

ANNUAL REPORT AND ACCOUNTS

HIE 2016-17



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 2017 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

Highlands and Islands Enterprise Annual Report and Accounts 2016-17

Laid before the Scottish Parliament under section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

October 2017

SG/2017/204

Contents

	Page
Performance Report	
Overview	3
Performance Analysis	7
Accountability Report	
Corporate Governance Report	
Directors' Report	17
Statement of Accountable Officers Responsibilities	18
Governance Statement	19
Remuneration and Staff Report	
Remuneration Report	22
Staff Report	25
Parliamentary Accountability and Audit Report	
Parliamentary Accountability Report	27
Independent Auditor's Report	29
Financial Statements	
Group and HIE Statement of Comprehensive Net Expenditure	31
Group and HIE Statement of Financial Position	32
Group and HIE Statement of Cash Flows	33
Group statement of changes in Tax Payers' Equity	34
HIE statement of changes in Tax Payers' Equity	35
Notes to the Accounts	36
Accounts Direction by the Scottish Ministers	69
Schedule 1 – Additional disclosure requirements	70

Performance Report

Overview

History and statutory background

Highlands and Islands Enterprise is an executive Non-Departmental Public Body of the Scottish Government, acting as a public agency with a statutory duty to undertake economic development within the Highlands and Islands of Scotland. A separate agency, Scottish Enterprise, covers lowland Scotland.

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

- Furthering the development of Scotland's economy and role by providing, maintaining and safeguarding employment
- Promoting Scotland's industrial efficiency and international competitiveness
- Furthering Improvement of the environment of Scotland

Highlands and Islands Enterprise duties are as determined by Scottish Ministers under Section 24 of the Act. A range of general and specific powers are set out in full in section 8 of the Act.

Strategic aims

The third 'Scotland's Economic Strategy' was unveiled in March 2015. The strategy focuses actions on the four strategic priorities which aim to increase competitiveness and tackle inequality. These four priorities are investing in our people and our infrastructure in a sustainable way; fostering a culture of innovation and research and development; promoting and creating opportunity through a fair and inclusive jobs market and regional cohesion; and promoting Scotland on the international stage to boost our trade and investment, influence and networks. For further information on Scotland's Economic Strategy please see <http://www.hie.co.uk/about-hie/what-we-do.html>

Principal activities

As the Scottish Government's economic and community development agency for north and west Scotland, HIE's purpose is to generate sustainable economic growth across the Highlands and Islands. Our vision is for the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

The following priorities reflect current challenges and opportunities and provide the framework for HIE's activities across the region:

- Supporting businesses and social enterprise to shape and realise their growth aspirations
- Strengthening communities and fragile areas
- Developing growth sectors, particularly distinctive regional opportunities
- Creating the conditions for a competitive and low carbon region.

Details of the full range of HIE's activities are included in our Operating Plan.

<http://www.hie.co.uk/about-hie/policies-and-procedures/operatingplan.html>

Chief Executive Statement

It is encouraging to be able to report that 2016/17 proved to be another year of progress for the Highlands and Islands, with our businesses, social enterprises and communities achieving a strong performance despite current economic challenges.

The continued oil and gas downturn, pressures on public sector budgets and uncertainties around the UK's future relationship with EU member states were prevalent features of a year that presented challenges for the region, and the country as a whole. Across the Highlands and Islands, these issues were met with innovation, ambition, entrepreneurship and resilience by HIE's clients and the wider business and communities.

Investments by HIE during the year supported businesses and social enterprises to create or retain 1,689 full time equivalent jobs in the region, 170 of these in fragile areas.

Turnover among these firms is forecast to increase by £120.4 million over three years, and international sales by £80 million. The figures reflect steady growth among SMEs (small to medium enterprises) across the region.

Inward investment activity increased significantly, with HIE helping to support 12 projects.

Community development activity continued apace through HIE's work with social enterprises and communities. Our innovative Community Account Management programme is helping 47 communities achieve greater resilience through capacity building, asset based development and local service delivery.

The region's social economy turnover is forecast to increase by almost £5.6m, £1.8m of this generated by community-owned assets.

The Scottish Land Fund, administered by HIE and Big Lottery on behalf of the Scottish Government, was extended to all communities across Scotland, including urban areas. In 2016/17 the fund awarded more than £4m to 54 projects (31 in the Highlands and Islands), including acquisition and post-acquisition developments.

There were milestones with a number of major HIE-led infrastructure projects. Inverness Campus saw the opening of three new buildings, An Lòchran, Aurora House and the first accommodation block for students at Inverness College UHI.

In Argyll, we opened the Fairmile Building in Sandbank Business Park near Dunoon, and our European Marine Science Park near Oban secured a number of new tenants.

The year also saw the completion of Dales Voe South in Shetland, a £185m quay to support growth in decommissioning work, and the installation of four turbines in phase one of the MeyGen floating wind energy project off the Caithness coast. Both projects were supported by HIE.

We approved further investments in the world-leading European Marine Energy Centre in Orkney and approved the creation of the Orkney Research and Innovation Campus, a joint venture with the islands' local authority.

Wave Energy Scotland, a subsidiary of HIE, approved £12.4m to enable developers to progress 17 technology research and development projects in Scotland.

Digital connectivity continued to improve for businesses and households across the region, with the number of premises with access through the HIE-led Digital Scotland Superfast Broadband project reaching 155,000.

A further 1,400 premises in hard-to-reach areas are now connected through 13 projects supported by Community Broadband Scotland (CBS), which is run by HIE on behalf of Scottish Government. CBS is supporting broadband delivery to a total of 11,200 premises across Scotland within its current programme.

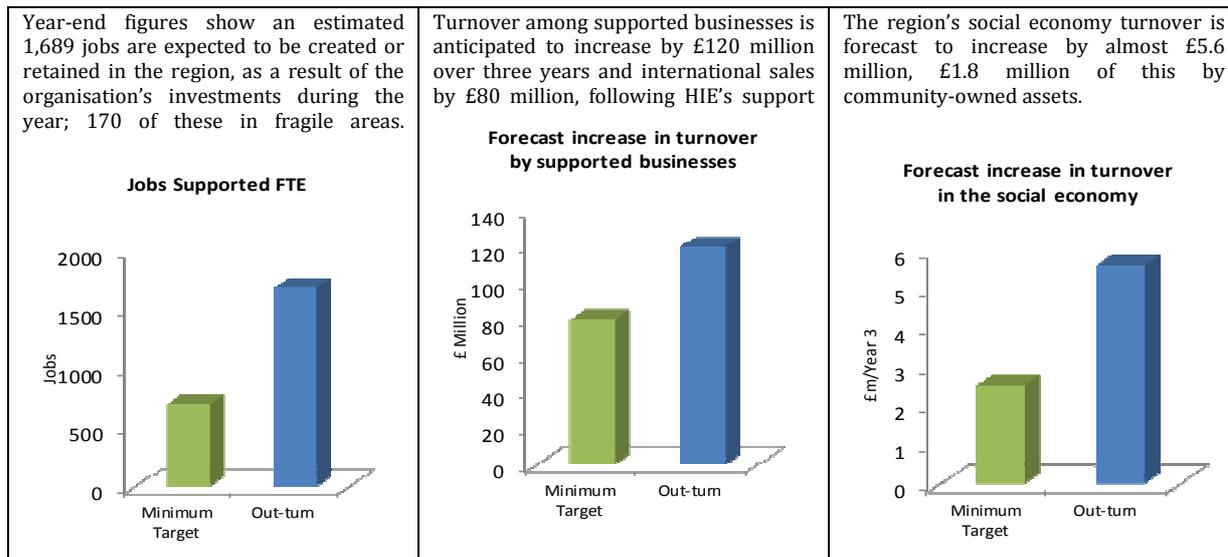
May 2016 saw the opening of #hellodigital, the Digital Scotland Excellence Centre, established by HIE on Inverness Campus. During the year, more than 2,000 delegates attended events focusing on cutting edge topics as diverse as drone technologies, digital making, and virtual and augmented reality, with participation from companies including Google, IBM, CENSIS, the Datalab and Microsoft.

Following the extension of ScotGrad, HIE's popular graduate placement programme, we placed 31 graduates and 15 students with businesses across the Highlands and Islands.

I am delighted at the contribution our organisation has made over the past year and look forward to continuing to work with our partners, businesses and communities across the region and beyond to build on these achievements in the years ahead.

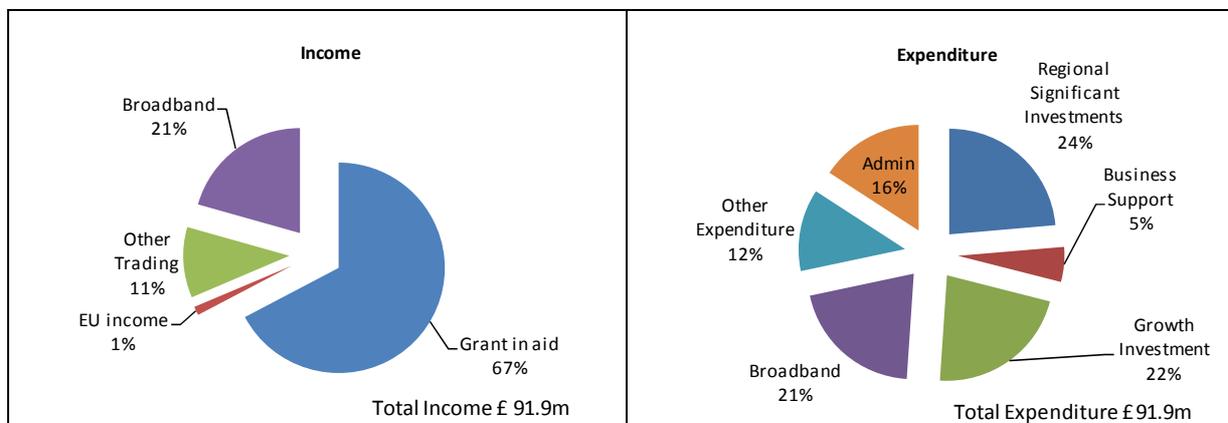
Performance Summary

Highlands and Islands Enterprise (HIE) has delivered another successful year of investment and job creation, meeting all targets. Some key highlights included:



<p>A number of major infrastructure projects moved forward, including the opening of 3 building on the Inverness Campus, new business premises at Sandbank near Dunoon and the completion of Dales Voe South Quay in Shetland</p>	<p>Digital connectivity continued to improve for businesses and households across the region, with the number of premises with access through the HIE-led Digital Scotland Superfast Broadband project reaching 155,000.</p>	<p>Delivery of HIE's objectives within the budget allocated by SG whilst continuing to achieve savings in administration costs and providing £2.0 m of support for Scottish Government initiatives</p>
---	--	--

Highlands and Islands Enterprise income by sources and expenditure by category



Principal risks and uncertainties

Highlands and Islands Enterprise has a Risk Management Policy and operates an internal control assessment framework to complement its risk management and internal audit arrangements. The framework requires Leadership Team members to carry out an annual review of the internal controls within the business units for which they are accountable based on a detailed internal control checklist. Risks are classified strategic and tactical and both likelihood and impact are assessed on a consistent basis. Risk registers are maintained at project, business unit and corporate level, with the Corporate Risk Register being reviewed on a regular basis by the Highlands and Islands Enterprise Board and Risk and Assurance Committee.

As with every part of the country, the Highlands and Islands has experienced the effects of difficult economic conditions. However a number of key economic indicators suggest that the region has weathered the difficulties relatively well. This together with regional opportunities, the region's attractiveness as a location and the significant investment in the region's infrastructure provide a good foundation on which to build further.

Key risks for Highlands and Islands Enterprise as an organisation include:-

- Economic and fiscal uncertainty, including Brexit, and resultant concerns about issues such as labour supply impacts, negatively on business decisions, constraining growth across the Highlands and Islands region
- The nature of the business base in the Highlands and Islands and inherent challenges faced by communities and businesses across our region require us to focus our interventions to ensure they support increased productivity and maximise our support for inclusive and sustainable growth
- A successfully Highlands and Islands requires the provision of appropriate enabling infrastructure and connectivity and our

- activity needs to ensure there continues to be a strategic and co-ordinated approach to this
- It is essential that the specific sectoral challenges and opportunities of our region are recognised and that our approach must be appropriately tailored to maximise the opportunities
 - Enterprise and skills – Following the Enterprise and Skills review reports HIE is working closely with Scottish Government and partners on implementation activity. As part of our engagement in this we will seek to influence outcomes which best meet the future needs of the Highlands and Islands.

All internal and external risks in the Corporate Risk Register are actively managed at the appropriate level in the organisation.

Going Concern

The financial statements for the year ended 31 March 2017 show net liabilities position of £14.1m (Group £12.8m). 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. As a consequence, the financial statements have been prepared on a going concern basis.

Performance Analysis

Performance Measures (Description)

To measure how our support meets our objectives by supporting businesses and social enterprise, strengthening communities and fragile areas, developing growth sectors and creating the conditions for a competitive and low carbon region, we apply a comprehensive framework of measures. We use performance measures to help monitor the contribution we make in terms of our economic and social impact on the longer term goals of Scotland's Economic Strategy and our ambitions as set out in operating plan.

Further details of how HIE measure performance can be found in our operating plan - <http://www.hie.co.uk/about-hie/policies-and-publications/operating-plan.html>

Year-end performance

Performance against HIE's key measures was strong despite uncertain economic conditions. Inward investment activity increased the out-turns below also reflect steady growth within the SME base across the region. Community development activity continued apace, with excellent results generated through our work with social enterprises and our Community Account Management programme.

Key measures

Annual Measures	Range	Out-turn
Forecast increase in turnover by supported businesses (£m/year 3)	80-100	120
Forecast increase in international sales by supported businesses (£m/year 3)	30-40	80
Jobs supported (created/retained) FTE	700-900	1,689
- of which in fragile areas	100-150	170
Forecast increase in turnover in the social economy (£m/year 3)	2.5-3.5	5.6
of which generated by community-owned assets (£m/year 3)	1.5-2.0	1.8
Account managed communities delivering increased community benefit	40-60	41

**including LifeScan Scotland contributing £21m turnover/international sales and 366 FTEs.*

Priority 1 - Supporting Businesses and Social Enterprises to shape and realise their growth aspirations

During the year, HIE approved GIA of £16.6m to support total investment of £79.2m in business and social enterprise projects across the region. This investment is expected to generate an increase in turnover of £120.4m and support the creation/retention of 1,689 full time equivalent jobs.

In our fragile areas, we invested £4.2m to support businesses and social enterprises to deliver 52 projects which are expected to generate an increase in turnover of £27.7m and support the creation/retention of 148 FTEs.

HIE Business Panel surveys, undertaken throughout the year, identified key challenges for businesses in the region including increased operating costs, securing finance and recruitment. The UK's vote to leave the European Union (EU) added to uncertainty which is impacting on business confidence and investment decisions. Additionally, uncertainty over future trade arrangements and access to labour are of critical concern.

Despite these challenges, around 79% of businesses surveyed early in 2017 reported good or steady performance over the last 12 months. Positive assessments were highest amongst large businesses (25+ staff) and those in the Tourism sector who are likely to be capitalising on the short-term benefits from the weakness in the pound. Levels of optimism were also high with 76% of businesses optimistic about their prospects for the next year, and over 43% anticipating growth. Account managed businesses were more optimistic than non-account managed and more likely to anticipate growth.

We added 53 new clients to our account managed portfolio, while 95 exited. There are currently 94 clients in our portfolio pipeline. Our focus for potential and new clients remains on those in our growth sectors, while balancing the geographic distribution of the client base across the region.

We continue to collaborate with Business Gateway to ensure that the best possible service is offered to business clients who transfer into HIE account management. At the same time we provide services to Business Gateway clients, particularly in innovation and internationalisation.

HIE's Specialist Advice Framework transitioned in November 2016 to a new Framework which will again be delivered by PA Consulting. The new arrangements will deliver an enhanced resource, targeted predominantly at our Growth and Development clients.

A new leadership programme, part funded by ERDF became operational in 2016, and 109 participants undertook training. Seventy-five entrepreneurs from 67 businesses and three social enterprises benefited from our entrepreneurship support this year. In August 2016, HIE led the delivery of the Scotland CAN DO SCALE programme with partners Scottish Enterprise and the Scottish Funding Council. The summer school attracted 60 entrepreneurs, including 11 from the Highlands and Islands. Four of our geographic areas benefited from inward investments: Argyll, Inner Moray Firth, Innse Gall, and Lochaber, Skye and Wester Ross.

Our International Highlands and Islands (IHI) programme, supported 308 new, existing and potential exporters to build their ambition, awareness and capacity. Following a successful pilot, our Collaborative Export Solutions programme with SDI is now moving into commercial phase, with 10 companies (eight from the Highlands and Islands) signed up to target markets seeking premium Scottish food and drink products.

Interest in accessing innovation support continued to grow and we supported 167 clients with one to one advice, workshops and clinics. We awarded small business grants to 16 companies, with funding totalling £109k, and 45 account managed businesses received deeper support through our in-house sector innovation specialists. Thirty-six clients received a total of £5m research and development funding against total project costs of £14m.

HIE is a partner in the Co-Innovate project which successfully secured EU Interreg funding of €16.7m to run a five year programme aimed at developing the innovation capacity of SMEs.

Interface carried out 103 expertise searches across their 23 academic partner institutions. In the Highlands and Islands there were 21 awards under the Innovation Voucher Programme.

Priority 2 - Strengthening Communities and Fragile Areas

HIE is currently working with 47 communities through our Community Account Management (CAM) programme, supporting them to achieve greater resilience through capacity building, asset based development and local service delivery.

The new Scottish Land Fund, delivered by HIE and the Big Lottery Fund, extended eligibility to all communities across Scotland, including urban areas, and was increased from £3m to £10m per annum. The Fund assessed 147 requests for support, with 54 receiving financial support at Stage 1 (pre-acquisition technical feasibility) and 32 progressing to Stage 2 (acquisition and post-acquisition development support), with a total value of £3.78m. There are a further 178 cases across Scotland under development, a very healthy pipeline.

We led a large programme of awareness-raising activities to support shared ownership of community energy schemes. This engaged 55 communities and organisations through 10 events across the Highlands and Islands.

Over a dozen communities benefited from the Highlands and Islands Low Carbon Energy Systems Programme which provides specialist technical advice to help communities plan their renewable energy aspirations.

Community Broadband Scotland (CBS) either delivered or plans to deliver broadband to a total of 11,200 premises within its current budget. Over 1,400 premises (13 projects) are now connected with a take-up of 56%, demonstrating the added value of community engagement. Marykirk and Loch Tay have won categories in the O2 Next Gen Digital Challenge Awards, while Locheilnet won the Social Enterprise category at the Rural Business Awards. The on going research project, HUBS, won an award at the European Broadband Awards.

CBS supported expansion of three connected projects (Marykirk, Aberdeenshire; Locheilnet, Lochaber, and Badenoch Broadband in Highland). On Tیره an upgrade to the existing network will become superfast once other projects deliver improved backhaul. A flexible approach has been adopted focused on ensuring long term sustainability and best value. Procurement also began for 16 projects covering 14% of Scotland's land mass and reaching 8,500 premises.

HIE was a major contributor to the development of 'Scotland's Social Enterprise Strategy 2016-2026', launched by the Scottish Government in December. The strategy describes a path to stimulating activity, developing stronger organisations, and realising market opportunity over a ten-year period, with HIE being a major delivery partner.

Our Language Innovation Investment Scheme provided £85k to support a range of new products and services using Gaelic as an asset. The third HIE Gaelic Plan gained approval from Bòrd na Gàidhlig in March 2017.

Much of our work in crofting community development focused on policy influence within the national crofting stakeholders forum. Priorities including crofting law reform, development, new entrants, housing, finance, and common grazings are being pursued and will feed into the National Development Plan for Crofting being taken forward by the Scottish Government.

Activities to mark 2017 as Scotland's Year of History, Heritage and Archaeology (YHHA) included a new scheme to enable heritage clients to develop technologies that engage audiences with cultural heritage collections and sites, improve the visitor experience, and create opportunities for commercial growth.

HIE awarded funding totalling £49,500 to Regional Screen Scotland (RSS) in support of the 2017/2018 community cinema programme across the Highlands and Islands.

The Glasgow School of Art's new Creative Campus on the Altyre Estate in Moray was formally opened in January 2017. The development of the Campus is a prime focus of HIE's Creative Futures Partnership with GSA, providing greater access to the art school curriculum and supporting the creative industries sector.

Two community-led organisations from the Highlands and Islands were recognised at the prestigious 2016 SURF Awards for Best Practice in Community Regeneration which took place in Glasgow in December. UnstFest, and Tomintoul and Glenlivet Regeneration Project were both shortlisted under the HIE-sponsored Community-Led Regeneration category, with Tomintoul winning the Award.

Priority 3 - Developing Growth Sectors, particularly distinctive regional opportunities

HIE's efforts to develop the growth sectors are built around three areas; support for businesses and social enterprises to deliver their growth aspirations; specialist programmes and intervention to create the conditions for strong sectoral growth; and influencing sectoral and public policy within Scotland, the UK and Europe.

Energy

The Energy sector remains a major contributor to the economy and offshore energy developments present significant opportunities. Multi-billion pound projects are being progressed by industry and the region continues to be home to pioneering, early stage technology development and deployment.

Oil prices appear to have stabilised somewhat and we have witnessed smaller offshore operators acquiring later life assets, but it has been a challenging period for the region's fabricators and offshore engineering providers. HIE has prioritised support for internationalisation, diversification into renewables and exploring decommissioning opportunities. HIE, along with Scottish Enterprise, launched a Decommissioning Action Plan to support the oil and gas sector to take advantage of the estimated £17.6bn forecast to be spent on decommissioning in the UK Continental Shelf by 2025.

Despite an uncertain long-term policy landscape for renewable energy, the region is witnessing significant progress in major offshore developments. The Beatrice Offshore Wind Ltd development is under construction, with works commencing in Wick for the establishment of the O&M Base, jackets being fabricated in Arnish by BiFab, and Nigg Energy Park confirmed as the construction port by Siemens. Collectively, the offshore wind sector is continuing to offer economic growth prospects, and HIE is actively seeking to

maximise supply chain benefits.

Significant milestones were achieved in the tidal sector with both Nova Innovation and MeyGen successfully installing demonstrator arrays.

The European Marine Energy Centre (EMEC) in Orkney continued to attract new technology developers, and progressed a £3m hydrogen generation facility on Eday.

We made significant progress to establish Orkney Research and Innovation Campus, in partnership with Orkney Islands Council, as a modern teaching and research campus environment in Stromness that will facilitate further growth of the energy and low carbon/sustainability sectors.

Wave Energy Scotland (WES) led a strong programme of technology development. At the year end, the total number of projects funded by WES stood at 51, involving 129 organisations from industry and academia, with a total value of £15m.

In Machrihanish, wind tower manufacturer CS Wind Corporation is focused on improving productivity and competitiveness in the onshore market and expanding into the offshore market.

The MeyGen Phase 1a project in the Pentland Firth secured Ofgem RO accreditation, following installation of all four turbines, including one named in honour of HIE's former Director of Energy Calum Davidson. Supply chain benefits are currently being assessed.

Life sciences

From a base of 40 organisations in 2009, to 80 in 2017 the region's life sciences sector has seen significant growth, and now employs over 1,800 people. Positive outcomes for industry engaged in digital healthcare, diagnostics and medical devices are fuelled by a collaborative approach which combines clinical and academic expertise in healthcare delivery.

Two companies based in the Highlands and Islands companies - BASF Callanish, and Inside Biometrics - were recognised at the Scotland Life Science awards.

HIE worked with NHS Scotland and the Scottish Government to deliver the Scotland CAN DO Health initiative, enabling businesses to apply for a share of up to £400k for innovative technology and digital platforms.

We successfully field-tested two projects (Ullapool and Broadford) identified through our Smarter Communities initiative, in partnership with the Satellite Applications Catapult and NHS Highland.

The European Marine Science Park secured a number of new tenants in the year, including Fish Vet Group and hydrological engineering company Adrian Laycock Ltd.

Food and drink

HIE approved support to 61 food and drink projects, contributing £1.54m to projects valued at £6.71m. This leveraged £1.16m from other types of public funding and investment of £4m from the private sector.

£1m was approved in February 2017 towards a new programme 'Accelerating Aquaculture Innovation' which will be delivered in partnership with the Scottish Aquaculture Innovation Centre.

HIE played an active role in developing the new national Food and Drink Strategy to 2030.

Creative industries

Significant progress has been made in delivering HIE's strategy for the creative industries sector, with all elements underway and one of our core support programmes the XpoNorth networks, exceeding all performance indicators. Between November 2014 and February 2017, the networks delivered over 3,300 business interventions to 1,942 businesses.

XpoNorth, the largest creative industries conferencing event in Scotland, was held in June 2016, attracting 1,900 delegates, a 43% increase on 2015. The event has developed international recognition and regions including Nova Scotia, Southern Spain and Chile are looking to adopt a similar model.

Tourism

The tourism sector showed positive growth in 2016, with domestic trips up 14% and spend up 25%. Spend from International markets grew by 11.8%.

2016 saw substantial progress with projects including the opening of Lews Castle in Stornoway and major investment announced into the Machrie Hotel on Islay. HIE facilitated the development of the North Coast 500 initiative which achieved global reach and is expected to generate around 200 additional jobs. The hugely successful Wild About Argyll project was launched with HIE support and will lead to a step change in the adventure tourism product in Argyll and the Isles.

HIE created a unique partnership with tourism destinations in the region to accelerate digital tourism across the Highlands and Islands.

Our successful tourism webinar series engaged around 600 remote and rural businesses, delivering significant low carbon benefits through remote delivery of services.

HIE funded research, in partnership with Crown Estate and Scottish Canals, showed that Marine Tourism is worth £130m to the Scottish economy, supporting 2,700 jobs. There is the potential for a further increase of £37 million over the next seven years.

Financial and business services

Webhelp's decision to reshore complaints handling for EasyJet from South Africa to Rothesay safeguarded 23 jobs and created a further 14 on a fragile island.

Other operators have continued to grow, including Serco Caledonian Sleeper which has established strong links into the food and

drink and tourism sectors. A growing number of tourists are using the sleeper service to link with the North Coast 500.

HIE approved a package of business and financial support to help Kura locate in Forres, securing over 100 jobs.

Priority 4 - Creating the conditions for a competitive and low carbon region

HIE continues to be a regional leader in developing the conditions to enable the Highlands and Islands to fulfil its potential as a globally competitive and low carbon region.

Creating a digital region

More than 155,000 premises from Shetland to Argyll are now part of a next generation broadband network as a result of the Digital Scotland Superfast Broadband (DSSB) project. Fibre based broadband is available in more than 225 towns and villages across the region.

Roll-out is continuing in 2017 and coverage through the current contract will increase to at least 86% of premises. HIE is delivering Community Broadband Scotland (CBS) on behalf of Scottish Government to deliver innovative broadband solutions in areas currently not planned to have coverage delivered by DSSB.

Mobile operators have announced plans to upgrade existing masts in the region to 4G. This has been made possible partially by the construction of the DSSB backhaul network. The operators are committed to reaching 95% coverage of Scottish premises by the end of 2017. Areas including Orkney, Shetland, Skye, the Outer Hebrides and Inverness-shire are starting to see the benefits of this work. As the infrastructure projects progress, HIE is also leading a collaborative region wide programme which is helping businesses and communities maximise the potential benefits from online access.

A region for young people

HIEs involvement in the youth agenda has continued to centre on addressing demographic imbalances, developing and retaining our young people to become economically active, and being able, as a region, to promise an education and skills system to satisfy the labour needs of business and social enterprises to support growth.

Since 2010, our graduate placement programme has enabled nearly 300 people to live and work in the Highlands and Islands. This year we supported 31 graduate and 15 student placements.

HIE led on the creation of a Regional Talent Attraction Strategy and Action Plan, as identified in the Highlands and Islands Regional Skills Investment Plan. This will develop ways to attract new talent into the area, re-attract those who left that are likely to return, and increase promotion of current and future employment, education and training opportunities for young people that would like to remain.

The Highlands and Islands Science Skills Academy is a long term, innovative and ambitious programme that will transform the uptake of STEM subjects in schools. Modelled on the Norwegian Newton Rooms, it will help to raise attainment in these disciplines, contribute to the retention of young people in the Highlands and Islands and foster economic growth. HIE leads on the project, in partnership with the Highland Council, Skills Development Scotland and UHI. Over the course of the next three years, at least five Newton Rooms will be established in the Highlands and Islands, with Lochaber and Caithness already in progress.

Strategic property and business infrastructure

In addition to new property development, we achieved a property sales target of £2.5m to support reinvestment in other economic development projects, and managed our commercial property portfolio to bring in gross annual rental income in excess of £4.1m.

Significant projects included:

- Life enhancement works to the ski-tow network at Cairngorm
- £3m development at Breascleite, Lewis, to enable tenant BASF to reconfigure production space and increase output and value
- £2.8 build project at Machrihanish, Argyll, to improve the production capabilities of tenant CS Wind
- Funding for Orkney Research and Innovation Campus, Stromness, joint venture with Orkney Islands Council agreed
- Fit-out of the Fairmile Building at Sandbank Business Park, Dunoon

Significant developments at Inverness Campus included completion and occupation of An Lòchran premises for HIE, UHI and SRUC, and fitting-out parts of 1,000 sq m Aurora House for new tenants. Detailed planning was obtained for a new public transport bridge across the main railway line.

Universities

HIE invested £2.4m on university sector initiatives across 22 projects, ten of which involve UHI. Future commitment amounts to £6.1m.

Two major campus developments are underway - the £6.5m Orkney Research and Innovation Campus, and the Oban University town project, which has established a Steering Group and Project Board.

As a result of our strategic approach to growing the sector, we are attracting students in numbers which aim ultimately to balance the 2,500 young people that leave each year to study outwith the region.

We continue to work proactively with the Scottish Innovation Centres Programme

Financial commentary

Investment Spend

During the year HIE received additional funding of £7.6 million from the Scottish Government. This increased baseline grant in aid from £56.2 million to £63.8 million. The majority of the additional funding related to grant in aid for the operation of the Wave Energy Scotland Subsidiary.

Income from activities of £3.6 million was £2.3 million lower than the prior year, primarily due to lower than expected property income. Property rental income was £0.6 million less than the prior year as a result of property disposals in the prior year. Profit from property sales decreased by £0.9 million against the prior year as a direct result of lower property sales in the year. Other income of £23.5 million was £17.3 million lower than 2015/16. This was mainly due to reduced income associated with the rollout of superfast broadband. European income of £0.9 million was £1.9m lower than the prior year.

Expenditure on continuing operating activities within HIE decreased by 19.0% (Group 19.5%) to £80.0 million (Group £78.0 million) as a result of the decreased funding for broadband. Operating expenditure for Wave energy Scotland Limited was 8.6% (2016 5.1%) of operating expenditure of the group.

Underlying management and administration expenditure in HIE showed an increase of £0.3 million (Group decrease £1 million).

Fixed Assets

During 2016/17 Highlands and Islands Enterprise spent £4.3 million (Group £4.3 million) on property construction projects, plant and equipment additions.

At 31 March 2017 the net book value of HIE property, plant and equipment was £41.2 million (Group £41.2 million). This is a decrease of £2.8 million (Group £2.8 million) on the prior year. Commercial properties were valued at market value.

Financial assets amounted to £3.1 million (Group £2.7 million). This was an increase of £0.5 million (Group £0.4 million) on the prior year following an increase in new loans and receivables.

Current Assets

Current assets stood at £12.5 million (Group £14.5 million) at 31 March 2017, £4.2 million (Group £4.3 million) lower than the prior year. The majority of the decrease in assets relates to assets held for resale and cash and cash equivalents at the year end.

Current Liabilities

Current liabilities stood at £13.1 million (Group £13.8 million) at 31 March 2017, £0.4 million lower (Group £0.9 million lower) than the prior year.

Pension Liabilities

The group pension liability has increased from £36.3 million to £56.3 million in 2016/17. The increase is primarily due to a reduction in the discount rate used to value the scheme liabilities. The reduction in the discount rate assumption has arisen due to a fall in corporate bond yields during the year.

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 2016/17	Performance 2015/16
In line with government policy, aim to pay all invoices promptly - target 10 days <i>Note: excludes items under dispute or where other terms are agreed with a supplier</i>	87%	82%

Events after the Statement of Financial Position

No post Statement of Financial Position events occurred.

Corporate governance

Highlands and Islands Enterprise has procedures in place to ensure the highest standards of Corporate Governance are maintained at all times. Further information is provided within the Governance Statement. While the remuneration and the service contracts of Board members are set by the Scottish Government, the recommendations of the UK Corporate governance Code have been applied, in so far as they are appropriate to Highlands and Islands Enterprise. Full details of all elements in the remuneration package of each Board member are disclosed in the Remuneration Report.

Conflicts of interest procedures

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

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

Future Developments

HIE's 2017-18 operating plan was published in May 2017, and sets out the agency's aims, aspirations and actions that are planned to generate growth in all parts of the region and contribute to Scotland's Economic Strategy. The plan is available online at <http://www.hie.co.uk/about-hie/policies-and-publications/operating-plan.html>

In line with Scotland's new Economic Strategy, which the First Minister launched on 3 March 2015, HIE is increasing its efforts to support innovation, investment, internationalisation and inclusive growth.

Public interest reporting

Information request processing

As a publicly-funded organisation, HIE is committed to full compliance with:-

- Freedom of Information (Scotland) Act 2002 (FOISA)
- Environmental Information (Scotland) Regulations 2004 (EIRs)
- Data Protection Act 1988

In 2016-17, HIE received 79 information enquiries.

	2017	2016
Freedom of Information (Scotland) Act 2002 (FOISA):	74	59
Environmental Information (Scotland) Regulations 2004 (EIRs):	5	0
Data Protection Act 1998	0	0
Total	79	59

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

Information request handling performance	2017	2016
Average time to fully respond and close a request for information:	14Days	10 Days
Percentage of requests requiring a response which received a response within the statutory timescales:	97%	100%
Percentage of requests which received a late response:	3%	0%
Percentage of requests fully or partially disclosed:	69%	76%
Percentage of requests which were vexatious:	5%	14%
Percentage of requests which were withdrawn:	2%	3%
Percentage of requests not held:	21%	8%

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 2016/2017.

Section of the Act	Description of exemption	2017	2016
30 (c)	Prejudice effective conduct of public affairs	4	1
33 (1) (b)	Prejudice commercial activities	6	6
38 (1) (b)	Breach of Data Protection Principles / Third Party Personal Data	8	10
30 (b)	Free or frank provision of advice	1	0
36	Confidentiality of communications	1	0
EIR Regulation 10 (5)	Confidentiality of Commercial information	1	0

Number of requests for reviews:	2017	2016
Freedom of Information (Scotland) Act 2002	3	1
Environmental Information (Scotland) Regulations 2004	1	0
Total	4	1

Number of appeals to the Office of the Scottish Information Commissioner: 0 0

The Scottish Information Commissioner has asked all Scottish public authorities to provide FOI and EIR statistics on a quarterly basis. HIE has provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering the year 2016/17.

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 through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. During the period from 1 April 2016 – 31 March 2017, a total of 24 were dealt with through Frontline Resolution with just 1 requiring an investigation.

	Frontline resolution	Investigation	SPSO
1 April 2016 – 31 March 2017	24	1	0

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.

Employee involvement and communication

Over the course of 2016/17, our HR activity has delivered on a number of priority areas and contributed to the wider development of the organisation.

In terms of the national strategic context, as a public sector employer, HIE has a key focus on the wider social inclusion agenda. HIE is accredited as a living wage employer and supports a number of national initiatives ranging from demonstrating commitment to the Social Pledge, encouraging volunteering, engaging in the Digital Public Services agenda, meeting the Investors in People standard, developing the young workforce, adopting the principles of fair work as established by the Fair Work Convention as well as being recognised nationally as an award winning family friendly employer by Family Friendly Working Scotland and Carers Scotland.

The HR team’s primary purpose is to work in collaboration with the business to deliver HIE’s strategic priorities as outlined in the Operating Plan. The HR function sits alongside the business and helps translate the organisation’s requirements into a people agenda. The key areas of focus for our people agenda over the last year have been on:

- Creating and sustaining a high performance culture
- Developing effective leaders to support innovation and creative delivery
- Encouraging effective and collaborative team working and knowledge sharing
- On-going commitment to paying the Living Wage to all our employees
- Demonstrating a commitment to developing the young workforce
- Setting the standard on workforce planning through the development of progressive workplace policies to deliver in an ever changing environment
- Building capability through a learning and development strategy that enables flexibility, collaborative delivery of outcomes, succession planning and makes the most of people’s talents

Considerable progress has been made in strictly managing our staffing budget in line with the restrictions of Scottish Government pay remit approval. Robust procedures are in place to ensure that all posts are considered in the wider context and relate directly to the delivery of HIEs priorities.

Following our work with IIP Scotland and Scottish Government to further develop the Investors in Young People (IIP) standard, we are currently recognised at Silver level. We continue to support the Scottish Government’s youth agenda through our graduate placement and modern apprenticeship programmes and promote the benefits of developing the young workforce. As an organisation HIE has also been reassessed against the new Generation 6 IIP standard and awarded Silver. As highlighted by the assessor in his report, Silver under the new standard is a lot closer to Gold under the previous framework and reflects on-going progression and development for the organisation during a period of change.

HIE has signed up to the Social Impact Pledge which is all about challenging ourselves to increase the positive impact we make on our local community and make better use of all of our assets, whether that’s people or resources. HIE has made a public commitment to change aspects of our current policies or practices and do something new that we haven’t done before. A ‘social impact’ criteria for volunteering has been incorporated into the special leave policy to help demonstrate direct benefit / community impact. The level of support available for staff to take paid time off work to volunteer locally has also been increased. As part of HIE’s social impact pledge it was also agreed that the graduates would work as a group on a volunteering project as part of their placements.

HIE is committed to providing a “family friendly” working environment which is supported by a range of policies including special leave, flexible working and health and wellbeing. In addition, following extensive consultation, our Carers policy was introduced to emphasise HIE’s commitment to supporting the specific needs of carers in the workplace. HIE has also now been recognised by Carers Scotland as a Carer Positive Engaged Employer.

Key learning and development requirements are focused primarily on account management to draw on in-house and external expertise to pull together a modular development programme supported by experiential learning, blended learning, mentoring support, webinars, accessible guidance, action learning etc. The HR team are supporting the business in the development and delivery of the training and the supporting infrastructure. We are also working directly with individuals to source specific/specialist requirements identified on personal development plans.

The HIE leadership development programme is a high value development opportunity which draws on latest approaches/best practice to provide a tailored experience to deliver impact for the business, as well as developing the potential of individuals. Two cohort of 12 HIE staff have attended the programme. The emphasis is on enabling leaders to put theory into practice by applying it to their live leadership challenges. This is in line with latest thinking about how we should be developing and sustaining the development of leadership capability.

Social and Community

In pursuit of sustainable economic growth, Highlands and Islands Enterprise contributes to the Scottish Government's strategic objectives for social and regional equality. Supporting communities to develop and grow is a central focus for our organisation. Our approach to strengthening communities is threefold: we invest in building community capacity and confidence, empowering communities to acquire, manage and exploit community assets for community benefit, and enable sustainable growth in the social economy through strong social enterprises.

Diversity and equality

HIE plays a significant role in supporting Scotland's Economic Strategy which recognises the interdependence of sustainable economic growth and tackling inequality. These mutually supportive objectives result in inclusive growth which supports a strong, vibrant and diverse economy where growth is shared, creating greater prosperity and fairness for all. We are well placed to support an economic framework which values fair work. We support the adoption of the living wage and initiatives such as the Scottish Business Pledge through our account management approach and procurement of services. Addressing inequality is an integral part of HIE's Operating Plan which aims to ensure that growth is experienced across and within our region where everyone is able to contribute and to benefit.

Our approach to equality and diversity is founded on the provisions of the Equality Act 2010 and the Public Sector Equality Duty as enabling frameworks which help focus our activity and achievements. A significant part of this is delivering against a suite of equality outcomes. Our equality outcomes 2013-17 have increased equality of opportunity for a range of people across the region. We have created employment and development opportunities for an increasing number of people, particularly young people and women. Our research tells us that young people's experience of living, studying and working in the region has improved over the past five years: "Young people think the Highlands and Islands is improving: around half (51%) of young people think the Highlands and Islands region is a better place to live now than it was five years ago."

Over the past four years we have enhanced the leadership capability of an increasing number of women through our suite of leadership and entrepreneurship programmes. We have raised women's awareness of their potential as board members, including creating greater gender balance on HIE's own board.

As an employer we have accommodated the needs of a range of staff who have caring responsibilities or who have a disability. Increasing flexibility of work location and working patterns has enabled a range of HIE employees to work in senior roles across the region. Since 2013 adopting such initiatives and policies has resulted in external recognition of HIE's contribution to delivering inclusive working practices which have benefited young people, parents (particularly women), carers and disabled employees.

Working in partnership in Highland we have helped tackle prejudice and discrimination, particularly on the grounds of race, religion, disability and sexual orientation, by facilitating the reporting of incidents motivated by prejudice in our communities. Work to integrate the Hate Free Highland and Police Scotland online reporting tools has been completed. Focusing on implementation and awareness-raising, we have engaged with third party reporting agencies in Highland, who support members of the public who experience or witness hate incidents, offering an alternative to direct contact with Police Scotland.

Our equality outcomes 2013-17 established that HIE is particularly well placed to increase equality of opportunity through our own activities and through our influencing role. We have refreshed our suite of equality outcomes to collectively eliminate discrimination, advance equality and foster good community relations over the period 2017- 21. In doing so we reviewed a range of quantitative and qualitative evidence to determine our priorities and we have located our outcomes within our approach to inclusive growth, also anticipating the new socioeconomic duty, introduced as an amendment to the Equality Act 2010. Our equality outcomes will continue to address disadvantage experienced by specific groups of people while increasing social, business and economic benefit across the Highlands and Islands.

Partnership continues to play an important role, ensuring that we gain mutual benefit from HIE's involvement in national initiatives, some of which contribute to achieving HIE's equality outcomes; working with Scottish Government on board succession planning and diversity; working with Women's Enterprise Scotland on supporting female entrepreneurship; supporting Close the Gap with the development of guidance on carrying out equal pay reviews; and helping oversee projects delivered by the Women in ICT and Digital Technologies research group, led by Skills Development Scotland. HIE also regularly contributes to consultation and other engagement with the Scottish Government and Equality and Human Rights Commission.

All of this ensures that we will continue to build on our progress in addressing inequality to support inclusive growth across the Highlands and Islands.

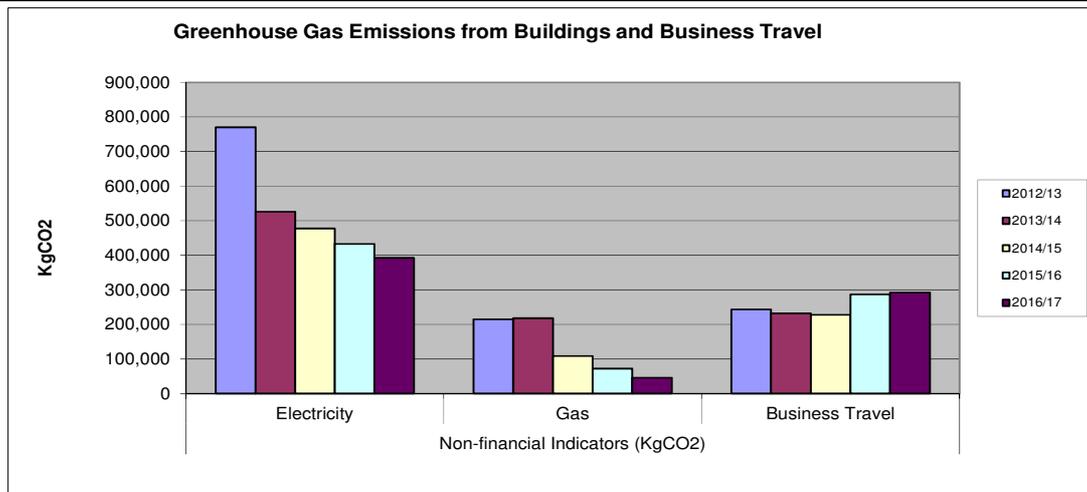
Sustainability and environment

HIE is committed to the reduction of carbon usage, our internal carbon management plan was launched in March 2011. Within the carbon management plan HIE set a target to reduce our carbon consumption by 20% by 2014. 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 of our planning for a low carbon region can be found in the HIE operating plan.

Utilities and Business Travel		2012/13	2013/14	2014/15	2015/16	2016/17
Non-financial Indicators (KgCO2)	Electricity	769,564	525,754	477,762	432,942	392,877
	Gas	214,638	218,389	108,616	72,274	45,940
	Business Travel	243,140	231,599	227,952	286,437	292,376
Related Energy Consumption (KWh)	Electricity	1,433,080	979,058	889,687	806,224	731,614
	Gas	1,160,206	1,180,480	587,113	390,672	225,139
Financial Indicators (£'s)	Electricity	147,557	149,758	104,674	108,677	117,113
	Gas	39,538	52,673	23,705	15,865	14,971
	Business Travel	713,179	682,631	692,167	732,738	700,263

Graphical Analysis



Performance Commentary

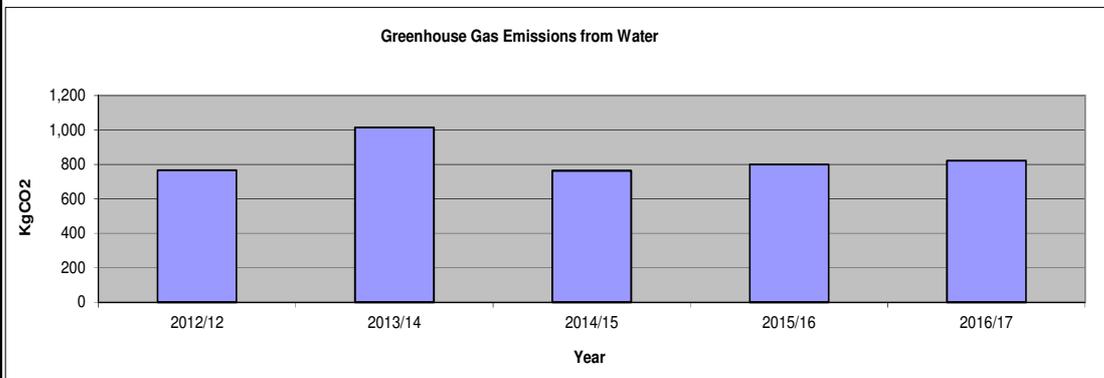
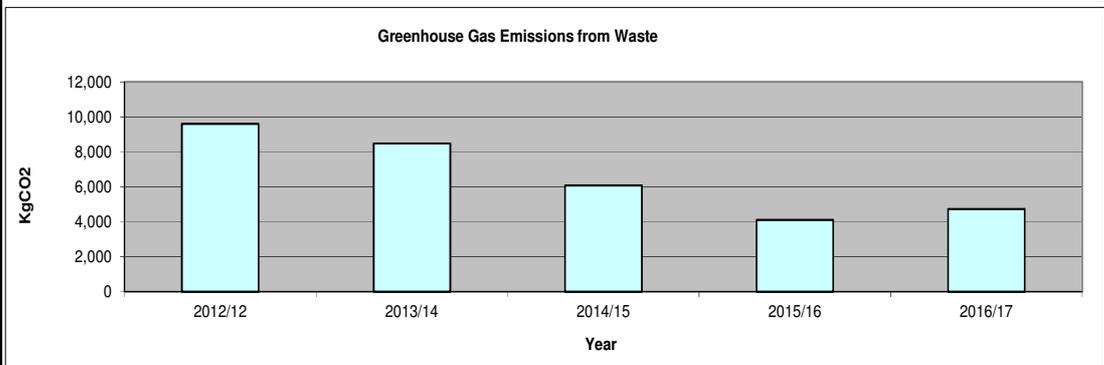
The full year benefits of a move to the new office in Inverness are still to be fully realised, however early indications suggest a considerable reduction in utilities as a result of the relocation over previous years. Business Travel has remained at a consistent level over the past few years, however a slight rise in emissions as a result in business travel reflects the differing methods of travel and the geographical challenges of travelling across the Highlands and Islands.

Controllable Impacts Commentary

Highlands and Islands Enterprise (HIE) recognises the importance of managing its carbon footprint and is committed to reducing its emissions and associated operating costs. HIE supports and implements the duties placed on public sector organisations within Part 4 of the Climate Change (Scotland) Act 2009 and works with stakeholder groups to meet one of its key priorities for the transition to a competitive and low carbon region. The organisation has implemented a number of initiatives in recent years which have resulted in an actual emissions reduction, the most notable a rationalisation of the occupied property estate portfolio. Alongside this has been the introduction of a wide range of initiatives that revolutionised the HIE working environment and practiced, and embraced digital and new technology.

Waste and Water		2012/12	2013/14	2014/15	2015/16	2016/17
Non-financial Indicators	Total greenhouse emissions from general waste	9,602	8,482	6,086	4,122	4,731
	Measurable greenhouse emissions from water	767	1,015	764	800	822
Non-financial Indicators	General Waste (kg)	61,029	45,706	40,177	34,892	38,859
	Recycled Waste(kg)	39,548	26,730	26,563	25,670	28,107
	Measurable Consumption (m3)	1,898	2,512	1,897	2,000	2,054
Financial Indicators (£'s)	Disposal Cost	52,709	51,252	48,518	51,849	54,852
	Measurable Water Cost	38,784	50,536	37,414	25,850	38,548

Graphical Analysis



Performance Commentary

HIE is committed to reducing general waste and provides recycling facilities at all occupied premises. The quantities of general waste have reduced considerably over these past 5 years and remained steady compared to last year, despite an increase in wastage as a result of premises re-locations and initiatives across the organisation.

Controllable Impacts Commentary

HIE works closely with suppliers to ensure the full provision of recycling facilities across all offices. This ensures that the organisation pro-actively works within a culture that encourages better performance in waste management. In some cases, a reduction in water wastage will reduce cost and emissions, although for some offices this will not be the case due to lease arrangements.

Accounts direction

The Group and Highlands and Islands Enterprise accounts are prepared in accordance with section 30(1) of the Enterprise and new Towns (Scotland) Act 1990 and the Accounts Direction from the Scottish Ministers

Accountability Report

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 (Chair)
Mr A L Paterson (Chief Executive) (Departed 26/08/2016)
Mrs C Wright (Chief Executive) (Appointed 06/06/2017 – Interim 27/08/ 2016 to 05/06/2017)
Mr W Swann
Mr D MacDonald
Ms I MacTaggart
Prof D MacRae O.B.E.
Mr A Dodds C.B.E.
Mr P Crerar
Ms A Bryan (Appointed 1 April 2016)
Ms A Gray (Appointed 1 April 2016)
Mr R McIntosh C.B.E. (Appointed 1 April 2016)
Ms A B Oldfield (Appointed 1 April 2016)
Ms S Campbell Lloyd (Shadow board member) (Departed 30/06/ 2016)
Details of company directorships and other significant interests held by Board Members are available at <http://www.hie.co.uk/about-hie/offices-and-staff/board-members/default.html>

Leadership Team

The leadership team are 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

Mr A L Paterson (Chief Executive) (Departed 26/08/2016)
Mrs C Wright (Chief Executive) (Appointed 27/08/ 2016)
Mr F C Duthie (Finance and Corporate Services Director) (Retired 31/03/2017)
Mrs C Buxton (Regional Development Director)
Mr D Cowan (Strengthening Communities Director)
Mr D J Oxley (Interim Business and Sector Development Director) (Appointed 27/08/2016)

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, Highlands and Islands Enterprise 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.

<http://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 Grant in Aid allocation for 2017/18 is £66.7m 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 23 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.

Statement as to disclosure of information to the auditor

As far as the Accountable Officer is aware, there is no relevant information of which HIE's auditors are unaware. The Accountable Officer has taken all necessary steps to make himself aware of any relevant audit information and to establish the Highlands and Islands Enterprise's auditors are aware of that information.

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 2017 was Gordon Smail, Associate Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £131,510 (2016 - £129,500). There were no fees payable to Audit Scotland for non-audit work during the year (2016 Nil).

Severance Payments

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

Statement of Accountable Officer's responsibilities

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

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

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

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

The 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 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 Accountable Officer am personally responsible for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

Governance Statement

Scope of responsibility

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

As Accountable Officer I have specific responsibility in relation to:

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

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

The system of internal control is based on an on-going 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 Government's purpose which is to create opportunities for all in Scotland to flourish through increasing sustainable economic growth. Ministers expect HIE to do this by pursuing 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.

Operation of the Board and sub-committees

As at 31 March 2017, the Board of Highlands and Islands Enterprise comprised the Chair, ten non-executive members and myself as Chief Executive. In year our Board also included one Shadow Board member (resigned June 2016), HIE being a forerunner in the public sector in Scotland on this as part of a strategic approach to address Board diversity.

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 seven times in the year. A further meeting was held to discuss the Enterprise and Skills Review with the Cabinet Secretary for the Rural Economy and Connectivity. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

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

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

The Risk and Assurance Committee comprises a Chair and three non-executive members. Representatives of the Scottish Government departmental 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 Committee met five times in the year. Minutes of the Risk and Assurance Committee are provided to the full Board for information and an annual report on its activities is also provided.

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

A Dodds (Chair)
D MacDonald
D MacRae
A Gray

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

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:
Professor D MacRae (Chair)
Professor L Crerar
Mr D MacDonald

The Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation. The Committee met four times during the year.

Operational framework

Strategy and planning

HIE has a 3 year operating plan which reflects our statutory duties and priorities set by the Scottish Ministers. It sets out HIE's key objectives and performance measures for the forward years and is linked to Scotland's Economic Strategy and the National Performance Framework. The Board and Leadership team have responsibility for development of strategy and operating plan.

Business improvement

HIE has a single strategic programme of continuous improvement activity aimed towards ensuring that, internally and externally, we are regarded as an organisation which delivers best value, inspires innovation and achieves successful outcomes.

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

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

Implementation of the strategy includes:

- Assessment of risk by management on at least a quarterly basis
- Maintenance of 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 of risk appetite. HIE continually assesses those risks which are considered significant to the achievement of its objectives. Key risks are noted in the Performance Summary, Principal Risks and Uncertainties.

Subsidiary arrangements

Wave Energy Scotland are 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 annual assurance statement was provided for WES which highlighted no issues.

HIE-Ventures Ltd completed a tailored checklist on internal control matters and noted no significant control issues during the financial year

Assurance Activity

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

- The Leadership team 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 on-going review of the external assurance functions and internal assessments on governance, risk and Best Value

- The work of the Business Improvement and Internal Audit team, who submit regular reports which include the independent and objective opinion on the adequacy and effectiveness of the systems of internal control, together with recommendations for improvement
- Comments made by the external auditors in their management letters and other reports

As part of HIE's internal control arrangement, we have in place an internal control assessment framework. This requires the heads of each business unit, including subsidiaries, to undertake an annual review of their area's internal controls. Each business unit and subsidiary completed an internal control checklist which is used to identify any control issues which should be brought to the attention of the Accountable Officer. Information provided is used to complete an organisational internal control checklist and Certificate of Assurance for HIE. No significant control issues were noted during the financial year, other than those disclosed in the Notes to the accounts. We also received assurance from our Service Manager for IT services, and from our Health and Safety Committee Chair that they were not aware of any issues.

Data security and 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 loss 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 Scottish Enterprise. During 2016/17 the Business Improvement and Internal Audit team has liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to the provision of IS services in the period. This included detailed reviews of disaster recovery and cyber security.

We have a programme of IS assurance work and have identified specific actions to be taken. Additionally an improvement programme is being developed. During the year the Risk and Assurance Committee considered cyber security through consideration of specific reports, and information was provided to all staff through the intranet.

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 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. No significant control issues were noted in year
- Supported HIE's continuous improvement activities through the identification of action points arising from on-going audit activity and from involvement in development meetings.

External review

In year HIE were involved in 2 significant external reviews. Audit Scotland undertook a review of "Supporting Scotland's Economic Growth" which was considered by the Risk and Assurance Committee, with an agreement that they would monitor the implementation plan which had been agreed. The Enterprise and Skills Review, as announced by the First Minister in May 2016, aimed to build on existing strengths and successes to further improve the enterprise and skills support system in Scotland. HIE continues to contribute to the implementation of Phase 2, which takes forwards the conclusions of Phase 1.

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland have identified no significant issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2017 and on the regularity of transactions reflected in the accounts.

Review of effectiveness and conclusion

As Accountable Officer I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2017 and to the date of signature of the accounts.

Remuneration and Staff Report

Remuneration report

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

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

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

Committee membership

Prof. D MacRae (Chair) (Appointed 1 April 2016)
 Prof. L Crerar
 Mr D Macdonald

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 normally not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2017.

Professor L Crerar was appointed the Chairman on the 20 February 2012, re-appointed 1 March 2015.

The remuneration of HIE Board members for the year ended 31 March 2017 was as follows:

	2017 £000	2016 £000	Appointment Expires
Prof L Crerar (Chairman)	35-40	35-40	28 February 2020
A Bryan	10-15	-	31 March 2020
P Crerar	10-15	10-15	31 March 2020
A Dodds CBE	10-15	10-15	31 March 2020
A Gray	10-15		31 March 2020
D MacDonald	10-15	10-15	31 March 2020
Prof D MacRae OBE	10-15	10-15	31 March 2020
I Mactaggart	10-15	10-15	31 March 2020
R McIntosh CBE	10-15	-	31 March 2020
C Spence	-	10-15	31 March 2016
A B Oldfield	10-15	-	31 March 2020
W Swann	10-15	10-15	31 March 2020
S Thomson	-	10-15	31 March 2016

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 includes £nil (2016 - £nil) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Mr Crerar was £nil (2016 - £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 2017 £98,607 (2016 - £98,607) was paid to these former members.

Remuneration of Chief Executive

The Chief Executive’s contract of employment was signed on 2 July 2010. Mr A L Paterson left HIE on the 26/08/2016. This contract was a permanent contract with a 6-month notice period. There was no early termination payment clause within the contract. No benefits in kind were made to the Chief Executive.

Mr A L Paterson’s remuneration, for the year ended 31 March 2017 and the year ended 31 March 2016 was as follows:

	2017	2016
	Remuneration as Chief Executive	Remuneration as Chief Executive
	<u>£</u>	<u>£</u>
Salary	50,867 114,817*	112000
Performance-related bonus (paid in respect of the previous financial year)	-	-
Pension Benefits	21,826*	25,544
	<u>72,693</u> <u>136,643*</u>	<u>137544</u>

*Full time equivalent wage

Mrs C Wright was appointed as interim Chief Executive on 27th August 2016. The contract was a temporary contract with a 3 month notice period. On 07 June 2017 Mrs C Wright was appointed as HIE’s Chief Executive on a permanent basis. Mrs C Wright’s remuneration as interim Chief Executive, for the year ended 31 March 2017 was as follows:

	2017	2017
	Remuneration as Chief Executive	Full Time Equivalent Wage
	<u>£</u>	<u>£</u>
Salary	64,712	108,181
Performance-related bonus (paid in respect of the previous financial year)	-	-
Pension Benefits	51,967*	
	<u>116,679</u>	<u>160,148</u>

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

Mr A L Paterson was an ordinary member of the Highlands and Islands Enterprise superannuation scheme. Mrs C Wright is a member of the Highland Council Local Government Pension Scheme (LGPS).

Under the terms of the Chief Executive’s contract of employment no annual bonus is payable.

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 contributed 4.5% up until the 31st of July 2016 of pensionable salary. From the 1st August 2016 till the 31st of March 2017 ordinary members contributions increased to 6.0% of pensionable salary with HIE contributing 24.9% of the employees’ pensionable salary throughout the year. C Wright contributes 9.6% of pensionable salary to the LGPS while D Cowan contributes 8.8% of pensionable salary to the LGPS. HIE contributes 20.7% to all members of the LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. The LGPS and the HIE scheme have a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the accounts (note 19).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2017 was as follows:

	2016-17					2015-16				
	Salary	Bonus (for 15/16)	Benefits in kind	Pension Benefits	Total	Salary	Bonus (for 14/15)	Benefits in kind	Pension Benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
A Paterson (Resigned 26/08/16)	50-55 110-115*	-	-	22	70-75 135-140*	110-115	-	-	25	135-140
F C Duthie (Resigned 31/03/17)	85-90	-	-	29	115-120	85-90	-	-	22	105-110
C Buxton	85-90	-	-	24	110-115	85-90	-	-	21	105-110
C Wright	100-105 105-110*	-	-	52	150-155 160-165*	85-90	-	-	113	200-205
D Cowan	80-85	-	-	24	105-110	15-20 75-80*	-	-	34	50-55 110-115*
D J Oxley (Acting Director 29/08/16)	40-45 70-75*	-	-	19	60-65 90-95*	-	-	-	-	-
R McCormack (Resigned 23/12/15)	-	-	-	-	-	60-65 85-90*	-	-	15	75-80 100-105*

*Full time equivalent wage

Figures for C Wright include remuneration as Chief Executive and Director of Business and Sector Development

Note: In line with Government guidance on pay restraint there were no payments of performances bonuses in 2016/17.

Mr D Oxley was an employee of HIE during 2015-16 but his remuneration for these years is not disclosed separately above as he was not a member of the HIE Leadership Team during that time.

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 2017 was £110k-£115k (2016 £110k-£115k). This was 3.2 times (2016 3.2 times) the median salary of the workforce, which was £35,558 (2016 £35,206). Staff remuneration ranged between £16k and £114k (2016 £14k-£112k).

In 2017 no employees (2016 None) received remuneration in excess of the highest paid director.

	2016-17	2015-16
Highest Paid Director's Total	£110-£115k	£110k - £115k
Median Total Remuneration	35,558	35,206
Ratio	3.2	3.2

Retirement benefits of members of HIE Leadership Team:

	Accrued pension at age 65 as at 31/3/17 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/17	CETV at 31/3/16	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
A L Paterson (Resigned 26/08/16)	20-25 Lump sum 60-65	0-2.5 Lump sum 2.5-5	618	475	141
F C Duthie (Resigned 31/03/17)	25-30 Lump sum 75-80	0-2.5 Lump sum 2.5-5	870	703	164
C Buxton	20-25 Lump sum 60-65	0-2.5 Lump sum 2.5-5	563	438	120
D Oxley (Acting Director 29/08/16)	10-15 Lump sum 35-40	0-2.5 Lump sum 2.5-5	335	289	43
C Wright	40-45 Lump sum 80-85	2.5-5 Lump sum 2.5-5	705	581	114
D Cowan	25-30 Lump Sum 45-50	0-2.5 Lump Sum 0-2.5	440	380	53

*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 subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement. Normal retirement age under the scheme is 65.

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. Normal retirement age under the scheme is 65.

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

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	5	12
Leadership Team*	2	1	3
Other employees	113	198	311

* 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

Staff Numbers & Costs

	GROUP 2017			GROUP 2016		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	7,990	2,979	10,969	7,621	2,150	9,771
Voluntary severance packages	-	-	-	-	249	249
Social security costs	868	306	1,174	633	188	821
Other pension costs	1,856	725	2,581	1,988	557	2,545
Contract/temporary staff	-	169	169	-	202	202
	10,714	4,179	14,893	10,242	3,346	13,588
Board members' remuneration	415	-	415	405	-	405
	11,129	4,179	15,308	10,647	3,346	13,993

The average number of employees was as follows:

	GROUP 2017			GROUP 2016		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	Senior management	52	17	69	53	14
Operational staff	95	66	161	103	57	160
Administration and support staff	57	9	66	52	8	60
	204	92	296	208	79	287

The figures for 'total staff' reflect the 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 subsidiary: Wave Energy Scotland Limited.

Compensation and exit packages

Nil staff (2016: 2) left under voluntary severance terms between 1st April 2016 and 31 March 2017. The total cost of lump sum payments to staff was £ nil (2016: £ 189,939) and HIE paid £ nil (2015: £ £60,422) employers contribution and tax.

	2016-17 Number of departures agreed	2015-16 Number of departures agreed
Exit package cost band: < £10,000	-	-
£10,001 - £50,000	-	-
£50,001 - £100,000	-	1
£100,001 - £150,000	-	-
£150,001 - £200,000	-	1
£200,001 - £250,000	-	-
	-	2

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.

Sickness absence

Highlands and Islands Enterprise Staff:

The attendance record for HIE employees for the year to 31 March 2017 was 1,605 (2016 1,349) days sick leave out of a total of 68,355 (2016 65,317) possible working days representing a lost time through sickness rate of 2.35% (2016 2.06%).

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

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.

Parliamentary Accountability Report and Audit Report

Parliamentary Accountability Report

The results for the year to 31 March 2017 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 Business Directorate. 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 2017 (excluding non-cash costs) was as follows:

Sources of Finance 2016-2017

	Original Budget £000	Final Budget £000	Actual £000
Expenditure			
Operations	55,670	79,372	77,360
Management & Admin.	14,500	14,500	14,497
Total Expenditure	70,170	93,872	91,857
Income			
Grant in Aid	56,200	63,761	63,761
European Union	5,000	1,242	1,242
Business Receipts	8,970	28,869	28,869
Total Income	70,170	93,872	93,872
Support of Scottish Government initiatives			2,000
Net under spend	-	-	15
Cash Budget Outturn			
Revenue Expenditure		37,561	35,546
Capital Expenditure		26,200	26,200
Net spend		63,761	61,746

The group outturn against the elements of the budget allocation from the Scottish Government was as follows:

Resource Budget Outturn		
Resource DEL	37,561	35,546
Capital DEL	26,200	26,200
Non-cash DEL cost including depreciation, provisions, property revaluation	11,047	1,790
Total Resource budget	74,808	63,536
Non-cash AME cost including pension, provisions, property revaluation	7,000	23,735
Total Funding Provision	81,808	87,271

Cash Financial Budgets

HIE drew down £61.8 million of grant in aid from the Scottish Government. During the year HIE received a request from the Scottish Government for support of other Scottish Government initiatives, HIE was able to provide £2.0 million without affecting its own operations. This support was provided by a reduction in our Grant in Aid draw down. At the yearend HIE had a small underspend of £15k.

During the year HIE invested £26.2 million in capital projects across the Highlands and Islands region which included £4.3 million on property construction and plant and equipment additions.

Non Cash Financial Budgets

The non-cash resource accounting and budget (RAB) spend was £1.8 million, £9.2 million under the provision set by the Scottish Government, which is due to a historically high provision being provided.

The Annually Managed Expenditure was £23.7 million against a budget of £7.0 million. The agreed overspend of £16.7 million due to an increase in the HIE pension deficit. The increase in deficit has arisen due to continuing low rates of return from the financial markets. Our actuaries are confident when returns to the financial markets increase HIE's pension deficit will reduce significantly.

The Resource Budget for 2017/18 of £66.7 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.

Contingent Liabilities

As the owner of the CairnGorm mountain ski area HIE has responsibility for the costs of removal of equipment and reinstatement of the site of the funicular railway to a natural condition.

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

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.

	Group No of cases	£000	HIE No of Cases	£000
Financial Asset losses (losses arising from the sale of financial assets)	2	2,448	2	2,448
Claims waived (amounts written off)	5	1,192	5	1,192

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 2017 there was 2 (2016 - 1) financial asset loss which exceeded £250,000.

	2017
	£000
Gigha Halibut Limited 1 & 2	344
Auqapharm Bio Discovery Limited	2,104

In the year to 31 March 2017 there was 2 (2016 - 0 case) claims waived which exceeded £250,000.

	2017
	£000
New Park Highland Limited	429
Auqapharm Bio Discovery Limited	547

Highlands and Islands Enterprise continues to pursue all outstanding debts.

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.

Independent Auditor's Report

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

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 approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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 2017 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, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group and Highlands and Islands Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, the 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 2016/17 Government Financial Reporting Manual (the 2016/17 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 2017 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 2016/17 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 of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). 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 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 Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of 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.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements.

My objectives are to achieve 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&I) 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.

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 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 in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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 other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

In my opinion, the auditable 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 auditable 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.

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

05 September 2017

Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure for the year ended 31 March 2017

	Notes	Group		HIE	
		2017	2016 *restated	2017	2016 *restated
		£000	£000	£000	£000
Expenditure					
Operating expenditure	4	77,998	96,877	79,953	98,694
Net management expenditure on staff costs	5	11,129	10,647	10,518	10,341
Other management expenditure	5	4,699	6,110	3,935	3,768
Depreciation and amortisation	5	1,001	1,063	1,000	1,061
		<u>94,827</u>	<u>114,697</u>	<u>95,406</u>	<u>113,864</u>
Income					
Income from activities	3	(3,570)	(5,941)	(3,570)	(5,190)
Other income	3	(23,463)	(40,736)	(23,685)	(40,722)
		<u>(27,033)</u>	<u>(46,677)</u>	<u>(27,255)</u>	<u>(45,912)</u>
Net Operating Expenditure from activities		67,794	68,020	68,151	67,952
Net Operating Expenditure		67,794	68,020	68,151	67,952
Interest payable and similar charges	7	7	-	7	-
Share of (profits)/losses in equity accounted investees	10	90	27	-	-
Income from investments	6	-	-	-	-
Interest receivable	6	(124)	65	(123)	65
Other finance charges/(income)	6	1,214	1,091	1,214	1,091
		<u>68,981</u>	<u>69,203</u>	<u>69,249</u>	<u>69,108</u>
Net Expenditure after interest		68,981	69,203	69,249	69,108
Taxation	8	105	51	105	52
		<u>69,086</u>	<u>69,254</u>	<u>69,354</u>	<u>69,160</u>
Net expenditure after taxation		69,086	69,254	69,354	69,160
Minority interests		(12)	99	-	-
		<u>69,074</u>	<u>69,353</u>	<u>69,354</u>	<u>69,160</u>
Net Expenditure		69,074	69,353	69,354	69,160
Other Comprehensive Expenditure/(Income)					
Items that will not be reclassified to Net Expenditure					
Net (gains)/losses on revaluation of property, plant and equipment		(19)	4	(19)	4
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		-	191	-	-
Actuarial (gains)/losses recognised in retirement benefit scheme		18,917	529	18,917	529
Items that may be reclassified to Net Expenditure					
(Gains)/ losses in revaluation of available for sales assets		(325)	-	(325)	-
Reclassification to net expenditure in the year		-	-	-	-
		<u>18,573</u>	<u>724</u>	<u>18,573</u>	<u>533</u>
Other Comprehensive Expenditure/(Income) for the year		18,573	724	18,573	533
		<u>87,647</u>	<u>70,077</u>	<u>87,927</u>	<u>69,693</u>
Total Comprehensive Net Expenditure/(Income) for the year		87,647	70,077	87,927	69,693

*2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

Group and Highlands and Islands Enterprise Statement of Financial Position as at 31 March 2017

	Notes	GROUP			HIE		
		2017	2016	2015	2017	2016	2015
		£000	*restated £000	*restated £000	£000	*restated £000	*restated £000
Non-current assets							
Property, plant and equipment	9	41,243	43,988	47,290	41,225	43,957	47,206
Intangible Assets		-	-	-	-	-	-
Financial Assets	10	2,727	2,257	3,041	3,062	2,532	2,692
Investment in associate	10	262	352	570	-	-	-
Total non-current assets		44,232	46,597	50,901	44,287	46,489	49,898
Current Assets							
Trade and other receivables	12	8,861	9,225	9,970	8,730	9,786	9,816
Cash and cash equivalents	13	4,817	7,347	5,648	2,930	4,748	5,175
Assets classified as held for sale	14	813	2,197	1,294	813	2,197	1,294
Total current assets		14,491	18,769	16,912	12,473	16,731	16,285
Total Assets		58,723	65,366	67,813	56,760	63,220	66,183
Current Liabilities							
Trade payables and other current liabilities	15	(13,306)	(14,159)	(13,902)	(12,791)	(13,272)	(13,571)
Taxation	15	(467)	(507)	(288)	(302)	(263)	(288)
Total current Liabilities		(13,773)	(14,666)	(14,190)	(13,093)	(13,535)	(13,859)
Non-current assets plus net current assets less current liabilities		44,950	50,700	53,623	43,667	49,685	52,324
Non-current liabilities							
Trade payables and other liabilities	16	(1,463)	(1,375)	(1,315)	(1,463)	(1,375)	(1,316)
Retirement benefit obligation	17	(56,313)	(36,253)	(34,484)	(56,313)	(36,253)	(34,484)
Total Non-current liabilities		(57,776)	(37,628)	(35,799)	(57,776)	(37,628)	(35,800)
Assets less Liabilities		(12,826)	13,072	17,824	(14,109)	12,057	16,524
Tax Payers' Equity							
Revaluation reserve		396	402	406	396	402	406
Other reserve		356	6	197	353	3	3
Pension reserve		(56,313)	(36,253)	(34,484)	(56,313)	(36,253)	(34,484)
Minority Interests		372	384	285	-	-	-
General reserve		42,363	48,533	51,420	41,455	47,905	50,599
		(12,826)	13,072	17,824	(14,109)	12,057	16,524

*2015 & 2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

C Wright
Highlands and Islands Enterprise

Date 05 September 2017

The Accountable Officer authorised these financial statements for issue on 05 September 2017

Group and Highlands and Islands Enterprise Statement of Cash Flows for the year ended 31 March 2017

	Notes	Group		HIE	
		2017 £000	2016 £000	2017 £000	2016 £000
Cash flow from operating activities					
Profit/(Loss) before Taxation	18	(68,066)	(69,378)	(68,154)	(69,287)
Share of Associates profit/(loss)	10	90	27	-	-
Depreciation	5	1,001	1,063	1,000	1,061
Surplus on disposal of assets	3	299	1,257	119	1,261
Amortisation of Intangibles		-	-	-	-
Dividend income	6	-	-	-	-
Interest income	6	(124)	65	(123)	65
Interest expense	7	7	-	7	-
		(66,793)	(66,966)	(67,151)	(66,900)
(Increase)/decrease in trade and other receivables		331	(476)	1,015	(346)
Provision for irrecoverable debts & losses		(52)	114	(42)	114
(Increase)/decrease in Inventories		-	-	-	-
Increase/(decrease) in trade and other payables		618	2,223	1,065	519
Movement in pension provision		(71)	149	(71)	149
Investments written off, net of provision		(344)	132	(344)	(155)
Loss/(profit) on sale of property, plant & equipment		(119)	(1,261)	(119)	(1,261)
Loss/(profit) on sale of assets classified as held for sale		(183)	(11)	(183)	(11)
Surplus of investments		-	(762)	-	(20)
Revaluation of assets property plant & equipment		5,088	6,387	5,076	6,337
Movement in deferred income		(17)	(17)	(17)	(17)
Cash outflow from operating activities		(61,542)	(60,488)	(60,771)	(61,591)
Taxes paid		-	(8)	-	(8)
Net cash outflow from operating activities		(61,542)	(60,496)	(60,771)	(61,599)
Net cash outflow from operating activities - Continuing operations		(61,542)	(60,496)	(60,771)	(61,599)
Net cash outflow from operating activities - Discontinued operations		-	-	-	-
Cash flows from investing activities					
Payments to acquire shares		(40)	(30)	(40)	(30)
Payments for the construction of property		(5,172)	(9,111)	(5,171)	(9,055)
Payments to acquire plant & equipment		(679)	(28)	(679)	(27)
Purchase of assets classified as held for sale		-	-	-	-
Proceeds from sale of plant, property and equipment		711	3,797	711	3,797
Proceeds from sale of assets classified as held for sale		2,316	724	2,316	724
Receipts from sale of shares		60	1,381	-	20
Loans advanced	10	(1,189)	(635)	(1,189)	(635)
Loans repaid	10	1,158	752	1,158	1,034
Interest received		93	119	93	118
Dividends received		-	-	-	-
Net cash from investing activities		(2,742)	(3,031)	(2,801)	(4,054)
Net cash from investing activities - Continuing operations		(2,742)	(3,031)	(2,801)	(4,054)
Net cash from investing activities - Discontinued operations		-	-	-	-
Cash flows from financing activities					
Grant in aid		61,761	65,226	61,761	65,226
Debenture Loan repayments		-	-	-	-
Interest paid	7	(7)	-	(7)	-
Net cash from financing activities		61,754	65,226	61,754	65,226
Net cash from financing activities - Continuing operations		61,754	65,226	61,754	65,226
Net cash from financing activities - Discontinued operations		-	-	-	-
Net increase/(decrease) in cash and cash equivalents	13	(2,530)	1,699	(1,818)	(427)
Cash and cash equivalents at beginning of period	13	7,347	5,648	4,748	5,175
Cash and cash equivalents at end of period	13	4,817	7,347	2,930	4,748

*2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

Group Statement of Changes in Taxpayers' Equity for the year ended 31 March 2017

	Revaluation reserve	Other reserve	Pension reserve	Minority Interest	General reserve *restated	Total reserves
	£000	£000	£000		£000	£000
Balance at 31 March 2015	406	197	(34,484)	285	51,133	17,537
Adjustments	-	-	-	-	287	287
Balance at 31 March 2015	406	197	(34,484)	285	51,420	17,824
Changes in Taxpayers' equity for 2015-16						
Net gain/(loss) on revaluation of property, plant and equipment	(4)	-				(4)
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		(191)				(191)
Transfers between reserves (IAS19)			(1,240)		1,240	-
Actuarial Gain/(loss)			(529)			(529)
Retained Surplus/Deficit				99	(69,353)	(69,254)
Total recognised income and expense for 2015-16	(4)	(191)	(1,769)	99	(68,113)	(69,978)
Grant from Scottish Government					65,226	65,226
Balance at 31 March 2016	402	6	(36,253)	384	48,533	13,072
Changes in Taxpayers' equity for 2016-17						
Net gain/(loss) on revaluation of property, plant and equipment	(6)	25				19
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments		325				325
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves (IAS19)			(1,143)		1,143	-
Actuarial Gain/(loss)			(18,917)			(18,917)
Retained Surplus/Deficit				(12)	(69,074)	(69,086)
Total recognised income and expense for 2016-17	(6)	350	(20,060)	(12)	(67,931)	(87,659)
Grant from Scottish Government					61,761	61,761
Balance at 31 March 2017	396	356	(56,313)	372	42,363	(12,826)

*2015 & 2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

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 £28k (2016 £3k), the share of equity accounted investee revaluation reserves £3k (2016 £3k) and the increase in fair value of available for sale unlisted equity shares £325k (2016 nil).

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 2017

	Revaluation reserve	Other reserve	Pension reserve	General reserve *restated	Total reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2015	406	3	(34,484)	50,312	16,237
Adjustments	-	-	-	287	287
Balance at 31 March 2015	406	3	(34,484)	50,599	16,524
Changes in Taxpayers' equity for 2015-16					
Net gain/(loss) on revaluation of property, plant and equipment	(4)	-			(4)
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)			(1,240)	1,240	-
Actuarial Gain/(loss)			(529)		(529)
Retained Surplus/Deficit				(69,160)	(69,160)
Total recognised income and expense for 2015-16	(4)	-	(1,769)	(67,920)	(69,693)
Grant from Scottish Government				65,226	65,226
Balance at 31 March 2016	402	3	(36,253)	47,905	12,057
Changes in Taxpayers' equity for 2016-17					
Net gain/(loss) on revaluation of property, plant and equipment	(6)	25			19
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments		325			325
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves (IAS19)			(1,143)	1,143	-
Actuarial Gain/(loss)			(18,917)		(18,917)
Retained Surplus/Deficit				(69,354)	(69,354)
Total recognised income and expense for 2016-17	(6)	350	(20,060)	(68,211)	(87,927)
Grant from Scottish Government				61,761	61,761
Balance at 31 March 2017	396	353	(56,313)	41,455	(14,109)

*2015 & 2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

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 £28k (2016 £3k) and the increase in fair value of available for sale unlisted equity shares £325k (2016 nil).

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

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

Notes to the Accounts

1. Accounting policies

Basis of preparation	<p>The financial statements have been prepared in accordance with the 2016-17 Government Financial Reporting Manual (FRoM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990</p> <p>The accounting policies contained in the FRoM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Highlands & Islands Enterprise for the purpose of giving a true and fair view has been selected. The particular policies adopted by Highlands & Islands Enterprise are described below. They have been applied consistently in dealing with the items that are considered material to the accounts.</p> <p>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 20)</p> <p>The consolidated financial statements are presented in UK pounds sterling and all values are rounded to the nearest thousand (£000) except when otherwise indicated.</p>
Going Concern	<p>The financial statements for the year ended 31 March 2017 show net liabilities position of £14.1m (Group 12.8m). The position of net liabilities has arisen following an increase in the HIE pension fund deficit. The pension deficit has increased due reduction in the discount rate used to value pension scheme liabilities. The reduction in the scheme discount rate has arisen due to continuing low rates of return available in the financial markets. Net current liabilities will be funded by the Scottish Government as they arise. As a consequence, the financial statements have been prepared on a going concern basis.</p> <p>The Board and Accountable Officer have considered HIE's Operating Plan requirement and consider that the Resource budget awarded by the Scottish Government is adequate.</p>
Basis of consolidation	<p>The Group Accounts include the accounts of Highlands and Islands Enterprise and all its subsidiary and associate undertakings drawn up to 31 March each year unless otherwise noted.</p> <p>(a) Subsidiaries</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>(b) Associates and joint arrangements</p> <p>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.</p> <p>Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreements and requiring unanimous consent for strategic financial and operational decisions.</p> <p>Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.</p> <p>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.</p> <p>(c) Other</p> <p>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-</p>

investment partners, to individual companies to drive economic growth in Scotland.

Critical accounting estimates and judgements

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

(a) Retirement benefit obligations

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations. The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 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 IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances explained in IAS 39, it will be required to reclassify the whole class as available-for-sale. The investments would then be measured at fair value not amortised cost.

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

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

Accounting for grant-in-aid

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

European Union funding and other grants

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

Income

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

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 & Equipment

HIE has 4 categories of property, plant and equipment:

- Land and buildings
- Tenants' improvements
- Plant & 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 & 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 & 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 Available for Sale financial assets and are shown at Fair Value in accordance with IFRS13. 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. All HIE's Available for Sale financial assets are categorised as Level 3 due to unobservable inputs.
- Loans and receivables	Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.
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 & Islands Enterprise has entered into commercial property leases as lessor on its property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the life of the lease.
Research expenditure	All research expenditure is charged against revenue in the year it occurs.
Insurance	In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their

	own liability for all risks except for statutory obligations.
Taxation	The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2015 have been agreed with the relevant tax authorities.
Employee Benefits	<p>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.</p> <p>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.</p> <p>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.</p> <p>Additional information is disclosed in note 17.</p> <p>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.</p>
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	<p>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.</p> <p>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.</p> <p>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.</p>
Accounting standards issued but not yet adopted	<p>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:</p> <p>Amendment to IAS 7 – Disclosure Initiative Subject to EU adoption and Exposure draft process this amendment will be included in the FReM with effect from 2017/18. The objective of the amendment to IAS7 – statement of Cash flows is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The impact on the consolidated accounts has not been determined.</p> <p>IFRS 9 – Financial Instruments Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all aspects of accounting for financial instruments. The impact on the consolidated accounts has not been determined.</p> <p>IFRS 15 – Revenue from Contracts with Customers Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts has not been determined.</p> <p>IFRS 16 – Leases Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from</p>

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.

IAS 12 – Income Taxes

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19 updates to this standard revise the process for recognition of deferred tax assets for unrealised losses. The impact on the consolidated accounts has not been determined.

IFRS 2 – Share based payment

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19 updates to this standard revise the process for classification and measurement of share based payment transactions. The impact on the consolidated accounts has not been determined.

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 2016 and 2017 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 cash 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.

	HIE	
	2017	2016
	£000	£000
Income		
Grant In Aid	63,761	66,201
European		
SDB Projects	1,242	2,565
	<u>1,242</u>	<u>2,565</u>
Capital		
Loan Repayments	1,158	760
Equity Sales	-	20
Property Sales	3,027	4,522
	<u>4,185</u>	<u>5,302</u>
Revenue		
Property Rental	3,266	4,292
Loan interest/Dividend	98	113
Other income	21,203	32,514
Other Receipts	117	580
	<u>24,684</u>	<u>37,499</u>
Other Income	<u>30,111</u>	<u>45,366</u>
Total Income	<u>93,872</u>	<u>111,567</u>
Expenditure		
Block A		
Regional Significant Investments	29,697	31,991
Business Support	4,928	5,080
Growth Investment	20,291	23,175
Broadband	18,896	31,454
Total Block A	<u>73,812</u>	<u>91,700</u>
SDB Projects	1,242	2,565
Other expenditure	2,306	1,809
Total Block A	<u>77,360</u>	<u>96,074</u>
Block B		
Management, staff & Admin cost	14,497	14,493
Total Block B	<u>14,497</u>	<u>14,493</u>
Total Expenditure	<u>91,857</u>	<u>110,567</u>
Support for government initiatives	2,000	975
Financial Position (I&E)	<u>15</u>	<u>25</u>
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	15	25
Pension (IAS19)	(1,143)	(1,240)
Depreciation	(1,000)	(1,061)
Provisions & charges	13	(406)
Accruals & Prepayments	(1,496)	2,222
Property cost of sales	(250)	(3,539)
Capital revaluation and additions	1,483	3,486
Grant in aid	(56,961)	(60,951)
Taxation	(1,910)	(920)
Transfers from revaluation reserve	-	-
HIE Ventures Limited	(32)	176
Wave Energy Scotland	(7,632)	(6,711)
Discontinued operations		
Associate companies	(90)	(27)
Consolidation adjustments	22	(257)
Group net operating cost before taxation	<u>(68,981)</u>	<u>(69,203)</u>

3. Income from operating activities

Income, which is shown net of Value Added Tax (VAT), is made up of receipts from various bodies as detailed below:

	GROUP	
	2017	2016
	£000	£000
Income from Activities		
Property Rentals	3,271	3,913
Gain/(loss) on financial assets at fair value	-	9
Surplus/(loss) on disposal of property	299	1,257
Surplus/(loss) on disposal of investments	-	762
	3,570	5,941
Other Income		
Other European contributions	880	2,835
Scottish Government receipts	19,595	35,761
Other external income	2,988	2,140
	23,463	40,736

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	Total	2016
	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	39,760	10,736	19,576	70,072	90,393
Community Broadband	1,883	-	-	1,883	1,626
Wave Energy Scotland	6,043	-	-	6,043	4,858
HIE Ventures Limited	-	-	-	-	-
Group	47,686	10,736	19,576	77,998	96,877
2016	62,196	12,949	21,732	96,877	

* Local Enterprise Companies (LEC's) are dormant, HIE delivery continues through its area teams.

Expenditure includes grants of **£29,223,836** (2016 - £28,196,860) of which **£1,901,208** (2016- £947,615) were made to the public sector and **£27,322,628** (2016 - £27,249,245) to the private sector.

Property revaluation and management costs of **£5,976,337** (2016 - £8,134,410) are included within Business Support expenditure above.

5a. Administration and management charges by organisation

	GROUP	
	2017	2016
	£000	*restated £000
Highlands and Islands Enterprise	15,226	15,365
Wave Energy Scotland Limited	1,571	1,853
Former LECs	-	-
HIE Ventures Limited	32	602
	16,829	17,820

*2016 restated following changes to financial assets opening balances and amortised cost movement (note24)

5b. Administration and management charges

	GROUP		HIE	
	2017	2016 *restated	2017	2016 *restated
	£000	£000	£000	£000
Continuing operations				
Staff & board member salaries	11,200	10,498	10,589	10,192
IAS 19 adjustment in respect of service costs and curtailments	(71)	149	(71)	149
	11,129	10,647	10,518	10,341
Travel and subsistence - board members	17	75	17	22
Travel and subsistence - staff	796	711	683	711
Accommodation	1,072	1,000	1,054	983
Hospitality – board members	6	2	6	2
Hospitality – staff	17	18	17	18
Audit fees	137	139	132	130
Non-audit fees paid to auditors	-	17	-	-
Operating lease rentals – equipment	(16)	31	(16)	31
Equipment and furnishings	-	-	-	-
Provision for irrecoverable debts and losses	99	834	101	594
Investment Fair value adjustments	(96)	(405)	(96)	(405)
Other administration costs	2,667	3,688	2,037	1,682
	4,699	6,110	3,935	3,768
Depreciation of fixed assets	1,001	1,063	1,000	1,061
Amortisation of Intangible assets	-	-	-	-
*2016 restated following changes to financial assets opening balances and amortised cost movement (note24)				

Fees chargeable for audit services provided by Audit Scotland amounted to £131,510 (2016 - £129,500).

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	
	2017	2016
	£000	£000
Investment Income		
Dividends received	-	-
Interest Receivable		
Loan interest receivable	(113)	83
Bank interest receivable	(11)	(18)
Other Interest receivable	-	-
	(124)	65
Other finance (income) / charges		
Interest income on retirement benefit assets	(3,339)	(3,215)
Interest on retirement benefit scheme obligations	4,553	4,306
	1,214	1,091

2016 Loan interest receivable includes the reversal of an accrual for loan interest relating to a business which is now in receivership

7. Interest payable

	GROUP	
	2017	2016
	£000	£000
Other	7	0
	<u>7</u>	<u>0</u>

8. Taxation

Corporation tax is charged at 20 per cent (2015 21 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	
	2017	2016
	£000	£000
Net expenditure after interest	68,981	69,269
Current tax at 20% (2016 20%)	13,796	15,932
Nontaxable income and disallowable expenditure	(13,796)	(15,932)
Tax under/(over) provided in previous years	-	24
Current tax charge	<u>-</u>	<u>24</u>
Current Tax		
Current tax on profits for the year	-	-
Adjustment in respect of prior years	-	(24)
Total current tax	<u>-</u>	<u>(24)</u>
Deferred Tax		
Current year	287	206
Adjustment in respect of previous periods	(38)	(78)
Effect of changes in Tax Rates	(144)	(53)
Total deferred tax	<u>105</u>	<u>75</u>
Tax per statement of comprehensive net expenditure	<u>105</u>	<u>51</u>

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 & Equipment

At 31 March 2017, 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 & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2015	38,066	325	2,930	41,321	1,227	301	8,257	51,106
Additions	2,244	-	6,044	8,288	-	345	242	8,875
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,536)	-	-	(2,536)	-	-	(79)	(2,615)
Reclassifications	1,557	-	(1,291)	266	-	-	(2,800)	(2,534)
Revaluations	(2,702)	-	-	(2,702)	-	-	-	(2,702)
Impairment	-	-	(4,243)	(4,243)	-	-	(50)	(4,293)
At 31 March 2016	36,629	325	3,440	40,394	1,227	646	5,570	47,837
Depreciation								
At 1 April 2015	-	-	-	-	997	301	2,518	3,816
Charged in year	447	4	-	451	77	1	534	1,063
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(79)	(79)
Reclassifications	-	-	-	-	-	-	(500)	(500)
Revaluations	(447)	(4)	-	(451)	-	-	-	(451)
At 31 March 2016	-	-	-	-	1,074	302	2,473	3,849
Net Book Value								
At 31 March 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
At 1 April 2016	36,629	325	3,440	40,394	1,227	646	5,620	47,887
Additions	1,288	145	2,768	4,201	-	16	124	4,341
Write Down	-	-	-	-	-	-	-	-
Disposals	(592)	-	-	(592)	-	(10)	(57)	(659)
Reclassifications	(916)	3,115	(2,950)	(751)	-	-	-	(751)
Revaluations	(2,325)	(135)	-	(2,460)	-	-	-	(2,460)
Impairment	-	-	(2,702)	(2,702)	-	-	(12)	(2,714)
At 31 March 2017	34,084	3,450	556	38,090	1,227	652	5,675	45,644
Depreciation								
At 1 April 2016	-	-	-	-	1,074	302	2,523	3,899
Charged in year	385	47	-	432	74	90	405	1,001
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(10)	(57)	(67)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(385)	(47)	-	(432)	-	-	-	(432)
At 31 March 2017	-	-	-	-	1,148	382	2,871	4,401
Net Book Value								
At 31 March 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
At 1 April 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
At 1 April 2015	38,066	325	2,930	41,321	230	-	5,739	47,290
Analysis of asset financing:								
	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	36,159	325	3,440	39,924	153	344	3,097	43,518
Finance Leased	470	-	-	470	-	-	-	470
Net Book Value								
At 31 March 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
Owned	33,442	3,450	556	37,448	79	270	2,803	40,600
Finance Leased	642	-	-	642	-	-	1	643
Net Book Value								
At 31 March 2017	34,084	3,450	556	38,090	79	270	2,804	41,243
At 1 April 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
At 1 April 2015	38,066	325	2,930	41,321	230	-	5,739	47,290

HIE								
	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2015	38,064	325	2,931	41,320	1,227	302	8,175	51,024
Additions	2,244	-	6,045	8,289	-	345	241	8,875
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,536)	-	-	(2,536)	-	-	(79)	(2,615)
Reclassifications	1,557	-	(1,291)	266	-	-	(2,800)	(2,534)
Revaluations	(2,701)	-	-	(2,701)	-	-	-	(2,701)
Impairment	-	-	(4,243)	(4,243)	-	-	-	(4,243)
At 31 March 2016	36,628	325	3,442	40,395	1,227	647	5,537	47,806
Depreciation								
At 1 April 2015	-	-	-	-	998	302	2,518	3,818
Charged in year	447	4	-	451	77	-	533	1,061
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(79)	(79)
Reclassifications	-	-	-	-	-	-	(500)	(500)
Revaluations	(447)	(4)	-	(451)	-	-	-	(451)
At 31 March 2016	-	-	-	-	1,075	302	2,472	3,849
Net Book Value								
At 31 March 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
At 1 April 2016	36,628	325	3,442	40,395	1,227	647	5,537	47,806
Additions	1,288	145	2,768	4,201	-	16	124	4,341
Write Down	-	-	-	-	-	-	-	-
Disposals	(592)	-	-	(592)	-	(10)	(57)	(659)
Reclassifications	(916)	3,115	(2,950)	(751)	-	-	-	(751)
Revaluations	(2,325)	(135)	-	(2,460)	-	-	-	(2,460)
Impairment	-	-	(2,702)	(2,702)	-	-	-	(2,702)
At 31 March 2017	34,083	3,450	558	38,091	1,227	653	5,604	45,575
Depreciation								
At 1 April 2016	-	-	-	-	1,075	302	2,472	3,849
Charged in year	385	47	-	432	74	90	404	1,000
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(10)	(57)	(67)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(385)	(47)	-	(432)	-	-	-	(432)
At 31 March 2017	-	-	-	-	1,149	382	2,819	4,350
Net Book Value								
At 31 March 2017	34,083	3,450	558	38,091	78	271	2,785	41,225
At 1 April 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
At 1 April 2015	38,064	325	2,931	41,320	229	-	5,657	47,206

Analysis of asset financing:

	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	36,158	325	3,442	39,925	152	345	3,065	43,487
Finance Leased	470	-	-	470	-	-	-	470
Net Book Value								
At 31 March 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
Owned	33,441	3,450	558	37,449	78	271	2,784	40,582
Finance Leased	642	-	-	642	-	-	1	643
Net Book Value								
At 31 March 2017	34,083	3,450	558	38,091	78	271	2,785	41,225
At 1 April 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
At 1 April 2015	38,064	325	2,931	41,320	229	-	5,657	47,206

Analysis of fund of asset additions:

	GROUP		HIE	
	2017	2016	2017	2016
	£000	£000	£000	£000
Government Grant	4,341	8,565	4,341	8,565
EU	0	310	0	310
Total	4,341	8,875	4,341	8,875

Reconciliation of profit on sales:

	GROUP	
	2017	2016
	£000	£000
Sales value of disposals	3,027	4,516
Net book value of disposals	(2,728)	(3,260)
Profit on sales	299	1,256

10. Financial Assets

GROUP

Financial assets

	2017	2016
	£000	£000
Available for sale unlisted equity shares	613	253

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 & Receivables

	Preference Shares £000	Loans & Receivables £000	Total £000	2016 *restated £000
Amortised Cost				
At 1 April 2016	3,129	6,984	10,113	10,543
Additions	-	1,189	1,189	635
Repayments	-	(1,157)	(1,157)	(752)
Disposals	(51)	(60)	(111)	(648)
Fair Value Adjustment	6	96	102	387
Reclassification	-	-	-	-
Written off	-	(571)	(571)	(52)
At 31 March 2017	3,084	6,481	9,565	10,113
Diminution in value				
At 1 April 2016	3,078	4,252	7,330	6,900
Additions	56	198	254	567
Disposals	(50)	-	(50)	(50)
Released	-	(175)	(175)	(43)
Reclassification	-	-	-	-
Written off	-	(571)	(571)	(44)
At 31 March 2017	3,084	3,704	6,788	7,330
Net book value				
At 31 March 2017	-	2,777	2,777	2,783
At 1 April 2016	51	2,732	2,783	
Analysis of Loan & Receivables				
Due within 1 year	-	663	663	779
Due over 1 year	-	2,114	2,114	2,004

*2016 restated following changes to financial assets opening balances and amortised cost movement (note 24)

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.

HIE

Financial assets

	2017	2016
	£000	£000
Available for sale unlisted equity shares	975	615

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 & Receivables

	Preference Shares £000	Loans & Receivables £000	Total £000	2016 *restated £000
Amortised Cost				
At 1 April 2016	3,079	6,897	9,976	9,996
Additions	-	1,190	1,190	635
Repayments	-	(1,158)	(1,158)	(1,034)
Disposals	-	-	-	-
Fair Value Adjustment	5	96	101	387
Reclassification	-	-	-	-
Written off	-	(571)	(571)	(8)
At 31 March 2017	3,084	6,454	9,538	9,976
Diminution in value				
At 1 April 2016	3,028	4,252	7,280	7,052
Additions	56	198	254	567
Disposals	-	-	-	-
Released	-	(175)	(175)	(339)
Reclassification	-	-	-	-
Written off	-	(571)	(571)	-
At 31 March 2017	3,084	3,704	6,788	7,280
Net book value				
At 31 March 2017	-	2,750	2,750	2,696
At 1 April 2016	51	2,645	2,696	
Analysis of Loan & Receivables				
Due within 1 year	-	663	663	779
Due over 1 year	-	2,087	2,087	1,917
*2016 restated following changes to financial assets opening balances and amortised cost movement (note24)				

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

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Ventures Limited	Scotland	Ordinary Shares	55%	Venture Capitalist
Wave Energy Scotland Limited	Scotland	'A' Ordinary Shares (non-voting) Limited by Guarantee	80%	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

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 2017.

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
Investors In People Scotland	Scotland	31 March	50	Assessment of organisations against the Investors in People (IIP) national standard

Scottish Intellectual Asset Management and Investors In People Scotland 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 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 Dalcross 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.

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 2015	842	721	1,563	(516)	(300)	(816)	1,483	(1,298)	185
As at March 2016	142	2,874	3,016	(2,126)	(19)	(2,145)	783	(7,311)	(6,528)
As at March 2017	63	2,145	2,208	(1,365)	(19)	(1,384)	-	(7,664)	(7,664)

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 2015	5,956	1,963	7,919	(2,587)	(4,053)	(6,640)	2,823	(2,892)	(69)
As at March 2016	5,087	1,577	6,664	(2,358)	(3,177)	(5,535)	2,575	(2,718)	(143)
As at March 2017	5,263	1,265	6,528	(2,902)	(2,885)	(5,787)	2,204	(2,494)	(290)

Movements in carrying amount of investment in equity accounted investees

Carrying amount as at April 2015	£000
Share of surplus on revaluation	570
Share of net profit/(Loss)	(191)
Carrying amount as at 31 March 2016	<u>(27)</u>
	<u>352</u>
Carrying amount as at April 2016	352
Share of surplus on revaluation	0
Share of net profit/(Loss)	(90)
Carrying amount as at 31 March 2017	<u>(90)</u>
	<u>262</u>

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 2017	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 Park Limited	25%	500 class 'C' ordinary shares	1	423
		24,997 class 'D' ordinary shares	29	-
		275,000 redeemable preference shares	550	-
HIE Ventures Limited	55%	110,000 Ordinary Shares	61	1,000
		40,000 class A ordinary shares	40	-
Accunostics	-	None	-	1,250
Baxters Food Group	-	None	-	1,500
Investments in 33 other businesses			1514	5104
			4,195	9277

11 Fair Value and impairments

Revaluations to fair value and impairment charges for the year

Group				
	Statement of comprehensive net expenditure	Revaluation reserve	Total	2016
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	2,460	(6)	2,454	2,698
Financial assets	(321)	-	(321)	492
	2,139	(6)	2,133	3,190
Impairments				
Property, plant and equipment	2,715	-	2,715	4,293
Financial assets	(254)	-	(254)	(567)
	2,461	-	2,461	3,726
HIE				
	Statement of comprehensive net expenditure	Revaluation reserve	Total	2016
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	2,460	(6)	2,454	933
Financial assets	(321)	-	(321)	290
	2,139	(6)	2,133	1,223
Impairments				
Property, plant and equipment	2,702	-	2,702	4,243
Financial assets	(254)	-	(254)	(567)
	2,448	-	2,448	3,676

12. Trade and other receivables

	Note	GROUP		HIE	
		2017 £000	2016 £000	2017 £000	2016 £000
Trade receivables		4,106	3,264	4,009	3,162
Provision for bad debts		(633)	(685)	(633)	(675)
		3,473	2,579	3,376	2,487
Taxation recoverable		581	693	579	682
Accrued income and prepayments		4,144	5,174	4,112	5,127
Owed by subsidiary undertakings		-	-	-	711
Loans & other receivables	10	663	779	663	779
		8,861	9,225	8,730	9,786

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

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Balances with other central government bodies	609	695	607	684
Balances with local authorities	151	164	151	164
Balances with similar public bodies	56	143	56	1,734
	816	1,002	814	2,582
Balances with bodies external to government	8,045	8,223	7,916	7,204
	8,861	9,225	8,730	9,786

13. Cash and cash equivalents

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Balance at 1 April	7,347	5,648	4,748	5,175
Net change in cash and cash equivalent balances	(2,530)	1,699	(1,818)	(427)
	4,817	7,347	2,930	4,748

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Group and HIE funds	1,887	2,599	-	-
Other scheme funds held	2,930	4,748	2,930	4,748
	4,817	7,347	2,930	4,748

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

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Community Broadband Scotland	2,827	4,748	2,827	4,748
Scottish Land Fund	-	-	-	-
KEPP	103	-	103	-
	2,930	4,748	2,930	4,748

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			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2015	1294	-	-	1,294
Transfers to assets Held for resale	(278)	2,300	-	2,022
Disposals of non current assets held for sale	(713)	-	-	(713)
Impairment recognised on re-measurement	(6)	(400)	-	(406)
At 31 March 2016	297	1,900	-	2,197

	Group			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2016	297	1,900	-	2,197
Transfers to assets Held for resale	736	-	-	736
Disposals of non current assets held for sale	(218)	(1,900)	-	(2,118)
Impairment recognised on re-measurement	(2)	-	-	(2)
At 31 March 2017	813	-	-	813

During the year it was decided Nil assets (2016 - 2) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

Plant and equipment held for resale 31 March 2016 includes equipment for the manufacture of wind turbines at Machrihanish. The sale of the equipment completed on 8th April 2016.

	HIE			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2015	1294	-	-	1,294
Transfers to assets Held for resale	(278)	2,300	-	2,022
Disposals of non current assets held for sale	(713)	-	-	(713)
Impairment recognised on re-measurement	(6)	(400)	-	(406)
At 31 March 2016	297	1,900	-	2,197

	HIE			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2016	297	1,900	-	2,197
Transfers to assets Held for resale	736	-	-	736
Disposals of non current assets held for sale	(218)	(1,900)	-	(2,118)
Impairment recognised on re-measurement	(2)	-	-	(2)
At 31 March 2017	813	-	-	813

During the year it was decided Nil assets (2016 - 2) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

Plant and equipment held for resale 31 March 2016 includes equipment for the manufacture of wind turbines at Machrihanish. The sale of the equipment completed on 8th April 2016

15. Trade payables and other current liabilities: Amounts falling due within one year

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Trade payables	7,309	5,206	6,597	4,332
Accruals and Deferred Income	5,397	8,328	5,177	8,096
Prepaid rental income	600	625	600	625
Owed to subsidiary undertakings	-	-	417	219
	13,306	14,159	12,791	13,272
Taxation and social security	467	507	302	263
Corporation tax	-	-	-	-
	467	507	302	263

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

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Balances with other central government bodies	580	262	415	262
Balances with local authorities	198	34	198	34
Balances with similar public bodies	462	486	462	486
	1240	782	1,075	782
Balances with bodies external to government	12,533	13,884	12,018	12,753
	13,773	14,666	13,093	13,535

16. Trade payables and other liabilities: Amounts falling due after more than one year

	GROUP		HIE	
	2017	2016	2017	2016
	£000	£000	£000	£000
Deferred income – other schemes	360	377	360	377
Deferred Tax	1,103	998	1,103	998
	1,463	1,375	1,463	1,375

17. Retirement Benefit Obligation

Staff may be members of the Highlands and Islands Enterprise superannuation scheme or local government pension funds. The Highlands and Islands Enterprise and local government superannuation schemes are defined benefit schemes with guaranteed benefits based on length of service and career average salary. The level of benefits provided depends upon the members' length of service and their career average salary. Benefits within the HIE scheme accrue at 1/80th for every year served. The benefits within the local government scheme accrue at 1/49th for every year of service. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds

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

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

The pension scheme operated by Wave Energy Scotland is a defined benefit 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 actuarial valuation at **5 April 2016**, indicated a potential deficit of **£31.7** 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 June 2016 to:

- Lump sum contributions of £500K per annum from 2016 to 2035
- Pay additional contributions per months as a percentage of pensionable salaries from 2014 to 2035
 - From August 2015 to July 2016 6.6% of pensionable salaries
 - From August 2016 to July 2035 8.1% of pensionable salaries

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 2016** by a qualified independent actuary and updated to 31 March 2017 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 17	31 March 16	31 March 15	31 March 14	31 March 13
	%	%	%	%	%
Rate of salary increases (% per annum)	3.40	3.15	3.50	3.90	3.90
Rate of pension increase (% per annum)	2.40	2.15	2.00	2.60	2.60
Discount rate (% per annum)	2.60	3.50	3.30	4.50	4.40
Inflation rate (% per annum)	3.40	3.15	3.00	3.40	3.40

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

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

	Value at 31 March 2017	Value at 31 March 2016	Value at 31 March 2015	Value at 31 March 2014	Long-term rate of return expected at 31 March 2013	Value at 31 March 2013
	£000	£000	£000	£000	%	£000
Equities	70,592	47,886	50,613	46,365	4.40	42,698
Gilts	13,261	16,644	16,446	12,811	4.40	13,466
Bonds	0	8,235	8,255	7,298	4.40	7,101
Property	7,869	7,677	7,458	5,721	4.40	5,569
Cash	1,513	1,117	1,243	1,164	4.40	1,048
Estimated employer assets	93,235	81,559	84,015	73,359		69,882
Present value of scheme liabilities	(143,441)	(113,401)	(112,085)	(94,674)		(92,589)
Deficit in the scheme	(50,206)	(31,842)	(28,070)	(21,315)		(22,707)
Related deferred tax asset/ (liability)	-	-	-	-		-
Net pension liability	(50,206)	(31,842)	(28,070)	(21,315)		(22,707)

The current values show an increase in the deficit from 31 March 2016 of £18.3m to £50.2m at 31 March 2017.

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 valuations at 31 March 2014 and updated to 31 March 2017 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 17	31 March 16	31 March 15	31 March 14	31 March 13
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	3.40	4.20	4.33	5.13	5.03
Rate of pension increase (% per annum)	2.40	2.20	2.43	2.83	2.75
Discount rate (% per annum)	2.60	3.53	3.23	4.30	4.55
Inflation rate (% per annum)	3.40	3.20	3.40	3.40	3.55

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

	Value at 31 March 2017	Value at 31 March 2016	Value at 31 March 2015	Long-term rate of return expected at 2015	Value at 31 March 2014	Long-term rate of return expected at 2013	Value at 31 March 2013
	£000	£000	£000	%	£000	%	£000
Equities	12,476	9,932	9,921	8762	6.11	8,413	
Gilts	515	420	576	485	3.3	471	
Bonds	1,876	1,803	1,817	1,416	4.2	984	
Property	1,910	1,514	1,210	810	4.5	737	
Cash	464	491	180	300	3.4	182	
Estimated employer assets	17,241	14,160	13,704	11,773		10,787	
Present value of scheme liabilities	(22,529)	(17,890)	(19,367)	(15,763)		(13,182)	
Present value of unfunded liabilities	(819)	(681)	(751)	(674)		(622)	
Deficit in the scheme	(6,107)	(4,411)	(6,414)	(4,664)		(3,017)	
Related deferred tax liability	-	-	-	-		-	
Net pension liability	(6,107)	(4,411)	(6,414)	(4,664)		(3,017)	

The pension contributions with effect from 1 April 2017 for the local government pension funds are:

	2017	2016
Highland Council Pension Fund	20.7%	20.7%
Orkney Islands Council Pension Fund	19.2%	19.8%
Strathclyde Pension Fund	18.0%	18.0%

GROUP

	HIE	LGPF	Total	HIE	LGPF	Total
	2017	2017	2017	2016	2016	2016
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	2,219	365	2,584	2,258	433	2,691
Past service cost	-	-	-	-	-	-
Admin expenses	509	-	509	442	-	442
Interest income on retirement benefit assets	(2,840)	(499)	(3,339)	(2,771)	(444)	(3,215)
Interest on retirement benefit scheme obligations	3,899	654	4,553	3,655	651	4,306
Net pension scheme expense	3,787	520	4,307	3,584	640	4,224
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	(10,395)	(2,491)	(12,886)	5,150	185	5,335
Experience gains and (losses) arising on the scheme liabilities	63	51	114	(1,808)	(208)	(2,016)
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	-	-	2,281	-	2,281
Changes in financial assumptions underlying the present value of the scheme liabilities	27,741	3,948	31,689	(2,775)	(2,296)	(5,071)
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	17,409	1,508	18,917	2,848	(2,319)	529
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	113,401	18,571	131,972	112,085	20,118	132,203
Recognised on acquisition	-	-	-	-	-	-
	113,401	18,571	131,972	112,085	20,118	132,203
Movement in year:						
Current Service costs	2,219	365	2,584	2,258	433	2,691
Contributions by members	550	99	649	337	96	433
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(31)	(31)	-	(30)	(30)
Estimated benefits paid	(4,432)	(309)	(4,741)	(2,632)	(193)	(2,825)
Interest cost	3,899	654	4,553	3,655	651	4,306
Actuarial losses/(gains)	27,804	3,999	31,803	(2,302)	(2,504)	(4,806)
Closing defined benefit obligation	143,441	23,348	166,789	113,401	18,571	131,972
Present value of funded liabilities	143,441	23,348	166,789	113,401	18,571	131,972
Present value of unfunded liabilities	-	-	-	-	-	-
Reconciliation of fair value of assets						
Opening fair value of assets	81,559	14,160	95,719	84,015	13,704	97,719
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	81,559	14,160	95,719	84,015	13,704	97,719
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,840	499	3,339	2,771	444	3,215
Contributions by members	550	99	649	337	96	433
Contributions by employer	2,832	301	3,133	2,660	294	2,954
Contribution in respect of unfunded benefits	-	31	31	-	30	30
Admin expenses	(509)	-	(509)	(442)	-	(442)
Actuarial gains/(losses)	10,395	2,491	12,886	(5,150)	(185)	(5,335)
Estimated unfunded benefits paid	-	(31)	(31)	-	(30)	(30)
Estimated benefits paid	(4,432)	(309)	(4,741)	(2,632)	(193)	(2,825)
	93,235	17,241	110,476	81,559	14,160	95,719
Estimated employer contributions for the year ended 31 March 2018	2,909	307	3,216	2,744	299	3,043

HIE

	HIE	LGPF	Total	HIE	LGPF	Total
	2017	2017	2017	2016	2016	2016
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	2,219	365	2,584	2,258	433	2,691
Past service cost	-	-	-	-	-	-
Admin expenses	509	-	509	442	-	442
Interest income on retirement benefit assets	(2,840)	(499)	(3,339)	(2,771)	(444)	(3,215)
Interest on retirement benefit scheme obligations	3,899	654	4,553	3,655	651	4,306
Net pension scheme expense	3,787	520	4,307	3,584	640	4,224
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	(10,395)	(2,491)	(12,886)	5,150	185	5,335
Experience gains and (losses) arising on the scheme liabilities	63	51	114	(1,808)	(208)	(2,016)
Changes in demographic assumptions underlying the present value of the scheme liabilities	-	-	-	2,281	-	2,281
Changes in financial assumptions underlying the present value of the scheme liabilities	27,741	3,948	31,689	(2,775)	(2,296)	(5,071)
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	17,409	1,508	18,917	2,848	(2,319)	529
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	113,401	18,571	131,972	112,085	20,118	132,203
Recognised on acquisition	-	-	-	-	-	-
	113,401	18,571	131,972	112,085	20,118	132,203
Movement in year:						
Current Service costs	2,219	365	2,584	2,258	433	2,691
Contributions by members	550	99	649	337	96	433
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(31)	(31)	-	(30)	(30)
Estimated benefits paid	(4,432)	(309)	(4,741)	(2,632)	(193)	(2,825)
Interest cost	3,899	654	4,553	3,655	651	4,306
Actuarial losses/(gains)	27,804	3,999	31,803	(2,302)	(2,504)	(4,806)
Closing defined benefit obligation	143,441	23,348	166,789	113,401	18,571	131,972
Present value of funded liabilities	143,441	23,348	166,789	113,401	18,571	131,972
Present value of unfunded liabilities	-	-	-	-	-	-
Reconciliation of fair value of assets						
Opening fair value of assets	81,559	14,160	95,719	84,015	13,704	97,719
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	81,559	14,160	95,719	84,015	13,704	97,719
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,840	499	3,339	2,771	444	3,215
Contributions by members	550	99	649	337	96	433
Contributions by employer	2,832	301	3,133	2,660	294	2,954
Contribution in respect of unfunded benefits	-	31	31	-	30	30
Admin expenses	(509)	-	(509)	(442)	-	(442)
Actuarial gains/(losses)	10,395	2,491	12,886	(5,150)	(185)	(5,335)
Estimated unfunded benefits paid	-	(31)	(31)	-	(30)	(30)
Estimated benefits paid	(4,432)	(309)	(4,741)	(2,632)	(193)	(2,825)
	93,235	17,241	110,476	81,559	14,160	95,719
Estimated employer contributions for the year ended 31 March 2018	2,909	307	3,216	2,744	299	3,043

Expenditure recognised in the Statement of Comprehensive net expenditure

	2017 £000	2016 £000
Net management expenditure on staff costs	(71)	149
Other finance charges/(income)	1,214	1,091

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £18,917k loss (2016 £529k loss).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £41,578k (2016 £22,661k loss).

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

	HIE					LGPF				
	2017	2016	2015	2014	2013	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Experience gains and losses										
Difference between expected and actual return on scheme assets	10,395	(5,150)	7,221	801	3,917	2,491	(185)	1,255	249	737
Value of assets	93,235	81,559	84,015	73,359	75,781	17,241	14,160	13,704	11,773	12,296
Percentage of scheme assets	11.1%	(6.3)%	8.6%	1.1%	5.2%	14.4%	(1.3)%	9.2%	2.1%	6.0%
Experience gains and (losses) on scheme liabilities	(63)	1,808	141	127	2,822	(51)	208	(51)	(18)	(17)
Present value of liabilities	(143,441)	(113,401)	(112,085)	(94,674)	(92,589)	(23,348)	(18,571)	(20,118)	(16,437)	(13,804)
Percentage of scheme liabilities	0.0%	(1.6)%	(0.1)%	(0.1)%	(3.0)%	0.2%	(1.1)%	0.3%	0.1%	0.1%

Mortality

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65 year old to live for a number of years as follows:

	HIE		LGPF	
	UK	UK	UK	UK
	31/03/17	31/03/16	31/03/17	31/03/16
1. Male member aged 65 (current life expectancy)	24.7	24.5	22.5	22.5
2. Male member age 45 (life expectancy at 65)	27.1	27.0	24.9	24.9
3. Female member aged 65 (current life expectancy)	25.5	25.4	23.8	23.8
4. Female member aged 45 (life expectancy at 65)	28.4	28.3	26.7	26.7

Defined benefit obligation analysed by participant status

	HIE		LGPF		HIE		LGPF	
	2017		2017		2016		2016	
	%	£000	%	£000	%	£000	%	£000
Active members	38.6%	55,368	61.0%	13,749	33.0%	37,422	61.1%	10,934
Vested deferred members	23.9%	34,282	23.3%	5,252	22.0%	24,948	21.2%	3,784
Retired members	37.5%	53,791	15.7%	3,528	45.0%	51,030	17.7%	3,172
		<u>143,441</u>		<u>22,529</u>		<u>113,400</u>		<u>17,890</u>

Sensitivity Analysis

	HIE		LGPF	
	2017		2017	
	%	£000	%	£000
0.5% decrease in real discount rate	11.0%	15,804	13.2%	3,092
1 Year increase in member life expectancy	4.0%	5,738	4.0%	934
0.5% increase in the salary increase rate	1.1%	1,507	4.5%	1,054
0.5% increase in pension increase rate	8.6%	12,364	8.4%	1,955

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	LGPF
	Years	Years
Weighted average duration of defined benefit obligation	20.9	22.6

18. Net Cash Flow From Operating Activities

	Note	GROUP		HIE	
		2017 £000	2016 £000	2017 £000	2016 £000
Deficit on operating activities		67,794	68,020	68,151	67,952
Interest received	6	(124)	65	(123)	65
Dividends received	6	-	-	-	-
Share of related company results	10	90	27	-	-
Gain/loss on financial assets at fair value	3	-	9	-	9
Profit of sale of assets	3	299	1,257	119	1,261
Interest payable	7	7	-	7	-
Net cash outflow from operating activities		68,066	69,378	68,154	69,287

19. Commitments

	GROUP		HIE	
	2017 £000	2016 £000	2017 £000	2016 £000
Commitments				
Property	17,635	12,729	17,635	12,729
Grants and loans	62,548	73,384	58,899	73,329

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.

20. Financial Commitments

Highlands & 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 £000	Equipment £000	Total £000	2016 £000
Obligations under Operating and similar leases:				
Within one year	912	3	915	1,042
Within two to five years	3,285	-	3,285	3,452
In over five years	945	-	945	1,689
	5,142	3	5,145	6,183

HIE

	Property £000	Equipment £000	Total £000	2016 £000
Obligations under Operating and similar leases:				
Within one year	912	3	915	1,042
Within two to five years	3,285	-	3,285	3,452
In over five years	945	-	945	1,689
	5,142	3	5,145	6,183

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 2017 is £3,124k (2016 £3,777k).

Highlands & 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 £000	Equipment £000	Total £000	2016 £000
Receivable under Operating and similar leases:				
Within one year	3,827	70	3,897	3,838
Within two to five years	12,678	210	12,888	12,631
In over five years	7,545	-	7,545	9,963
	24,050	280	24,330	26,432

HIE

	Property £000	Equipment £000	Total £000	2016 £000
Receivable under Operating and similar leases:				
Within one year	3,827	70	3,897	3,838
Within two to five years	12,678	210	12,888	12,631
In over five years	7,545	-	7,545	9,963
	24,050	280	24,330	26,432

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

Future minimum payments due under non-cancellable finance leases:

GROUP

	Property £000	Plant & Equipment £000	Total £000	2016 £000
Obligations under Finance and similar leases:				
Within one year	259	1	260	263
Within two to five years	1,037	-	1,037	1,037
In over five years	6,641	-	6,641	6,900
	7,937	1	7,938	8,200
Finance charges allocated to future periods	-	-	-	(1)
	7,937	1	7,938	8,199
Present Value of minimum lease payments				
Within one year	259	1	260	262
Within two to five years	1,037	-	1,037	1,037
In over five years	6,641	-	6,641	6,900
	7,937	1	7,938	8,199

HIE

	Property £000	Plant & Equipment £000	Total £000	2016 £000
Obligations under Finance and similar leases:				
Within one year	259	1	260	263
Within two to five years	1,037	-	1,037	1,037
In over five years	6,641	-	6,641	6,900
	7,937	1	7,938	8,200
Finance charges allocated to future periods	-	-	-	(1)
	7,937	1	7,938	8,199
Present Value of minimum lease payments				
Within one year	259	1	260	262
Within two to five years	1,037	-	1,037	1,037
In over five years	6,641	-	6,641	6,900
	7,937	1	7,938	8,199

21. Transactions involving Board members' and Directors registered interests

During the year the following transactions were made by Highlands & 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
Orkney Housing Association	-	(900)	(900)	Housing seminar costs	C Spence - Director
Aros (Isle of Skye) Ltd	111,056	(108,186)	2,870	Graduate Placement Grant	D MacDonald - Managing Director
MG Alba	-	72,100	12,084	Gaelic project grant	I MacTaggart - Director
Harper Macleod	-	9,290	9,290	Legal fees with a framework agreement	L Crerar - Member
Commsworld Ltd	-	1,433	1,433	Call & Service charges	S Thompson - Non Executive director
Hebridean Sea Salt	27,543	266,325	-	Project grant	S Thomson - Board Member
Forestry Commission	-	420	420	Share of Handsets & Server Room	A Bryan - Board Member
Crown Estate Scotland	-	16,128	16,128	Development Grant and Tourism Report	A Bryan - Board Member
Inverness College UHI	-	19,477	19,477	Invoices and Grants relating to collaborative projects	A Bryan - Lecturer
Scottish Water	-	10,336	10,336	Water Rates	B Oldfield - Employee
Law School, University of Glasgow	-	17,910	17,910	Research	L Crerar - Professor
Crerar Hotels	-	8,761	8,761	Accommodation and room hire	P Crerar - Chief Executive Officer

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:

Aigas Community Forest
Catapult ORE
Comunn na Gaidhlig
Gaeltec Devices
HIE Ventures Limited
Highland Print Studio
Investors in People Scotland
Isle of Eigg Heritage Trust
MacTV
Mull & Iona Community Enterprise
Orkney Islands Council
Sabhal Mor Ostaig
Scottish Aquaculture Innovation Centre Board
Social Investment Scotland
SSE plc
Staffin Community Trust
University of Highlands & Islands
Wave Energy Scotland Limited

22. 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:

Aberdeenshire Council
Argyll & Bute Council
Audit Scotland
British Library
City of Glasgow Council

Comhairle Nan Eilean Siar
Companies House
Forestry Commission
Her Majesty's Customs & Revenue
NHS Highland
North Ayrshire Council
Orkney Islands Council
Scottish Canals
Scottish Natural Heritage
Scottish Enterprise
Scottish Environment Protection Agency
Scottish Water
Shetland Island Council
Skills Development Scotland
The Highland Council
The Moray Council
Visit Scotland
West Dunbartonshire 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 21.

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 £7K (2016: £6K) employers national insurance contributions and Nil (2016 Nil) employer pension contributions.

23. 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 & Island 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 & 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 & 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 by the use of the annual business plan process and the monitoring of actual performance against budgets and forecasts.

The table below details the contractual maturities of financial liabilities.

2017

Group	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	12,706	12,706	12,706	-
	12,706	12,706	12,706	-

HIE				
	Carrying Amount	Contractual	Within one year	After more than
	£000	Cashflows	£000	one year
		£000		£000
Financial Liabilities				
Trade and other payables	12,191	12,191	12,191	-
	12,191	12,191	12,191	-

**2016
Group**

	Carrying Amount	Contractual	Within one year	After more than
	£000	Cashflows	£000	one year
		£000		£000
Financial Liabilities				
Trade and other payables	13,534	13,534	13,534	-
	13,534	13,534	13,534	-

HIE

	Carrying Amount	Contractual	Within one year	After more than
	£000	Cashflows	£000	one year
		£000		£000
Financial Liabilities				
Trade and other payables	12,647	12,647	12,647	-
	12,647	12,647	12,647	-

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2017 (2016: £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' exposure 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	
	2017	2016
	£000	£000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	613	253
Preference shares	-	51
Loans and other receivables	2,777	2,731
Financial assets		
Trade and other receivables	7,617	7,753
Cash and cash equivalents	4,817	7,347
	15,824	18,135

HIE	Carrying Amount	
	2017	2016
	£000	£000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	975	615
Preference shares	-	51
Loans and other receivables	2,750	2,645
Financial assets		
Trade and other receivables	7,488	7,614
Cash and cash equivalents	2,930	4,748
	14,143	15,673

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

Group	Gross		Impairment	
	2017	2017	2016	2016
	£000	£000	£000	£000
Not past due	7,224	-	7,282	-
Past due 0 to 30 days	192	(40)	324	(14)
Past due more than 31 days	834	(593)	832	(671)
	8,250	(633)	8,438	(685)

HIE	Gross		Impairment	
	2017	2017	2016	2016
	£000	£000	£000	£000
Not past due	7,095	-	7,133	-
Past due 0 to 30 days	192	(40)	324	(14)
Past due more than 31 days	834	(593)	832	(661)
	8,121	(633)	8,289	(675)

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	
	2017	2016
	£000	£000
Fixed rate instruments		
Financial assets	2,777	2,782
Financial liabilities	-	-
	2,777	2,782
Variable rate instruments		
Cash and cash equivalents	4,817	7,347
	4,817	7,347
HIE		
	2017	2016
	£000	£000
Fixed rate instruments		
Financial assets	2,750	2,696
Financial liabilities	-	-
	2,750	2,696
Variable rate instruments		
Cash and cash equivalents	2,930	4,748
	2,930	4,748

In assessing the sensitivity of financial instruments Highlands & 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	100 basis points
	change	change
	£000	£000
Cash and cash equivalents		
31 March 2016	65	50
31 March 2017	61	38

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	
	2017	2017	2016	2016
	£000	£000	£000	£000
Available for sale unlisted equity shares	613	613	253	253
Preference shares	-	-	51	51
Loans and other receivables	2,777	2,777	2,731	2,731
Trade and other receivables	7,617	7,617	7,753	7,753
Cash and cash equivalents	4,817	4,817	7,347	7,347
Trade and other payables	(12,706)	(12,706)	(13,534)	(13,534)
Taxation recoverable	581	581	693	693
	3,699	3,699	5,294	5,294

HIE	Carrying Amount		Fair Value	
	2017	2017	2016	2016
	£000	£000	£000	£000
Available for sale unlisted equity shares	975	975	615	615
Preference shares	-	-	51	51
Loans and other receivables	2,750	2,750	2,645	2,645
Trade and other receivables	7,488	7,488	7,614	7,614
Cash and cash equivalents	2,930	2,930	4,748	4,748
Trade and other payables	(12,191)	(12,191)	(12,647)	(12,647)
Taxation recoverable	579	579	682	682
	2,531	2,531	3,708	3,708

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	2017 £000	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
Recurring Measurements					
Available for sale unlisted equity shares	613	-	-	613	325
Non-recurring Measurements					
Property classified as held-for-resale	813	-	813	-	-
Plant & Equipment classified as held-for-resale	-	-	-	-	-

HIE	2017 £000	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
Recurring Measurements					
Available for sale unlisted equity shares	975	-	-	975	325
Non-recurring Measurements					
Property classified as held-for-resale	813	-	813	-	-
Plant & 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	253	615
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	40	40
Disposals	-	-
Fair Value Adjustment	(5)	(5)
Total Gains or Losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	325	325
Closing Balance	613	975

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

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£211k	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

24. Prior Year Adjustment

This note explains how changes in accounting assumptions have affected the reported financial position, financial performance and cash flows of the group and Highlands and Islands Enterprise.

	Audited Accounts £'000	Financial Assets £'000	Amortised cost £'000	Restated Balance £'000
2015/16 Group Statement of Comprehensive Net Expenditure				
Other management expenditure	6,176		(66)	6,110
Net Expenditure	69,419		(66)	69,353
Group Statement Of Financial Position at 31 March 2015				
Financial Assets	2,754	500	(213)	3,041
General reserve	(51,133)	(500)	213	(51,420)
Group Statement Of Financial Position at 31 March 2016				
Financial Assets	1,904	500	(147)	2,257
General reserve	(48,180)	(500)	147	(48,533)

Financial Assets

The 2015/16 figures have been restated following the identification of a repayable grant. Following a review of the terms of the repayable grant, we have reclassified the repayable grant as a loan

Amortised cost

The 2015/16 amortised cost movement has been restated following the reclassification of a repayable grant to a Loan and a correction of the amortised cost movement on loans issued with an interest rate below the Scottish Government discount rate. The amortised cost movement has been updated to reflect the reclassification and correction

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 (FRM) 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 & 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 & 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 & Islands Enterprise:
 - Total number of companies involved
 - Total amount invested
 - Total amount of loans given
 - Total amount of any other commitments