	3.35	3.40	3.20	3.40

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

	Value at 31 March	Value at 31 March	Value at 31 March	Value at 31 March	Value at 31 March
	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000
Equities	13,896	12,726	12,726	9,932	9921
Gilts	130	658	658	420	576
Bonds	2,975	1940	1940	1,803	1817
Property	1,692	2098	2098	1,514	1210
Cash	703	425	425	491	180
Estimated employer assets	19,396	17,850	17,850	14,160	13,704
Present value of scheme liabilities	(24,088)	(21,442)	(21,442)	(17,890)	(19,367)
Present value of unfunded liabilities	(787)	(745)	(745)	(681)	(751)
Deficit in the scheme	(5,479)	(4,337)	(4,337)	(4,411)	(6,414)
Related deferred tax liability	-	-	-	-	-
Net pension liability	(5,479)	(4,337)	(4,337)	(4,411)	(6,414)

The pension contributions with effect from 1 April 2018 for the local government pension funds are:

	2019	2018
Highland Council Pension Fund	30.1%	30.1%
Orkney Islands Council Pension Fund	17.6%	18.2%
Strathclyde Pension Fund	33.6%	33.6%

GROUP	HIE	LGPS	Total	HIE	LGPS	Total
	2019	2019	2019	2018	2018	2018
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	3,078	531	3,609	3,215	524	3,739
Past service cost	130	192	322	-	-	-
Admin expenses	403	-	403	320	-	320
Interest income on retirement benefit assets	(2,441)	(478)	(2,919)	(2,386)	(449)	(2,835)
Interest on retirement benefit scheme obligations	3,317	594	3,911	3,650	611	4,261
Net pension scheme expense	4,487	839	5,326	4,799	686	5,485
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	2,497	676	3,173	(616)	38	(578)
Experience gains and (losses) arising on the scheme liabilities	1,269	(26)	1,243	8,200	1,562	9,762
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	-	-	-	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	(8,784)	(1,746)	(10,530)	8,812	523	9,335
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	(5,018)	(1,096)	(6,114)	16,396	2,123	18,519
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	128,691	22,187	150,878	143,441	23,348	166,789
Recognised on acquisition	-	-	-	-	-	-
	128,691	22,187	150,878	143,441	23,348	166,789
Movement in year						
Current service costs	3,078	531	3,609	3,215	524	3,739
Contributions by members	586	100	686	568	100	668
Past service costs	130	192	322	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(31)	(31)	-	(29)	(29)
Estimated benefits paid	(3,799)	(274)	(4,073)	(5,171)	(282)	(5,453)
Interest cost	3,317	594	3,911	3,650	611	4,261
Actuarial losses/(gains)	7,515	1,771	9,287	(17,012)	(2,085)	(19,097)
Closing defined benefit obligation	139,518	25,071	164,589	128,691	22,187	150,878
Present value of funded liabilities	139,518	24,284	163,802	128,691	21,442	150,133
Present value of unfunded liabilities	-	787	787	-	745	745
Reconciliation of fair value of assets						
Opening fair value of assets	94,009	17,850	111,859	93,235	17,241	110,476
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets – as restated	94,009	17,850	111,859	93,235	17,241	110,476
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,441	478	2,919	2,386	449	2,835
Contributions by members	586	100	686	568	100	668
Contributions by employer	2,432	566	2,998	3,927	304	4,231
Contribution in respect of unfunded benefits	-	31	31	-	29	29
Admin expenses	(403)	-	(403)	(320)	-	(320)
Actuarial gains/(losses)	2,497	676	3,173	(616)	38	(578)
Estimated unfunded benefits paid	-	(31)	(31)	-	(29)	(29)
Estimated benefits paid	(3,799)	(274)	(4,073)	(5,171)	(282)	(5,453)
	97,763	19,396	117,159	94,009	17,850	111,859
Estimated employer contributions for the year ended 31 March 2019	4,300	569	4,869	4,500	582	5,082

HIE	HIE	LGPS	Total	HIE	LGPS	Total
	2019	2019	2019	2018	2018	2018
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	3,078	531	3,609	3,215	524	3,739
Past service cost	130	192	322	-	-	-
Admin expenses	403	-	403	320	-	320
Interest income on retirement benefit assets	(2,441)	(478)	(2,919)	(2,386)	(449)	(2,835)
Interest on retirement benefit scheme obligations	3,317	594	3,911	3,650	611	4,261
Net pension scheme expense	4,487	839	5,326	4,799	686	5,485
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	2,497	676	3,173	(616)	38	(578)
Experience gains and (losses) arising on the scheme liabilities	1,269	(26)	1,243	8,200	1,562	9,762
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	-	-	-	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	(8,784)	(1,746)	(10,530)	8,812	523	9,335
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	(5,018)	(1,096)	(6,114)	16,396	2,123	18,519
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	128,691	22,187	150,878	143,441	23,348	166,789
Recognised on acquisition	-	-	-	-	-	-
	128,691	22,187	150,878	143,441	23,348	166,789
Movement in year:						
Current service costs	3,078	531	3,609	3,215	524	3,739
Contributions by members	586	100	686	568	100	668
Past service costs	130	192	322	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(31)	(31)	-	(29)	(29)
Estimated benefits paid	(3,799)	(274)	(4,073)	(5,171)	(282)	(5,453)
Interest cost	3,317	594	3,911	3,650	611	4,261
Actuarial losses/(gains)	7,515	1,772	9,287	(17,012)	(2,085)	(19,097)
Closing defined benefit obligation	139,518	25,071	164,589	128,691	22,187	150,878
Present value of funded liabilities	139,518	24,284	163,802	128,691	21,442	150,133
Present value of unfunded liabilities	-	787	787	-	745	745
Reconciliation of fair value of assets						
Opening fair value of assets	94,009	17,850	111,859	93,235	17,241	110,476
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	94,009	17,850	111,859	93,235	17,241	110,476
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,441	478	2,919	2,386	449	2,835
Contributions by members	586	100	686	568	100	668
Contributions by employer	2,432	566	2,998	3,927	304	4,231
Contribution in respect of unfunded benefits	-	31	31	-	29	29
Admin expenses	(403)	-	(403)	(320)	-	(320)
Actuarial gains/(losses)	2,497	676	3,173	(616)	38	(578)
Estimated unfunded benefits paid	-	(31)	(31)	-	(29)	(29)
Estimated benefits paid	(3,799)	(274)	(4,073)	(5,171)	(282)	(5,453)
	97,763	19,396	117,159	94,009	17,850	111,859
Estimated employer contributions for the year ended 31 March 2019	4,300	569	4,869	4,500	582	5,082

McCloud Judgement

McCloud judgement ruled that transitional protections built into new pension schemes post Hutton Review of Fair Pay in the public sector including Local Government Pension Scheme are age discriminatory. In line with the McCloud Judgement and Supreme Court the Local Government Pension scheme figures included in the HIE and group accounts reflect the anticipated effect of the McCloud judgment on future pension scheme assets and liabilities. Legal and Actuarial advice has confirmed that the HIE superannuation scheme was not affected by the judgement.

Expenditure recognised in the Statement of Comprehensive net expenditure

	2019	2018
	£000	£000
Net management expenditure on staff costs	1,305	(201)
Other finance charges/(income)	992	1,426

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £6,114k loss (2018 £18,519k gain).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £29,173k (2018 £23,059k loss).

A history of the Highlands and Islands Enterprise superannuation scheme and for its share of the Local Government Pension schemes for prior periods is as follows:

	HIE					LGPS				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Experience gains and losses										
Difference between expected and actual return on scheme assets	2,497	(616)	10,395	(5,150)	7,221	676	38	2,491	(185)	1,255
Value of assets	97,763	94,009	93,235	81,559	84,015	19,396	17,850	17,241	14,160	13,704
Percentage of scheme assets	2.6%	(0.7)%	11.1%	(6.3)%	8.6%	3.5%	0.2%	14.4%	(1.3)%	9.2%
Experience gains and (losses) on scheme liabilities	1,269	8,200	(63)	1,808	141	(26)	1,562	(51)	208	(51)
Present value of liabilities	(139,518)	(128,691)	(143,441)	(113,401)	(112,085)	(25,071)	(22,187)	(23,348)	(18,571)	(20,118)
Percentage of scheme liabilities	(0.9)%	(6.4)%	0.0%	(1.6)%	(0.1)%	0.1%	(7.0)%	0.2%	(1.1)%	0.3%

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 65-year-old to live for a number of years as follows:

	HIE		LGPS	
	UK	UK	UK	UK
	31/03/19	31/03/18	31/03/19	31/03/18
1. Male member aged 65 (current life expectancy)	23.2	23.1	21.8	21.8
2. Male member age 45 (life expectancy at 65)	24.2	24.1	23.5	23.5
3. Female member aged 65 (current life expectancy)	24.0	24.7	24.7	24.0
4. Female member aged 45 (life expectancy at 65)	26.1	26.6	26.7	26.1

Defined benefit obligation analysed by participant status

	HIE		LGPS		HIE		LGPS	
	2019		2019		2018		2018	
	%	£000	%	£000	%	£000	%	£000
Active members	37.3%	52,040	60.3%	14,645	34.5%	44,398	58.9%	12,628
Vested deferred members	22.9%	31,950	22.5%	5,455	23.0%	29,599	22.8%	4,886
Retired members	39.8%	55,528	17.2%	4,184	42.5%	54,694	18.3%	3,928
		139,518		24,284		128,691		21,442

Sensitivity analysis

	HIE		LGPS	
	2019		2019	
	%	£000	%	£000
0.5% decrease in real discount rate	10.8%	15,021	10.9%	2,741
1 Year increase in member life expectancy	4.0%	5,580	4.0%	1003
0.5% increase in the salary increase rate	1.4%	1,900	2.0%	496
0.5% increase in pension increase rate	8.7%	12,104	8.7%	2,187

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, as changes in assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

Risks

Through its defined benefit pension scheme the group is exposed to a number of risks, the most significance of which are detailed below:

Asset volatility

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yield and if plan assets underperform this yield, this will result in a deficit. The group's pension schemes hold a significant proportion of equities, which are expected to outperform corporate bonds in the long-term although exposing the group to volatility and risk in the short-term.

Changes in bond yields

A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Inflation risk

The majority of the scheme's benefit obligations are linked to inflation and higher inflation will lead to higher liabilities although, in most cases, caps and the level of inflationary increases are in place to protect the plan against extreme inflation.

Life expectancy

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in the life of the member will result in an increase in the liabilities.

	HIE	LGPS
	Years	Years
Weighted average duration of defined benefit obligation	20.6	21.5

19. NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	GROUP		HIE	
		2019	2018	2019	2018
		£000	£000	£000	£000
Deficit on operating activities		79,645	74,221	79,864	73,834
Interest received	6	(118)	(134)	(118)	(134)
Dividends received	6	-	-	-	-
Share of related company results	10	1,180	(1,534)	-	-
Gain/loss on financial assets at fair value	3	-	(1)	-	(1)
Profit of sale of assets	3	223	225	224	225
Interest payable	7	2	63	1	63
Net cash outflow from operating activities		80,932	72,840	79,971	73,987

20. COMMITMENTS

	GROUP		HIE	
	2019	2018	2019	2018
	£000	£000	£000	£000
Commitments				
Property	24,496	20,714	24,496	20,714
Grants and loans	43,348	57,898	33,710	57,898

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.

21. 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 3 and 20 years.

Future minimum payments due under non-cancellable operating leases:

GROUP	Property	Equipment	Total	2018
	£000	£000	£000	£000
Obligations under operating and similar leases:				
Within one year	842	10	852	864
Within two to five years	2,265	-	2,265	2,784
In over five years	266	-	266	589
	3,373	10	3,383	4,237

HIE	Property	Equipment	Total	2018
	£000	£000	£000	£000
Obligations under Operating and similar leases:				
Within one year	842	10	852	864
Within two to five years	2,265	-	2,265	2,784
In over five years	266	-	266	589
	3,373	10	3,383	4,237

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 2019 is £1,451k (2018 £2,438k).

Highlands and Islands holds office and manufacturing buildings as investment properties, which are let to third parties. These non-cancellable leases have remaining terms between 1 and 20 years.

Future minimum rentals receivable under non-cancellable operating leases:

GROUP	Property	Equipment	Total	2018
	£000	£000	£000	£000
Receivable under operating and similar leases:				
Within one year	3,913	70	3,983	4,219
Within two to five years	9,274	70	9,344	12,167
In over five years	13,160	-	13,160	14,242
	26,347	140	26,487	30,628

HIE	Property	Equipment	Total	2018
	£000	£000	£000	£000
Receivable under operating and similar leases:				
Within one year	3,913	70	3,983	4,219
Within two to five years	9,274	70	9,344	12,167
In over five years	13,160	-	13,160	14,242
	26,347	140	26,488	30,628

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

JUST UNDER HALF

of the organisations in HIE's account management portfolio are female-owned or feature women in senior roles

Future minimum payments due under non-cancellable finance leases:

GROUP	Property	Plant and equipment	Total	2018
	£000	£000	£000	£000
Obligations under finance and similar leases:				
Within one year	284	104	388	285
Within two to five years	1,137	-	1,137	1,137
In over five years	6,801	-	6,801	7,370
	8,222	104	8,326	8,792
Finance charges allocated to future periods	-	-	-	-
	8,222	104		8,792
Present value of minimum lease payments				
Within one year	284	104	388	285
Within two to five years	1,137	-	1,137	1,137
In over five years	6,801	-	6,801	7,370
	8,222	104	8,326	8,792

HIE	Property	Plant and equipment	Total	2018
	£000	£000	£000	£000
Obligations under Finance and similar leases:				
Within one year	284	-	284	285
Within two to five years	1,137	-	1,137	1,137
In over five years	6,801	-	6,801	7,370
	8,222	-	8,222	8,792
Finance charges allocated to future periods	-	-	-	-
	8,222	-	8,222	8,792
Present Value of minimum lease payments				
Within one year	284	-	284	285
Within two to five years	1,137	-	1,137	1,137
In over five years	6,801	-	6,801	7,370
	8,222	-	8,222	8,792

22. CONTINGENT LIABILITIES

As the owner of the Cairngorm mountain ski area HIE has responsibility for the costs of removal of equipment and re-instatement of the site of the funicular railway to a natural condition. The liability arises where the funicular railway ceases to operate for more than 2 years. The funicular is currently not operational pending repair. The cessation of operation of the funicular for repair does not crystallise the liability to reinstate the mountain.

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.

Highlands and Islands Enterprise operated 2 pension schemes. The HIE scheme and the local government superannuation scheme. The pension disclosure for the HIE scheme has been updated to reflect the effects of Guaranteed Minimum Pension Equalisation. Local Government Superannuation Scheme does not reflect Guaranteed Minimum Pension Equalisation. The effect of GMP equalisation on the LGPS has yet to be quantified by our actuaries, however it is estimated there will be an increase in the LGPS pension liability of between 1% and 4%.

23. TRANSACTIONS INVOLVING BOARD MEMBERS' AND DIRECTORS 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:

Transactions where a director had a financial interest

Business	Approvals brought forward (£)	Amount approved (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Aros (Isle of Skye) Ltd	43,072	-	16,131	Development grant for Aros Centre	D MacDonald - Managing Director
CalMac Community board		68	68	Catering	A Campbell - Chair
Crerar Hotels		1,173	1,173	Accommodation and room hire	P Crerar - Chief Executive
Forestry Commission	15,547	-	4,420	Research	A Bryan - Lecturer
Harper Macleod	-	59,689	59,689	Legal fees	L Crerar - Member
Inverness College UHI	-	40,000	13,892	Catering	A Bryan - Lecturer
Jacobite Cruises Ltd	-	352,500	193,644	Development grant	F Newton - Managing Director
Loch Melfort Hotel	-		952	Room Hire and Catering	C Ross - Partner
Midton Acrylics LTD	14,046	-	4,487	Graduate placement grant	C Ross - Non Exec Chairman
MG Alba	71,166	(68,166)	1,900	Grant	I Mactaggart - Director
Scottish Natural Heritage	-	10,050	10,050	Room Hire	Angus Campbell - Deputy Chair
Southwest Mull and Iona Development	-	53,432	31,989	Graduate placement grant	Morven Gibson - General Manager

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

Shetland Amenity Trust

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:

Big Lottery
Cairngorm Mountain (Scotland) Limited
Cape Wrath Trail Association
Comunn na Gaidhlig
Elsie Normington Foudation
Entreprenerual Scotland
HIE Ventures Limited
High Life Highland (Trading) CIC
Isle of Eigg Heritage Trust
MacTV
Manufacturing Action Plan Board
Massachusetts Institute of Technology
Mull & Iona Community Enterprise
NHS Highland
Orkney Research and Innovation Campus LLP
People Matters Ltd
Sabhal Mor Ostaig
Scottish Aquaculture Innovation Centre Board
Social Growth Fund Social Investment Scotland
SSE plc
STA Ltd
Staffin Community Trust
Remarkable Limited
University of the Highlands and Islands
Visit Inverness Loch Ness Ltd
Wave Energy Scotland Limited
Weber Shandwick Media Relations

24. 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 has 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 has had a small number of transactions with other Government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

Transactions have taken place with:

Argyll & Bute Council
Audit Scotland
CairnGorm National Park Authority
Comhairle Nan Eilean Siar
Companies House
Creative Scotland
Her Majesty's Customs & Revenue
Historic Environment Scotland
Inverness College
North Ayrshire Council
Moray Council
Moray College
Orkney Islands Council
Registers of Scotland
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Funding Council
Scottish Water
Shetland Island Council
Skills Development Scotland
The Highland Council

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 22.

Compensation of key management personnel

Key management personnel are considered to be the non-executive board members and the executive directors. Detail of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £6K (2018: £7K) employers national insurance contributions and Nil (2018 Nil) employer pension contributions.

25. FINANCIAL INSTRUMENTS

Highland and Islands Enterprise has exposure to the following risks from the use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

This note presents information about the Group and Highlands and Islands Enterprise exposure to each of the above risks. Further quantitative disclosures are included throughout these accounts.

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 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. The organisation'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. Highlands and Islands Enterprise has no debt or borrowing facility with any external party.

Liquidity is managed using the annual business plan process and the monitoring of actual performance against budgets and forecasts.

£6m
of HIE funding was invested in fragile areas
in 2018-19, and £49m in non-fragile areas

The table below details the contractual maturities of financial liabilities.

2019

GROUP	Carrying amount	Contractual cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	17,296	17,296	17,296	-
	17,296	17,296	17,296	-

HIE	Carrying amount	Contractual cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	17,725	17,725	17,725	-
	17,725	17,725	17,725	-

2018

GROUP	Carrying amount	Contractual cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	12,884	12,884	12,884	-
	12,884	12,884	12,884	-

HIE	Carrying amount	Contractual cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial liabilities				
Trade and other payables	12,332	12,332	12,332	-
	12,332	12,332	12,332	-

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2019 (2018: £nil).

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 trade receivables.

Credit risk arising from the Group and Highlands and Islands Enterprise's normal operations, including holding non-current financial assets and other investments, is controlled by individual business units and group companies operating in accordance with HIE policies and procedures.

In pursuit 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 revalue assets available for sale 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 counterparty. 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 experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

Highlands and Islands Enterprise' exposures to credit risk is likely to have increased in the current economic climate, but management do not consider this to have had a significant impact as the risk is spread across a large number of receivables. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position. The maximum exposure to credit risk at 31 March was:

GROUP	Carrying Amount	Carrying Amount
	2019	2018
	£000	£000
Financial Assets - other investments		
Available for sale unlisted equity shares	195	132
Preference shares	-	-
Loans and other receivables	1,934	3,311
Financial assets		
Trade and other receivables	13,577	7,941
Cash and cash equivalents	2,286	2,393
	17,992	13,777
HIE	Carrying Amount	Carrying Amount
	2019	2018
	£000	£000
Financial assets - other investments		
Available for sale unlisted equity shares	770	511
Preference shares	-	-
Loans and other receivables	2,021	3,292
Financial assets		
Trade and other receivables	13,282	7,275
Cash and cash equivalents	811	1,365
	16,884	12,443

The ageing of trade and other receivables at 31 March was:

GROUP	Gross	Impairment	Gross	Impairment
	2019	2019	2018	2018
	£000	£000	£000	£000
Not past due	13,367	-	7,869	-
Past due 0 to 30 days	138	(69)	116	(79)
Past due more than 31 days	500	(359)	478	(443)
	14,005	(428)	8,463	(522)

HIE	Gross	Impairment	Gross	Impairment
	2019	2019	2018	2018
	£000	£000	£000	£000
Not past due	12,916	-	7,203	-
Past due 0 to 30 days	294	(69)	116	(79)
Past due more than 31 days	500	(359)	478	(443)
	13,710	(428)	7,797	(522)

Movements in impairment of trade and other receivables is shown in Note 11. Impairment provisions are used to record impairment losses unless the Group and Highlands and Islands Enterprise is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off directly against the financial asset.

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.

Interest rate risk

At the date of the Statement of Financial Position, the market risk of Highlands and Islands Enterprise's interest bearing financial instruments was:

GROUP	Carrying amount	Carrying amount
	2019	2018
	£000	£000
Fixed rate instruments		
Financial assets	1,934	3,311
Financial liabilities	-	-
	1,934	3,311
Variable rate instruments		
Cash and cash equivalents	2,286	2,393
	2,286	2,393

HIE	Carrying amount	Carrying amount
	2019	2018
	£000	£000
Fixed rate instruments		
Financial assets	2,021	3,292
Financial liabilities	-	-
	2,021	3,292
Variable rate instruments		
Cash and cash equivalents	118	1,356
	118	1,356

In assessing the sensitivity of financial instruments Highlands and Islands Enterprise does not believe our Financial Assets are significantly affected by market risk. Cash and cash equivalents are subject to variation based on movements in the Bank of England base rate and associated interest rates. Assuming that all other variables remain constant a change of 100 basis points in interest rates at the reporting date would have increased /decreased net operating costs as follows:

	Group	HIE
	100 basis points change	100 basis points change
	£000	£000
Cash and cash equivalents		
31 March 2018	36	21
31 March 2019	23	11

Currency risk

Highlands and Islands Enterprise is exposed to currency risk on transactions and balances 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.

Highlands and Islands Enterprise is exposed to currency risks from its activities conducted overseas, but does not enter into any hedge arrangements and does not consider currency risk to be material.

Fair values

The fair values, together with the carrying amounts of financial assets and liabilities in the Statement of Financial Position, are as follows:

Group	Carrying amount	Fair value	Carrying amount	Fair value
	2019	2019	2018	2018
	£000	£000	£000	£000
Available for sale unlisted equity shares	195	195	132	132
Preference shares	-	-	-	-
Loans and other receivables	1,934	1,934	3,311	3,311
Trade and other receivables	13,577	13,577	7,941	7,941
Cash and cash equivalents	2,286	2,286	2,393	2,393
Trade and other payables	(17,296)	(17,296)	(12,884)	(12,884)
Taxation recoverable	370	370	200	200
	1,066	1,066	1,093	1,093

HIE	Carrying amount	Fair value	Carrying amount	Fair value
	2019	2019	2018	2018
	£000	£000	£000	£000
Available for sale unlisted equity shares	770	770	511	511
Preference shares	-	-	-	-
Loans and other receivables	2,021	2,021	3,292	3,292
Trade and other receivables	13,282	13,282	7,275	7,275
Cash and cash equivalents	811	811	1,365	1,365
Trade and other payables	(17,725)	(17,725)	(12,332)	(12,332)
Taxation recoverable	355	355	200	200
	(486)	(486)	311	311

Financial assets available for sale are not being actively marketed and there is no expectation that completed sales will occur within one year.

Non-Current assets

Valuation Process

The company's finance department is responsible for performing annual valuations of fair value measurements included in the financial statements, including Level 3 fair values. The valuation process uses recent marketplace transaction, where available, or on a net worth basis of valuation.

These valuations for recurring measurements are reviewed and approved by the Capital and Resource Planning Manager and the Head of Financial Services.

Fair value hierarchy

Group and Highlands and Islands Enterprise financial assets and liabilities that are valued at fair value are defined as follows:

- LEVEL 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- LEVEL 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability (i.e. as prices) or indirectly (i.e. derived from prices).
- LEVEL 3:** inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs).

The following table summarises fair value measurements in the statements of Financial Position or disclosed in the Company's financial statement by class of asset or liability and categorised by level according to the significance of the inputs in making the measurements

GROUP	2019	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total gains/ (losses)
	£000	£000	£000	£000	£000
Recurring measurements					
Fair value through profit and loss unlisted equity shares	195	-	-	195	64
Non-recurring measurements					
Property classified as held-for-resale	9,579	-	9,579	-	-
Plant and equipment classified as held-for-resale	-	-	-	-	-

HIE	2019	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total gains/ (losses)
	£000	£000	£000	£000	£000
Recurring measurements					
Fair value through profit and loss unlisted equity shares	770	-	-	770	214
Non-recurring measurements					
Property classified as held-for-resale	9,579	-	9,579	-	-
Plant and equipment classified as held-for-resale	-	-	-	-	-

- Level 1 inputs for recurring measurements include observable market data. Private sector investors have purchased shares at the same share price as HIE within the last financial year.
- Level 2 non- recurring measurements include annual valuations from independent Chartered Surveyors, Graham & Sibbald.
- Level 3 Equity shares are valued using recent marketplace transactions, where available, or using a net worth basis of valuation

The following table presents the changes in recurring fair value measurements of Available for sale unlisted equity shares categorised as Level 3

	Group	HIE
	£000	£000
Opening balance	131	511
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	-	45
Disposals	-	-
Fair value adjustment	64	214
Total gains or losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	-	-
Closing balance	195	770

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Description	Fair value	Valuation technique	Unobservable input	Range (weighted average)
Equity	£194k	Net Asset Value (a)	n/a	n/a

(a) The entity has determined that the reported net assets value represents fair value at the end

There are no unobservable inputs available to provide a sensitivity analysis of the fair value measurement.

Estimation of fair values

The following methods and assumptions were used to estimate fair values:

Financial assets available for sale	The fair value is based on net asset value, where this exists, or the last known purchase price
Assets held to maturity	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Loans and other receivables	The fair value is based on amortised cost using the effective interest rate method, less any provision for impairment
Trade and other receivables	The fair value is deemed to be the same as book value, less any provision for impairment
Cash and cash equivalents	The fair value is deemed to be the same as book value
Trade and other payables	The fair value is deemed to be the same as book value
Other borrowings	The fair value is deemed to be equal to the net present value of future lease payments

26. CHANGES IN ACCOUNTING POLICY

This note explains the impact of the adoption of IFRS 9 Financial Instruments on the group's financial statements.

Group Statement of Financial Position at 31 March 2018	Audited Accounts	IFRS 9 Financial Assets	IFRS 9 Reclassifications	Restated Balance
	£'000	£'000	£'000	£'000
Financial Assets	2,611	(175)		2,436
Other reserve	136		(115)	21
General reserve	38,927	(175)	115	38,867

HIE Statement of Financial Position at 31 March 2018	Audited Accounts	IFRS 9 Financial Assets	IFRS 9 Reclassifications	Restated Balance
	£'000	£'000	£'000	£'000
Financial Assets	2,971	(175)		2,796
Other reserve	133		(115)	18
General reserve	36,898	(175)	115	36,838

As a result of the adoption of IFRS 9 prior year financial statements have been restated. IFRS 9 is generally adopted without restating comparative information. HIE holds financial assets for economic development and regeneration. These financial assets are valued at fair value through profit and loss.

The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 March 2018, but are recognised in the opening balance as at 1 April 2018.

The reclassification of financial assets valued at fair value through profit and loss requires the opening balance for the other reserves to be restated to reflect the reclassification of the financial assets.

	IAS39	IFRS 9	Original	New	Difference
			£'000	£'000	£'000
Non current financial assets					
Equity securities	Available for sale	Fair value through profit and loss	132	132	-
Loans and receivables	Amortised cost	Amortised cost	3,311	3,136	(175)
Current financial assets					
Trade and other receivables	Amortised cost	Amortised cost	8,973	8,973	-
Cash and cash equivalents	Amortised cost	Amortised cost	2,393	2,393	-

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 requirements 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



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