

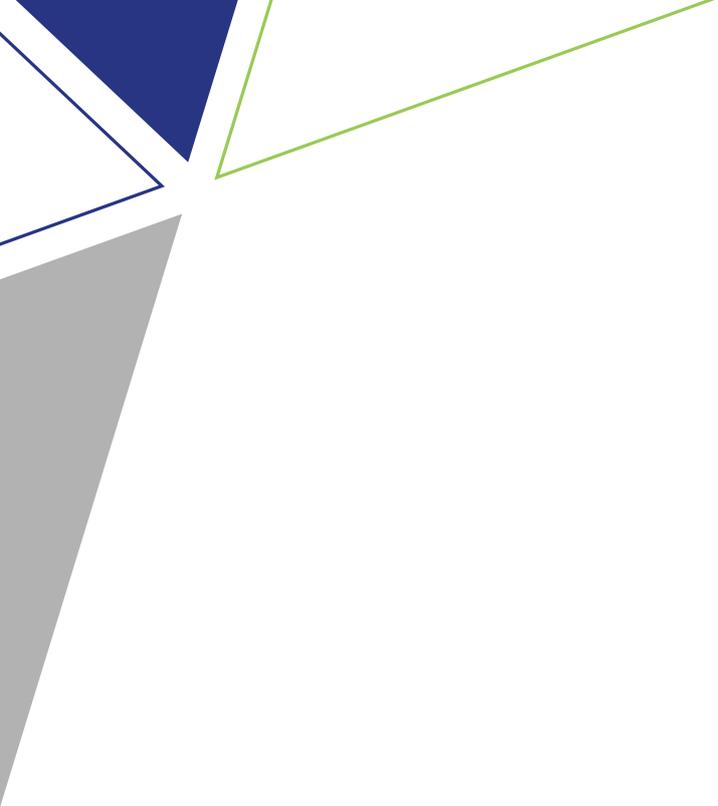
HIGHLANDS AND ISLANDS ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

2021/22



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean



ENTERPRISE AND NEW TOWNS (SCOTLAND) ACT 1990

Accounts of Highlands and Islands Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, for the year ended 31 March 2022 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.



Performance report

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Against a background of considerable economic disruption and uncertainty during 2021/22, we are pleased to be able to report a positive performance by HIE and the many enterprises that we supported.

In the face of a unique and severe set of challenges, including the ongoing Covid-19 pandemic, changes triggered by the UK's exit from the European Union, and, latterly, Russia's invasion of Ukraine, the region's businesses, social enterprises, communities and other organisations demonstrated both resilience and ambition. These qualities ensured strong outcomes in 2021/22 (as shown on p15) and will be vital to drive recovery and growth in the years ahead.

Investment and other support from Highlands and Islands Enterprise teams across the region, enabled the creation and retention of almost 1,500 jobs, including 138 in fragile areas and over 80 green jobs. Companies that we supported expect to increase their turnover in the next three years by more than £620m and grow international sales by over £280m.

These figures were boosted by one notably large case, the Scottish Salmon Company (now Bakka Frost Scotland) research and development project at Kishorn in Wester Ross. However, even if its impacts were excluded, the out-turns are extremely encouraging and above target levels.

Our role in supporting companies and communities that were particularly hard-hit by the pandemic during the past two years had the effect of broadening the range and volume of applications for HIE support. That has given us an opportunity to refocus our approach to service delivery and build new relationships between our eight area teams and a greater number of local customers. Extending our reach in this way is already proving valuable and will be a continuing theme in the coming years.

During 2021/22, we invested £32.7m in more than 900 client-led projects located in every part of the Highlands and Islands. Our contribution leveraged a total investment of £156m – meaning every £1 of HIE funding in these projects was matched by almost a further £4 from other sources.

There were setbacks, of course. At Cairngorm, our programme of engineering works to strengthen the viaduct of the funicular railway was affected negatively by multiple factors, including severe weather, Covid impacts and technical challenges. As a result, the timetable to complete these works was extended to autumn 2022, with the aim of bringing the funicular back into operation during the 2022/23 winter season, a year later than had been planned.

There was disappointment also at Machrihanish in Argyll, following the collapse into administration of wind tower manufacturer CS Wind (UK) Ltd. The extensive former airbase site that was previously occupied by the firm is now back in HIE's control and we are actively exploring options to attract investment that will bring it back into productive use, supporting local jobs and the wider economy in Kintyre.

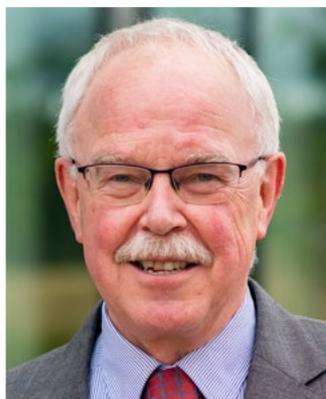
Towards the end of the financial year, in March 2022, the Scottish Government launched the new *National Strategy for Economic Transformation*, setting the direction for HIE and our partners in economic development for the next 10 years. Our next strategy and operating plans will be developed to align fully with national priorities.



Inverness Campus

From our regular face-to-face engagement and survey work with local stakeholders throughout the Highlands and Islands, it is clear that the most pressing issues affecting our economy are similar in every area and require co-ordinated action by multiple organisations. Wherever we go, we hear people expressing the same key concerns: availability of housing; broadband and mobile connectivity, and transport infrastructure and services, including ferries. Each is an essential building block of our economy and we are working with the Scottish Government and our partners to address them.

This year also saw us strengthening our focus on actions to attain net zero greenhouse gas emissions, not only for our clients, but in projects at our own hand and in the way HIE manages its own business operations. We participated in the COP 26 summit in Glasgow and introduced a range of measures to monitor our performance in areas such as green job creation and green capital investment.



A handwritten signature in blue ink, appearing to read 'Alistair Dodds'.

ALISTAIR DODDS CBE
Chair

Net zero is going to remain an important theme, cutting across all areas of our activity in the years ahead. At the same time, we are supporting the Scottish Government's *Fair Work First* agenda, including bringing new conditions for HIE support into effect from 1 April 2022.

In closing, we wish to express our sincere gratitude to Charlotte Wright, who served as HIE chief executive until June 2021, and to Carroll Buxton, who took on the role of Interim Chief Executive from June to December 2021. Both made a significant contribution to the strong performance that is recorded in this report.



A handwritten signature in blue ink, appearing to read 'Stuart Black'.

STUART BLACK
Chief Executive

Mu choinneamh cùl-raon de throimh-chèile agus de mhì-chinnt eaconamach nach bu bheag rè 2021/22, tha sinn toilichte a bhith comasach aithris a dhèanamh air deagh choileanadh le HIE agus an iomadh iomairt ris an tug sinn taic.

An lùib àireamh de dhùbhlain chruaidh agus gun choimeas, a' gabhail a-steach galar-sgaoilte leantainneach Covid-19, thaisbean atharrachaidhean air am piobrachadh leis an RA a' fàgail an Aonaidh Eòrpaich agus às dèidh sin ionnsaigh na Ruis air an Ucràin, gnothachasan, iomairtean sòisealta, coimhearsnachdan agus buidhnean eile an àite, an dà chuid fulangas agus àrd-amas. Chinnich na càileachdan sin toraidhean làidir ann an 2021/22 (mar a chithear air d15) agus bidh iad deatamach airson ath-shlànachadh agus fàs a stiùireadh air adhart sna bliadhnaichean ri teachd.

Rinn tasgadh agus taic eile bho sgiobaidhean iomairt na Gàidhealtachd 's nan Eilean air feadh na sgìre, comasach do ar luchd-dèiligidh taic faotainn ann an cruthachadh agus gleidheadh air suas ri 1,500 obair, a' gabhail a-steach 138 ann an sgìrean cugallach agus còrr air 80 obair uaine. Tha companaidhean don tug sinn taic, a' sùileachadh gun tionndaidh iad meudachadh sna trì bliadhna ri teachd gu còrr air £620m agus reic eadar-nàiseanta fhàs gu còrr air £280m.

Fhuair na figearan cuideachadh bho aon chùis glè mhòr, agus b' e sin Companaidh Bhradain na h-Alba (a-nis Bakkafrost Alba), pròiseact rannsachaidh is leasachaidh ann an Ciseorn ann an Taobh Siar Rois. Ach, fiù ged a chuirte na buaidhean sin gu aon taobh, tha na fìor-phrìsean glè mhisneachail agus os cionn ìrean targaididh.

Thug buaidh ar n-obair ann an cur taic ri companaidhean agus coimhearsnachdan a bha gu h-àraid fo bhuidhean chruaidh a' ghalair-sgaoilte rè na dà bhliadhna a dh'fhalbh, air raon agus meudachd thagraidhean airson taic bho HIE a leudachadh. Tha sin air cothrom a thoirt dhuinn ar modh-obrach a thaobh lìbhrigeadh seirbheis ath-chuimseachadh agus dàimhean ùra

a thogail eadar ar n-ochd sgiobaidhean sgìreil agus àireamh nas motha de ar luchd-dèiligidh ionadail. Tha leudachadh air ar ruginneachd san dòigh seo a' dearbhadh luachmhor mar-thà agus bidh e na chuspair leantainneach sna bliadhnaichean ri teachd.

Rè 2021/22, thaisg sinn £32.7m ann an còrr air 900 pròiseact air an stiùireadh le luchd-dèiligidh anns gach pàirt den Ghàidhealtachd 's na h-Eileanan. Bhrosnaich an tabhartas againne inbheisteadh iomlan de £156m – a' ciallachadh gun robh gach £1 de mhaoineachadh HIE sna pròiseactan sin air am maidseadh le faisg air £4 bho thùsan eile.

Bha duilgheadasan ann a bhith a' strìth risge-tà. Sa Mhonadh Ruadh, chaidh buaidh àicheil a thoirt air ar prògram de dh'obair innleadaireachd air drochaid na rèile-bruthaich mar thoradh air dhiofar adhbharan, a' gabhail a-steach fìor dhroch aimsir, buaidhean Covid agus dùbhlain teicnigeach. Mar thoradh air sin, chaidh an clàr-ama a thaobh nan obraichean sin a chrìochnachadh, a leudachadh gu am foghar 2022, le amas air an rèile-bruthaich a thoirt air ais a-steach gu bhith ag obair rè seusan a' gheamhraidh ann an 2022/23, bliadhna nas fhaide na bha air a phlanadh.

Bha briseadh-dùilcuideachd ann am Machaire Shanais ann an Earra-Ghàidheal cuideachd, a' leantainn air tuiteam ann an rianachd air companaidh saothrachaidh nan túran gaoithe, CS Wind (UK) Earranta. Tha an làrach armailteach adhair air an robh an companaidh suidhichte, a-nis air ais fo smachd HIE agus tha sinn gu gnìomhach a' rannsachadh roghainnean air inbheistidhean a tharraing a bheir air ais e gu cleachdadh tarbhach, a' cur taic ri obraichean ionadail agus ris an eaconamaidh fharsaing ann an Cinn Tìre.

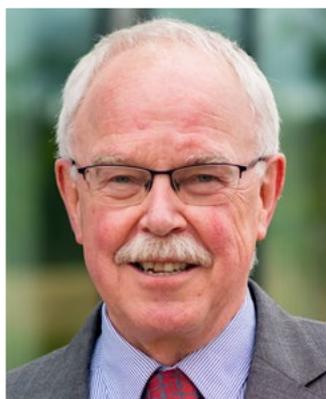


Làrach Inbhir Nis

Dh'fhuirich com-pàirteachas aig cridhe ar modh-obrach, a' gabhail a-steach com-pàirteachadh gnìomhach ann am Bòrd Ro-innleachdail Iomairt is Sgìlean, Còmh-dhail na Gàidhealtachd 's nan Eilean, a choinnich airson a' chiad uair san Dùbhlachd 2021. Dh'obraich sinn gu dlùth cuideachd le ùghdarrasan ionadail agus càch gus na builean bho na diofar aontaidhean fàis sgìreil, a mheudachadh air feadh na roinne.

A dh'ionnsaigh deireadh na bliadhna ionmhasail sa Mhàrt 2022, dh'fhoillsich Riaghaltas na h-Alba an *Ro-innleachd Nàiseanta do Chruth-atharrachadh Eaconamach*, a suidheachadh na slighe do HIE agus ar com-pàirtichean ann an leasachadh eaconamach thar nan 10 bliadhna ri teachd. Bidh an ath-ro-innleachd agus planaichean obrachaidh againn air an leasachadh gus co-thaobhadh gu h-iomlan le prìomhachasan nàiseanta.

Bho ar conaltradhean cunbhalach aghaidh-ri-aghaidh agus ar n-obair shuirbhidh le luchd-ùidhe ionadail air feadh na Gàidhealtachd 's nan Eilean, tha e soilleir gu bheil na cùisean as motha a tha a' toirt buaidh air an eaconamaidh againn, co-ionann anns gach sgìre agus ag iarraidh gnìomh cho-òrdanaichte le mòran bhuidhnean. Ge 'r bith càite an tèid sinn, cluinnidh sinn daoine a' nochdadh nan aon phrìomh dhraghan: faotainneachd taigheadais, bann-leathann agus co-cheangailteachd fòn-làimhe agus bun-structar is seirbheisean còmh-dhail, a' gabhail a-steach aiseagan. Tha gach aon dhiubh nan ceap-togail deatamach den eaconamaidh againn agus tha sinn ag obair le Riaghaltas na h-Alba agus ar com-pàirtichean gus dèiligeadh leotha.



ALASDAIR DODDS CBE
Cathraiche



STIÙBHART MACILDHUIBH
Àrd-Oifigear

Am-bliadhna, neartaich sinn ar cuimse air gnìomhan a thaobh sgaoilidhean gas taigh-glainne neoini-lom a ruighinn, chan ann a-mhàin le ar luchd-dèiligidh ach le ar pròiseactan fhìn agus san dòigh a tha HIE a' stiùireadh ar n-obraichean fhìn. Chom-pàirtich sinn ann an àrd-choinneamh COP 26 ann an Glaschu agus chuir sinn an aithne raon de cheumannan gus ar gnìomhadh a thomhas ann an raointean leithid cruthachadh obraichean uaine agus inbheisteadh calpa uaine.

Tha neoini lom gu bhith a' fuireach na chuspair cudromach, a' gearradh tarsainn gach raon de ar gnìomhadh sna bliadhnaichean ri teachd. Aig an aon àm, tha sinn a' cur taic ri clàr-obrach *Obair Chothromach an Toiseach* aig Riaghaltas na h-Alba, a' gabhail a-steach tarraing chùmh-nantan ùra airson taic HIE gu bhith an gnìomh bho 1 Giblean 2022.

San dealachadh, tha sinn airson ar buidheachas dùrachdach a nochdadh do Charlotte Wright, a bha a' frithealadh mar Àrd-Oifigear HIE gus an Ògmhios 2021, agus do Carroll Buxton, a ghabh oirre dleastanas Àrd-Oifigear Eadar-amail bhon Ògmhios gu Dùbhlachd 2021. Chuir an dithis gu mòr ris a' ghnìomhadh làidir a tha clàraichte san aithisg seo.



OVERVIEW

History and statutory background

Highlands and Islands Enterprise (HIE) is a non-departmental public body of the Scottish Government, established by the Enterprise and New Towns (Scotland) Act 1990.

HIE acts as a public agency with a statutory duty to undertake economic and social development across the Highlands and Islands of Scotland.

OUR VISION

The Highlands and Islands is a prosperous, inclusive and sustainable region attracting more people to live, work, study, invest and visit.

OUR STRATEGIC PRIORITIES

HIE's delivery is focused on three strategic priorities:

ENABLE strong, capable and resourceful communities

BUILD successful, productive and resilient businesses

CREATE the conditions for growth and a green recovery

In addition, the agency acts as a strong advocate for the Highlands and Islands, aiming to ensure the region's needs are clearly understood, and opportunities are promoted and optimised, especially those arising from our unique natural assets.

Our strategy is online at www.hie.co.uk/strategy

NATIONAL INITIATIVES

We also operate across all of Scotland to deliver two national strategic initiatives.

- **Wave Energy Scotland**, a subsidiary of HIE, runs the world's largest wave technology innovation programme and is fully funded by the Scottish Government.
- **The Scottish Land Fund**, managed in partnership by the National Lottery Community Fund and HIE, provides grants to enable communities throughout Scotland to derive benefits from owning and developing land, property and other assets (See p21).

Official launch of the Science Skills Academy's Newton Room in Dingwall, with Kate Forbes MSP, Cabinet Secretary for Finance and Business (centre).



BUSINESS MODEL AND ENVIRONMENT

The HIE Board oversees the work of the organisation, reporting to the Cabinet Secretary for Finance and the Economy. We work collaboratively with the Scottish Government and partner organisations to align strategies and resources with effective delivery of the National Strategy for Economic Transformation.

Under the guidance of our Chief Executive and Leadership team, HIE's activities are delivered through seven directorates:

Communities and place includes place-based development, infrastructure, population, university engagement and regional approach to net zero.

Enterprise support encompasses support to and engagement with all our clients, delivered through area and sector teams, inward investment, international trade, and innovation.

Strategic projects directs and delivers HIE support to manage and realise benefits from significant and complex projects.

Strategy and regional economy holds responsibility for performance measurement and analytics, planning, EU and transition funding, marketing, communications and engagement.

Finance and corporate services is responsible for strategic financial management, financial services, information governance, procurement and IT systems.

Business improvement and internal audit focuses on business improvement within HIE, ensuring that innovation, corporate governance and value for money are at the heart of our operations and decision-making.

Human resources oversees the resourcing, management, performance and development of staff to support HIE's objectives and values.

OUR VALUES

HIE employees are passionate about HIE's purpose and proud to make a difference to the region we serve.

- We are outward-looking and think long-term
- We are customer-focused
- We work together and learn from each other
- We are committed to excellence and innovation
- We encourage diversity and respect each other
- We network and collaborate - inside and out
- We listen and communicate clearly

COLLABORATION

Effective partnership working is a key principle of HIE's approach and will be essential to achieve the ambitions set out in the National Strategy for Economic Transformation (NSET).

Throughout 2021/22, we worked with Scottish Enterprise, South of Scotland Enterprise and Skills Development Scotland to inform and deliver the aims of the Enterprise and Skills Strategic Board, which has since transitioned to the NSET Delivery Board.

Other key partners for HIE in the public sector include the Scottish Funding Council, VisitScotland, local authorities and Business Gateway. We play a significant role in the national Business Support Partnership, the Convention of the Highlands and Islands, the new Regional Economic Partnership, and in the design and delivery of community planning partnerships and growth deals in all seven local authority areas in the Highlands and Islands.

PRINCIPAL RISKS AND UNCERTAINTIES

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

All internal and external risks in the corporate risk register are actively managed at the appropriate level in the organisation. The notes below highlight a number of specific risks included in our corporate register at the end of 2021/22.

More information on our approach to risk management is in the Governance Statement on p49.

Cairngorm

Throughout the year, we progressed a series of related actions at Cairngorm which presented financial, operational and reputational risk. These included a highly complex programme of engineering works to reinstate the Cairngorm funicular railway; legal action relating to the original construction and design of the funicular and to guarantees provided by the previous operating company and its majority shareholder, and our goal to ensure Cairngorm generates long-term economic benefits.

We applied robust governance and project management measures, undertook engagement with stakeholders including the Cairngorm Advisory Group worked closely with operating company Cairngorm Mountain (Scotland) Ltd and the Scottish Government, including budget discussions.

Regular updates were delivered to the HIE Board and its Cairngorm sub-group, HIE's Leadership Team, Scottish Government and Audit Scotland.

Ukraine conflict / sanctions

Following Russia's invasion of Ukraine in February 2022, we added a risk to reflect the potential negative impact on our regional economy. The main factors identified were sectoral challenges, particularly in food and drink; global supply chains, financial, cyber security and the need to align provision of HIE support with national sanctions.

We set up an internal task group and worked with partners to ensure a consistent, multi-agency approach. We now undertake additional due diligence, including for procurement activity.

Volatility in external business environment

While this risk was already in place as a result of impacts arising from Covid-19 and Brexit, the situation was exacerbated towards the end of 2021/22 by the war in Ukraine. We recognised that the recovery and growth of several key sectors was threatened, including tourism, food and drink, and creative industries.

We worked in partnership with government, partner agencies and industry to identify and address issues through measures including financial assistance and enterprise support to businesses and communities, with a focus on innovation.

We also pressed on with plans to introduce fair work criteria as a condition for receiving HIE funding support, recognising that this would contribute to the attractiveness of key sectors and support staff retention.

Regional infrastructure - housing

Although the provision of housing is not part of HIE's remit, we recognise that the lack of suitable and affordable housing has a negative impact on the economy, affecting business growth, job retention and talent attraction in ways that can drive depopulation, particularly in remote rural and island areas.

We worked with other public bodies and stakeholders to identify collective solutions, and supported community-led housing activity. It is expected that this will continue to be a key area of focus.

Financial challenges

Failure to spend within the 2021/22 financial year would have a knock-on effect on our 2022/23 budget, risk both financial and reputational damage for HIE. We also seek to maximise recoveries from claims to the European Regional Development Fund.

We focused on maximising opportunities for development across the region arising from our revenue, capital and financial transactions budgets. Our Finance team held monthly meetings with budget holders and provided updates each week to Leadership Team. Performance reports were also delivered and discussed at each meeting of the HIE Board.

The financial outlook for the Scottish public sector remains very challenging. We continue to work closely with the Scottish Government to secure the best possible budget outcome for HIE, enabling us to support projects across the region.

Information governance, information systems and cyber security

Any failure in systems controls and governance, cyber security requirements or statutory compliance obligations could have significant operational, regulatory and / or reputational impact for HIE.

Oversight was provided through internal controls including our Information Security, Fraud and Governance Group and Digital Change Board, along with regular updates to the Risk and Assurance Committee of the HIE Board.

We implemented policies and procedures to ensure the effectiveness of both information governance and security. We continued to work with our shared services supply partner EIS on security measures, including obtaining Cyber Essentials Plus accreditation.

Delivery environment

HIE's business transformation programme needs to support changes required to our organisational delivery environment. We recognised risks associated with ensuring our culture supports innovative solutions and proportionate delivery, and that our due diligence and delivery approach supports effective resource prioritisation, outcome focus and benefits realisation.

It is important that HIE's transactions and activity comply with the new UK subsidy regime (see below) and that we derive the maximum benefits from our MyHIE digital transaction environment for staff and customers, and from the Business Support Partnership collaboration environment.

We created new assessment and appraisal processes and put in place frameworks for risk appetite, resource prioritisation and intervention. Other measures included workforce planning, our Investment Committee to support strategic decision making, new groups focusing on process change and digital change ensure product and service delivery remain effective and benefit from new digital opportunities.

UK subsidy control environment

Uncertainty over the UK subsidy control scheme following Brexit made it essential for HIE to understand and implement emerging legislation and guidance. We commissioned legal advice to help interpret, adapt and redesign HIE subsidy procedures, and maintained close contact with key partners including the Scottish Government Subsidy Control Team.

We created an action plan and issues log and ensured we were able to adapt our appraisal processes as required. This included preparing to update and publish new terms and conditions and subsidy information, as well as providing training for staff across the organisation.

FUTURE PLANS 1: STRATEGY

We will continue to engage with the Scottish Government to develop and deliver the National Strategy for Economic Transformation (NSET), using regular analysis of regional performance to inform our actions. Details of our approach are set out in our operating plan, published online at www.hie.co.uk/operatingplan

Effective collaboration will remain fundamental to achieving regional progress and tackling key issues that affect all parts of the Highlands and Islands, including housing supply, transport and digital connectivity, and the climate emergency. Long standing local, community, regional, sectoral and national partnerships will be vital to realise NSET delivery commitments.

The creation of the Highlands and Islands Regional Economic Partnership (REP) provides a new springboard and it will prioritise the translation of NSET ambitions into positive actions for the region during the years ahead.

While maintaining commitment to our three priorities (see p8), key areas of focus for HIE during 2022/23 include:

- capitalising on strong new market opportunities in renewable energy, blue economy, space, and natural capital, and transforming more traditional sectors, such as tourism and food and drink, to become more competitive and resilient;
- building on our strong entrepreneurial culture and working with partners to encourage more young people and women to start up their own enterprises;
- supporting our businesses and communities to transition to net zero;
- increasing productivity, innovation, and exports;
- evolving a community wealth-building approach for the region, with our partners;
- supporting social enterprises to create new opportunities;
- extending fair work practices, increasing incomes and tackling rural disadvantage;
- adapting and developing a skilled workforce that can support new market opportunities and meet the needs of existing sectors;

- ensuring appropriate enabling infrastructure and connectivity throughout the region to support growth and community sustainability; and
- stemming population decline and growing our population.

To deliver NSET effectively and efficiently, we will build on our place-based approach, previous investments and strong collaborative relationships with our partners.

The current economic climate will result in some parts of our region and economy continuing to focus on resilience and adapting to challenging conditions. Through client engagement and research, we will aim to better understand and inform future actions to address the challenges they are facing, both to implement solutions and benefit from transition to net zero.

FUTURE PLANS 2: DELIVERY

Our business transformation plan is aligned to best value principles as a single organisation-wide approach, founded on the following themes:

- simplified and streamlined processes that support efficiencies and rigorous decision making and accessibility;
- optimised use of resources using a strong evidence base and considering cost efficiencies, including delivery of our workforce plan and focus on youth;
- continuing to build on the flexibility and opportunities through increased use of data and digital technology;
- ensuring that our product and service offering is fit for purpose and place, ensures added value, aligns with priorities, and maximises partnership opportunities;
- flexing our approach and adjusting our intervention rates and criteria to take account of the place dimension;
- close partnership working and collaboration to ensure more cost-effective services, joined up customer experience, and place-based solutions, and
- greater transparency and continuous improvement based around insights, measurement and evaluation.

We will further develop our net zero approach and commitment, increasing carbon literacy within the organisation, working with partners to evolve carbon measurement and conditionality.

As part of our wider measurement framework, our new net zero ladder will provide an opportunity to position and monitor client progress and guide our actions. Through the ladder we will:

- identify opportunities,
- refine the support we provide, and
- analyse where the greatest impacts are being achieved and where additional resources may be required to support our objectives.

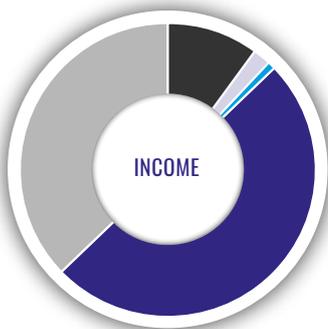
The ladder will be updated annually and analysis of progress from the data, alongside broader green performance measures captured on interventions, will inform our approach to supporting organisations on their journey towards net zero.



PERFORMANCE SUMMARY

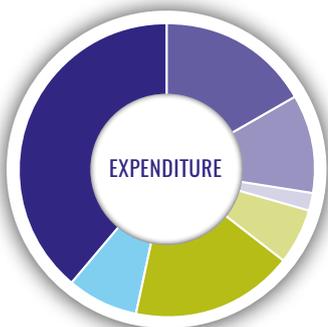
Key out-turns for 2021/22 included:

- We supported 1,487 full-time equivalent (FTE) jobs through HIE investment of grant, loan and equity funding in projects throughout the Highlands and Islands.
- Almost 90% (1,327) of these jobs were newly created, with the remainder being retained. In comparison, the proportion of new jobs in 2020/21, when the pandemic was at its height, was 34%.
- Within the 2021/22 total, 375 jobs offer salaries paying at or above our average wage target of £26,000, and 244 paying over £30,000.
- The number of FTE jobs supported by new and existing inward investors rose substantially to 680.5 FTEs.
- HIE approved £34.65m grant-in-aid (GIA) to support 922 third party projects across the region with a total investment value of £158m (total project costs).
- Substantial increases in turnover were recorded in the technology and advanced engineering sector (£71.2m, excluding Scottish Salmon Company), as well as in tourism (£47.9m), and food and drink (£37m);
- The out-turn for investment in capital assets fell below the top of the target range. However, it was encouraging to see a positive shift towards green investment, particularly within the technology and engineering sectors.
- Our *Net Zero Tourism* fund also encouraged and supported green investment across the region.



- GIA Revenue 37%
- GIA Capital 50%
- GIA Financial Transactions 1%
- EU income 2%
- Other Trading 10%

Total Income £94,637m



- Regional Significant Investments 39%
- Business Support 8%
- Discretionary Spend 18%
- Wave Energy Scotland 6%
- Cairngorm 2%
- Other Expenditure 11%
- Admin 17%

Total Expenditure £92.689m



PERFORMANCE ANALYSIS

Context

The scale and severity of the economic challenges triggered by the Covid-19 pandemic and the UK exiting the EU continued to have a considerable impact on businesses and communities across the Highlands and Islands. Parts of the region's economy proved especially susceptible to the pandemic lockdowns and the Highlands and Islands experienced the greatest fall in GDP of all Scottish regions between 2019 and 2020. By the end of 2021/22, economic impacts from Russia's invasion of Ukraine had clearly started to impact on energy prices and supply chains.

Signs of economic recovery emerged during the year, however, along with increased business confidence. The HIE October 2021 Business Panel survey indicated that, for the first time since June/July 2020, more businesses (44%) were operating in line with their pre-pandemic levels than below (32%) and 82% were optimistic about their prospects. This had fallen slightly by February/March, when rising costs (particularly energy), supply chain and labour market constraints were impacting more heavily.

The vast majority (94%) of businesses in the region are concerned about rising costs, although many are responding innovatively and collaborating to tackle the issues. More businesses have concentrated on domestic markets in the past two years with both Brexit and Covid impacting on international trade. A lack of enabling infrastructure and services, such as housing and transport, also affected economic recovery and growth, and was a focus of both the Regional Economic Partnership and Convention of the Highlands and Islands during the year. Challenges with the reliability and resilience of transport services, particularly ferry links, impacted on business confidence. These constraints have led to some businesses restricting operations and delaying investment plans.

Population figures for 2020 showed declines across the region with a loss in younger population being of particular concern. The updated population estimates for 2021 showed positive annual growth in all areas, although the increase is focused predominantly in older age categories. It is unclear how long pandemic-related effects will impact and the longer-term trajectory in some parts of the region remains concerning.

Given the impact of recent economic shocks, it is important that HIE continues to undertake analysis and research to understand the changing socio-economic picture and ensure we can respond effectively. A good example is research focusing on what is most important to people living in our communities: *My Life in the Highlands and Islands*. Reporting in autumn 2022, this covers areas such as entrepreneurship, housing, net zero, transport, local services and education, as well as attitudes of young people towards staying or moving to the region. Our research and analysis of its findings will help develop our new strategy.

HIE developed a 2021/22 operating plan and targets which reflect the uncertain conditions, with a focus on continuing support to build resilience and capacity in our businesses and communities whilst supporting opportunities for growth and innovation.

OUR APPROACH

HIE'S VISION

The Highlands and Islands is a prosperous, inclusive and sustainable region attracting more people to live, work, study, invest and visit.

OUR FOCUS

We are committed to a green and inclusive recovery that reflects the needs and opportunities of our region, communities and businesses.

- ▶ POPULATION
- ▶ JOBS
- ▶ NET ZERO

OUR PRIORITIES

Enable strong, capable and resourceful communities

Build successful, productive and resilient businesses

Create the conditions for growth and a green recovery

ACTIONS WE WILL DELIVER

- Retain and create jobs and a strong bounce back in hardest hit sectors, as well as island and rural communities where the impacts of Covid-19 and Brexit have been more acute.
- Pursue new employment growth opportunities in our region's evolving sectors, including life sciences, energy, space and marine economy.
- Accelerate progress in the just transition to net zero that provides opportunities for communities and businesses and creates green jobs.
- Providing a strong voice for the Highlands and Islands to ensure its needs and opportunities are clearly understood.
- Support businesses and communities to be resilient, adaptable and innovative and to retain and create new and fairer jobs.
- Build an inclusive and wellbeing economy through place-based approaches and the promotion of fair work.
- Support young people and other impacted groups to contribute to regional growth and build labour market resilience.
- Invest in enabling infrastructure to bolster recovery and retain and attract talent.

MEASURING PROGRESS: KEY OPERATING PLAN TARGETS 2021/22

- 700-800 jobs (FTEs) supported, including green jobs
- 100-120 fragile area jobs (FTEs) supported, including green jobs
- Average wage of jobs supported (FTEs) - £26k
- Increase in turnover - £80-£95m
- Increase in international sales - £30-40m
- Increase in social economy turnover - £3-4m
- New/improved income generating community assets, including green community assets - 30-40
- Capital asset investment, including green investment - £60-80m

DELIVERY WILL BE SUPPORTED BY:

- **Our people** and our values ensure we have the right knowledge, local expertise and approach to deliver our priorities.
- **Investment** focused on disadvantaged areas, islands and our ambitions for green and blue growth.
- Extending our **client base** and improving customer experience through enhanced digital delivery.
- **Collaboration** with local, national and international partners, including the Convention of the Highlands and Islands; Enterprise and Skills agencies; growth deals; industry groups; European and international partnerships.
- Encouraging and embedding **Fair Work** and the transition to **Net Zero** in how and what we deliver.
- **Place-based approach:** area teams across the region; collaboration with community planning partnerships; and growth deal development and delivery.

OPERATING PLAN OUTCOMES 2021/22

2021/22 PERFORMANCE MEASUREMENT FRAMEWORK

HIE applies a comprehensive framework of measures to determine how our support meets the delivery of our priorities, and these align with the National Performance Framework (NPF). HIE delivers across all outcomes in the NPF and most strongly towards those under Economy; Fair Work and Business; Communities; Culture; International; and Environment.

This framework was adapted in 2021/22 to include new green measures to measure our contribution towards net zero, including the number of green jobs supported; value of green capital investment supported, and external green investment secured. No targets for these new measures were set for 2021/22 to pilot their use, however targets have been incorporated for 2022/23. Evolution of our framework will continue through 2022/23 as part of our strategy development and to align with the NSET outcomes framework which is under development.

PRIMARY OUTCOME MEASURE	TARGET RANGE	OUT-TURN	2020-21 OUT-TURN
Increase in business turnover	£80m-95m	£623.9m †	£117.5m
Increase in international sales	£30m-40m	£284.1m †	£19.1m
Increase in turnover in the social economy	£3m-4m	£9.2m	£7.9m
No. of jobs supported (FTEs)	700-800	1,487 (1,327 created, 160 retained)	1865.5 (638.25 created, 1,227.25 retained)
No. of jobs supported in fragile areas (FTEs)	100-120	138 (131 created, 7 retained)	266.5 (131 created, 135.5 retained)
No. of green jobs supported (FTEs)	n/a	82 (76 created, 6 retained)	n/a
No. of green jobs supported in fragile areas (FTEs)	n/a	11 created	n/a
Average wage of jobs supported (FTEs)	£26,000	£26,160	£22,727
Capital asset investment	£60-80m	£76.9m	£120.8m
Green capital asset investment	n/a	£3.2m	n/a
External investment secured	n/a	£32m †	n/a
External green investment secured	n/a	£0.7m	n/a

† Includes out-turn from project with The Scottish Salmon Company: £437.8m increase in turnover; £275.8m Increase in international sales

PERFORMANCE AGAINST OPERATING PLAN OUTPUTS 2021/22



ANALYSIS

Out-turns were particularly positive from an employment perspective. We recorded a significant shift from last year to more job creation than retention, fragile area jobs exceeding the target and a greater sectoral and geographic spread than in 2020/21. This reflects more growth investments in 2021/22, in contrast with our focus on resilience the previous year.

Average wages of jobs supported, at £26,160 pa, were also significantly higher than 2020/21 (£22,727). This reflects the promotion and encouragement of fair work principles, competition in the labour market, and investments securing jobs in higher

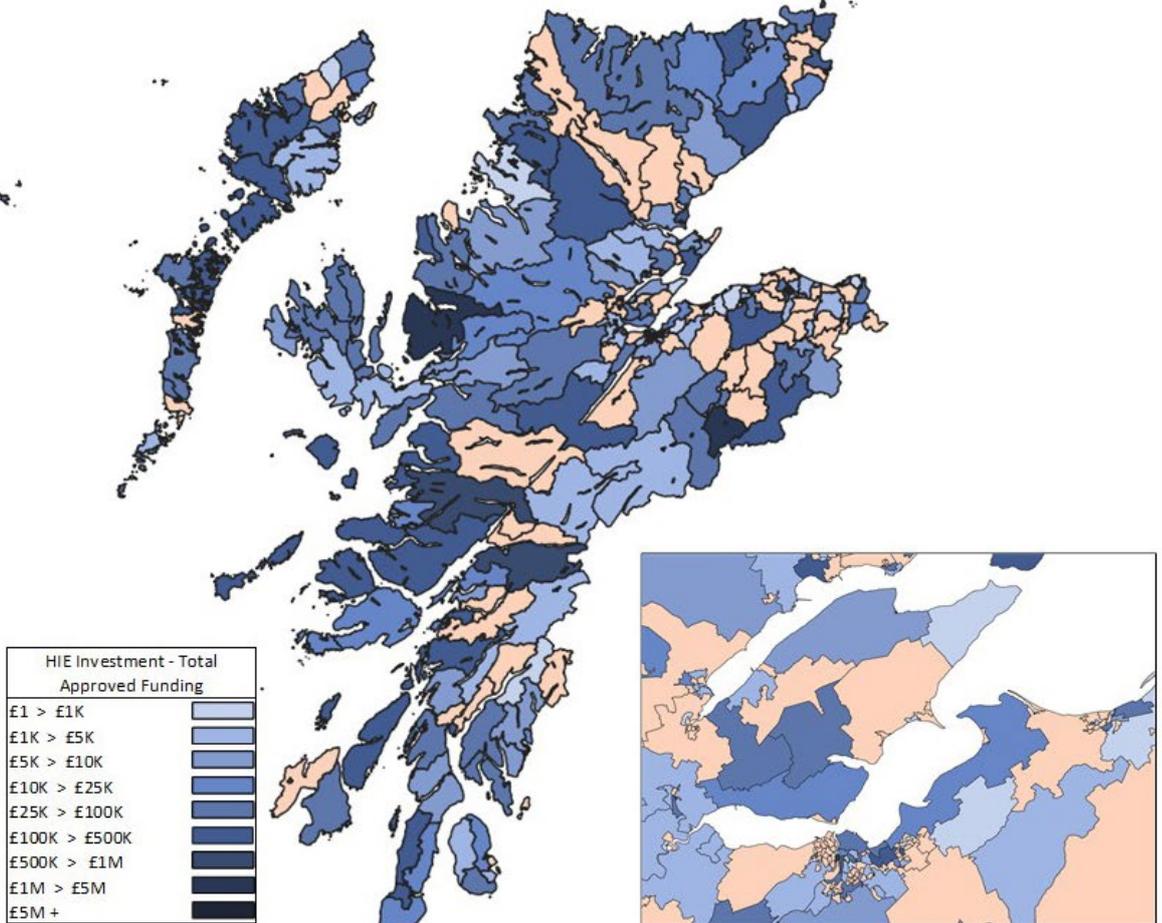
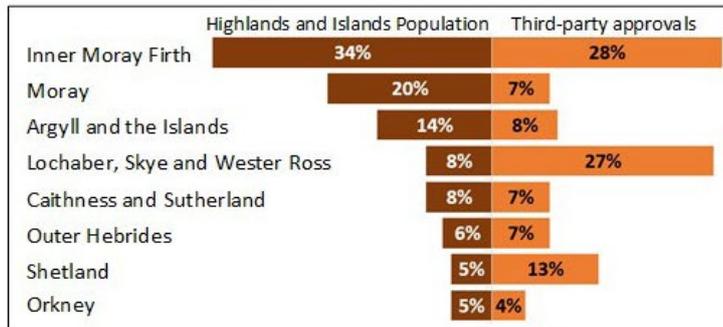
paying sectors such as energy, technology and advanced engineering, and finance and business services. These sectors had the most notable increases in jobs supported on the previous year, positively reflecting the transition to net zero and innovation in digital, technology and manufacturing.

The previous year had a major focus on tourism and hospitality and food and drink, with significant additional Covid funds being targeted to offset the relative impact of lockdowns. Important investments continued to be made in these sectors, including those which supported growth plans, along with an increased focus on fair work, transition to net zero, building capacity, and planning.

DISTRIBUTION OF FUNDING TO THIRD PARTY INVESTORS, BY AREA

Total approved funding in year 2021-22

£36.2M



The geographical spread of investment was positive although some areas found it more challenging to stimulate demand this year. In Argyll and Islands, for example, lack of enabling infrastructure, especially housing, and of labour had an impact. HIE is working with local partners to develop responses to these challenges, including business case development for growth deal investments that focus on increasing opportunities and supporting training in the blue economy, and a rural skills accelerator programme.

INCREASE IN CLIENT TURNOVER, BY ORGANISATION SIZE

Micro

£80m from 126 projects

Small

£62m from 34 projects

Medium

£53m from 12 projects

Large

£438m from The Scottish Salmon Company project

INCREASE IN CLIENT TURNOVER, BY GROWTH SECTOR

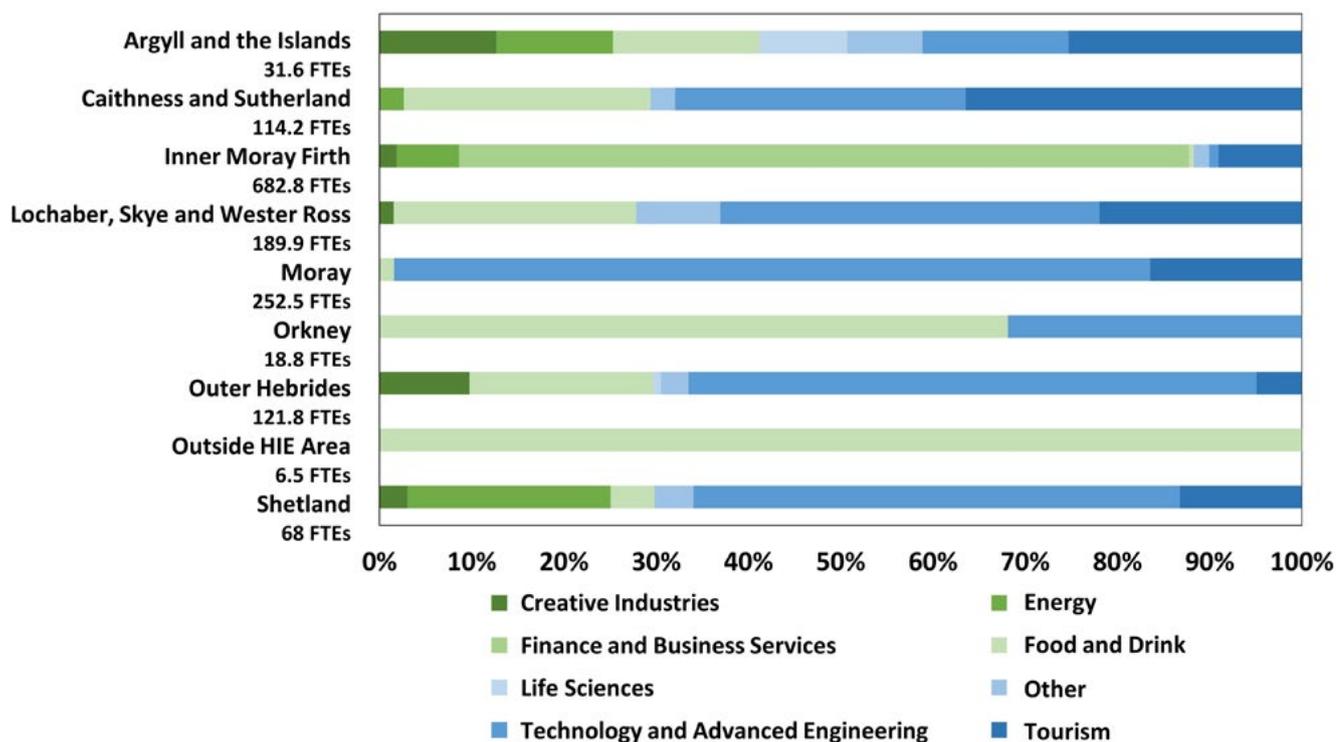


Increase in turnover (cumulative) supported in all clients by growth sector. Figure does not include Scottish Salmon Company project (£438m, Food and Drink sector)

The investment in the Scottish Salmon Company was the most significant contributor to turnover and international sales. Other important contributors were Ashley Ann Ltd (£24.2m) in Caithness, Nevis Range Development Company Limited (£11.2m) in Lochaber, and Wilderness Scotland Ltd (£8.1m) in Aviemore. This last one was an innovation investment to develop one of the world's first carbon labelling schemes for travel.

The target to increase social economy turnover was exceeded and included two social enterprises in Shetland with projects aiding transition to net zero: Fair Isle Bird Observatory (£837k) and Shetland Heatwise (£966k training support for decarbonisation). Export development is still being impacted by the UK's exit from the EU and the pandemic. This has been the case for the past two years and the Business Panel has indicated an increased focus since 2020 on domestic markets. However, the international sales target was met and exceeded due to the Scottish Salmon Company investment.

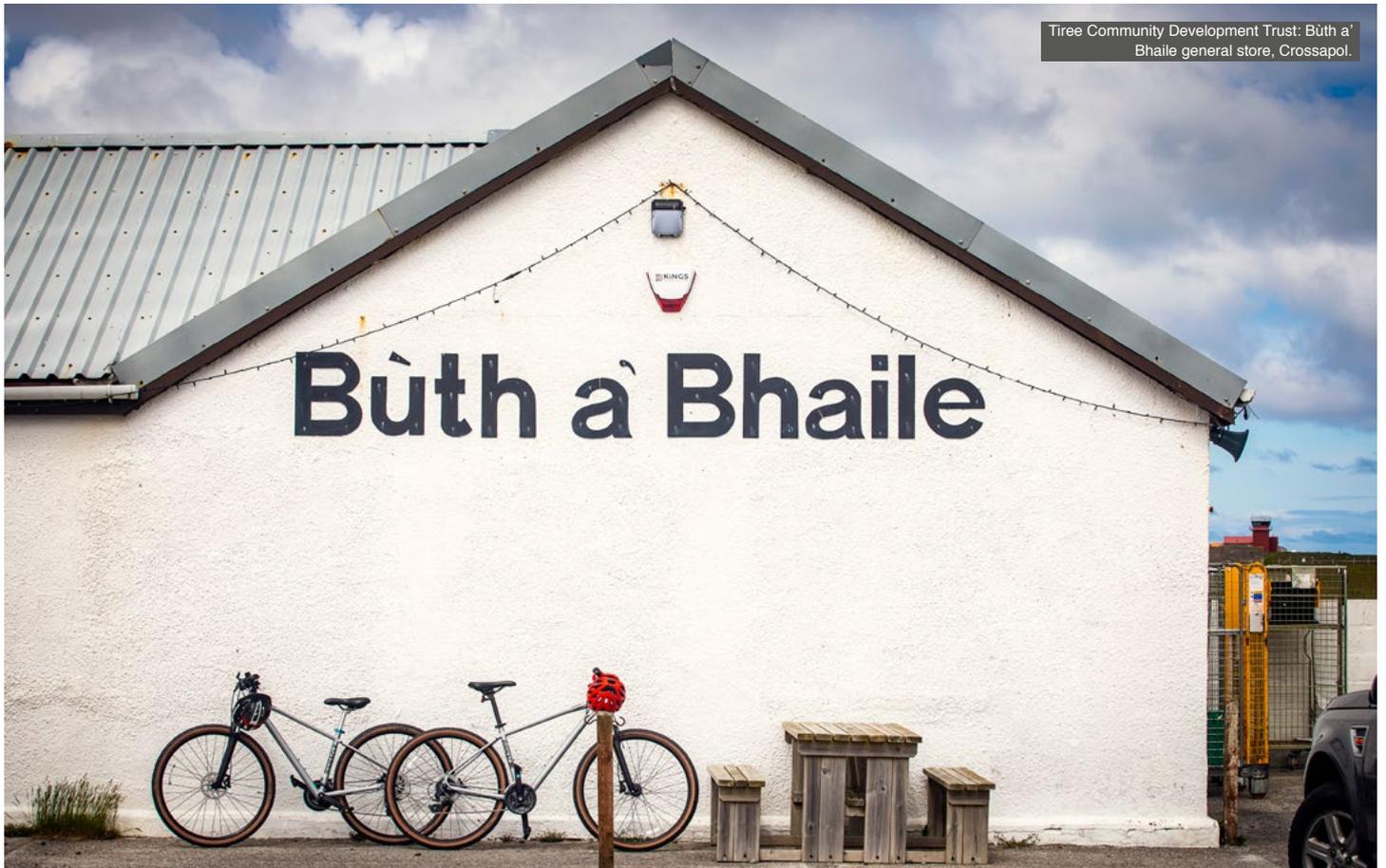
JOBS SUPPORTED BY AREA AND SECTOR



A stretching target was set for capital asset investment, predicting that Covid restrictions would ease and investments could proceed. However, the operating environment remained challenging with increased costs and supply chain issues impacting on the progression of some investments.

The largest contributor, with the exception of Scottish Salmon Company, was the redevelopment of Inverness Castle (The Highland Council) into a significant regional tourism asset as part of the Inverness and Highland City-Region Deal.

Other significant contributors include Ullapool Harbour, Nevis Range, Dundreggan Rewilding Centre and Fair Isle Bird Observatory. The out-turn was at the upper level of the range set and there was a good geographic spread with notable projects in island areas. A number were also green capital assets: those that produce goods or services that benefit the environment or conserve natural resources, or whose use makes their organisation's activities more environmentally friendly or use fewer natural resources.



ENABLE STRONG, CAPABLE AND RESOURCEFUL COMMUNITIES

Our work with communities during 2021/22 focused on three themes in particular: resilience and capacity; community assets, and net zero transition and green recovery.

GREENING COMMUNITY ASSETS

We set up a time-limited fund to assist energy efficiency and heat decarbonisation for community-owned buildings. The fund attracted significant interest and we awarded £636,000 to 54 projects. We worked with the Scottish Government's CARES programme during development and delivery of this fund to ensure full additionality for HIE support.

RESILIENCE AND CAPACITY

HIE supported over 40 community anchor organisations with the costs of employing a delivery resource officer to progress priority projects. The officers have helped deliver a range of actions, including the acquisition and development of community assets and services, to aid the resilience and capacity of the community organisation. This in turn has enhanced these organisations' sustainability and recovery from pandemic impacts.

ISLAND COMMUNITY IMPACT ASSESSMENTS

In line with the Islands (Scotland) Act, HIE considered the applicability of Island Community Impact Assessments (ICIA) during 2021/22. Although no new policies, strategies or services were developed during the year, screening was undertaken for our draft Gaelic Plan, as this is predicated on delivering positive socio-economic outcomes for islands. Consultation on the draft plan and engagement with stakeholders provided additional assurance and concluded that a full ICIA was not required.

OUR GAELIC PLAN

HIE's internal Buidheann Plana Gàidhlig was completed in 2021/22 and submitted to Bòrd na Gàidhlig (BnG) for formal assessment and approval. Key to this plan is our intent to enhance use and benefit of Gaelic in appropriate strands of our place-based working, particularly in some island communities where Gaelic is strongest. We expect a formal response from Bòrd na Gàidhlig before the end of 2022. In the meantime, BnG has confirmed that it is comfortable with HIE progressing our new plan's commitments.

COMMUNITIES LEADING TOURISM

Working with Scottish Enterprise and South of Scotland Enterprise, we delivered two further cohorts of the nationwide Communities Leading Tourism programme in 2021/22. This supported 44 community leaders, 32 of them from the Highlands and Islands. An evaluation will report in 2022/23 to inform the future direction of our approach to community-led tourism.

SCOTTISH LAND FUND

With our partner, the National Lottery Community Fund, we supported 38 acquisition projects (£6.4m) across the country, bringing 340 acres and 20 buildings in 20 local authority areas into community ownership.

We received 179 new enquiries, 143 of which succeeded in being added to the pipeline. With awards ranging from £11k - £792k (£170k average) the trend of a high volume of low value projects continued. Twenty acquisitions (53%) were in the Highlands and Islands.

LAND VALUES

One significant challenge at present is the pace of the rural land market and growth in off-market sales. Significant price rises, fuelled by corporate purchasers and land sales for carbon sequestration, could lead to a greater concentration of ownership while land-related benefits leak away from local communities and economies.

We are working with Scottish Government and partners to mitigate these risks, focusing on creating conditions for a values-led, high-integrity market for responsible investment in Scotland's natural capital.

ELECTRIC VEHICLE (EV) CHARGING IN REMOTE LOCATIONS

As part of our response to Covid, we developed a project to support communities to install EV chargers as a potential asset. However, we encountered barriers including poor quality grid infrastructure and operating model costs. We are commissioning research during 2022 to understand more fully the implications for EV infrastructure in rural areas and inform our approach.

SOCIAL ENTERPRISE STRATEGY AND ACTION PLAN

We participated in the Scottish Government Social Enterprise Strategy and Action Plan delivery steering group and are involved in ongoing work on key priorities. These are: stimulating social enterprise; developing stronger organisations, and realising market opportunities.

At the request of the sector, a commitment of the strategy was to reduce the number of Scottish Government-funded intermediaries, an initiative that will help streamline and declutter the social enterprise support landscape.





Ivan McKee MSP, minister for business, trade, tourism and enterprise, at the Advanced Manufacturing Centre, Fort William.

BUILD SUCCESSFUL, PRODUCTIVE AND RESILIENT BUSINESSES

Building resilience and capacity among the region’s businesses was a key theme of our work to accelerate sustainable recovery from the worst impacts of the Covid pandemic. Other areas of focus were: productivity; innovation, and net zero transition and green recovery.

INNOVATION

Despite the challenging period, our Innovation Programme 2019-22 achieved 113% against its targets, supporting 905 businesses. Findings from our business survey showed high satisfaction levels, with stakeholders strongly advocating the programme, highlighting the gap it was filling, linkages with the wider ecosystem and impacts to the wider economy.

At completion, the programme had supported 65 new jobs. It is forecast to create 180 jobs over 10 years and generate £10.6m GVA, giving a return of investment of almost 7:1.

INWARD INVESTMENT

Six inward investment projects were secured across the Highlands and Islands, creating or safeguarding 680.5 FTE jobs.

APCOA Parking, headquartered in Germany, opened their first Scottish office in Dingwall, delivering parking and compliance management services for clients including Heathrow Airport.

The expansion of global technology company Capgemini created 400 new FTEs to service two new contract wins with the Metropolitan Police and the Ministry of Defence. Their Highland delivery centres now employ over 800 staff ranging from first line call handling to secure operations centres and cyber security services.

The others were: Boeing creating 150 technology and advanced engineering jobs in Moray, Scottish Salmon Company creating 30 food and drink jobs in Wester Ross; life sciences company Patogen creating three posts in Argyll, and Harland and Wolff establishing 70 jobs in renewable energy manufacturing at Arnish in the Outer Hebrides.

LEARNING LESSONS

Both Brexit and Covid led to an increase in demand for HIE’s innovation service as many companies were forced to adapt their business model and required support. An evaluation of the service found that, while service provision was pitched at the right level, the programme could have benefited from more mid-level, tailored support. It highlighted the need to bring together key knowledge-producing and innovative anchor institutions in the region to leverage their expertise, promote awareness of the benefits of innovation and embed learning and knowledge within the wider business base.

An evaluation of HIE’s digital enablement grant scheme (DEGS) found the programme responded to a critical business need during the pandemic, supporting businesses to adopt new technologies and processes at a time when digital transformation became both urgent and necessary for many.

Most businesses that participated in DEGS experienced an improvement in their digital capability and readiness, with the programme playing an important role in maintaining business performance and survival. Lessons learned for any future support mechanisms include the need to increase digitisation and move businesses up the digital ladder, while allowing flexibility to accommodate more complex or larger-scale projects that could deliver greater impacts.



Shetland Woollen Company: graduate placement Martin Turner.

RESEARCH AND DEVELOPMENT: SCOTTISH SALMON COMPANY

HIE supported The Scottish Salmon Company (SSC) with £3.2m for a four-year research and development programme to introduce commercially viable, ecologically sustainable methods of producing smolts.

The project will innovate commercial production while benefiting farmed fish health and the environment, and creating opportunities for circular solutions for waste.

TOURISM

We approved over £13m for tourism development in 2021/22, the highest sum for any sector and more than double the average annual value of £6.3m before the pandemic. This recognised the scale, breadth of opportunity, and contribution of the tourism sector to the Highlands and Islands.

Although the total was below the previous year's £17m, that figure had included additional Covid recovery funding through the Scottish Government, including the Hotel Support Programme, Scottish Wedding Industry Fund, Snowsports Programme and Communities Recovery Fund.

A total of 124 tourism projects were approved – 27% in fragile areas. Significant investments included Inverness Castle, Fair Isle Bird Observatory, Corpach Marina, and the mountain resorts at Cairngorm, Glencoe and Nevis Range. Seventy percent of approvals were made to micro businesses, with up to nine employees. Key themes for the year included net zero; fair work; mountain biking; developing leadership and entrepreneurship; sustainable, place-based recovery, and visitor management.

Eleven destination management projects were supported with over £1.031m of funding approved to enhance capacity that supports recovery activity. Actions included industry engagement and dissemination of advice, information and intelligence to aid recovery, responsible growth, diversification and innovation.

Thirty businesses from Caithness and Sutherland, Easter Ross, Wester Ross and Inverness-shire took part in our Adventure Tourism programme, while we supported 32 businesses to introduce or upgrade cycle storage facilities through the Developing Mountain Biking in Scotland – Highlands cluster project.

NET ZERO TOURISM

A tourism recovery package of £25m was announced by the Scottish Government in March 2021. This included a national allocation of £3.95m for net zero activities and HIE secured £1.46m for investment in our region. This was successfully deployed to progress 16 projects under four broad categories:

- Mountain resorts transition to net zero
- Visitor bike infrastructure supporting communities
- Decarbonising anchor tourism assets
- Remote and rural community-led EV charge point installation

GRADUATE PLACEMENTS

We funded 89 graduate placements as part of a *Covid Consequentials* support programme, with the twin aims of developing business capacity and providing employment opportunities for graduates in the Highlands and Islands.

Placements were targeted at repopulation areas and specific sectors including tourism, and food and drink, both of which were acutely affected during the pandemic.

INTERNATIONAL TRADE

In collaboration with Scottish Development International (SDI), we delivered intensive support to help businesses enter new markets and increase international sales.

The Scottish Government's 'A Trading Nation' export growth plan includes 71 Highlands and Islands businesses, 38 of which received support in 2021/22. Nine of these businesses recorded an expected increase in international sales of £10m. A further 13 received support and contributed (£1.58m) to SDI's published measure.

In addition, eight Highlands and Islands companies participated in a pilot *Preparing to Export* programme with SDI, from a total cohort of 18 businesses across Scotland.

Twenty Highlands and Islands businesses were also accepted onto the Scottish Government-funded *International Recovery Programme* – designed to support companies post-Brexit and pandemic.

NORTHERN INNOVATION HUB (NIH)

Across the NIH programme, part of the Inverness and Highland City-Region Deal, a total of 407 enterprises were supported in 2021/22.

Through our Pathfinder initiative, 34 life sciences companies benefited from coaching, expert roundtables and pitching practice to support investment activity, market development, business start-up and commercialisation. We also helped 15 companies connect with health and care markets through consultancy, advice, networking and showcasing. By 31 March 2022, 11 tenants were hosted in our NEXUS co-working space on Inverness Campus.

We procured a three-year contract with SAC Consulting to support 300 food and drink enterprises to develop innovative products, services or processes, and carried out feasibility work to establish a new food technology centre in 2022/23.

Twenty-nine young entrepreneurs took part in IMPACT30, our programme to develop young business leaders of the future.

Sustainable tourism was the focus of a series of Tune into Tourism podcasts and webinars delivered through NIH.

CREATIVE INDUSTRIES

Our XpoNorth core programme supported 2,532 businesses in the creative industries. A total of 1,895 people participated in workshops.

XpoNorth Digital supported 246 businesses through workshops on topics including heritage, storytelling and licensing. Almost 1,400 hours of digital support were provided in the year and we aim to extend the programme for a further 3 years.

XpoNorth Heritage supported well over 1,500 heritage organisations, with a total of 1,523 people attending workshops.



Creative industries: Black Bay Studio, Great Bernera



CREATE THE CONDITIONS FOR GROWTH AND A GREEN RECOVERY

Key themes that we pursued in 2021/22 were: infrastructure development (see *Strategic projects*); population attraction and retention; influencing policy with evidence; net zero transition and green recovery.

ENERGY TRANSITION

A notable highlight in-year was the ScotWind leasing round which could lead to 25GW of offshore wind, heralding a new industrial opportunity for the Highlands and Islands. HIE worked with the Scottish Offshore Wind Energy Council (SOWEC) to capture economic opportunities from ScotWind, and secured 'High Potential Opportunity' status for floating wind with the UK Department for International Trade. This firmly establishes the Highlands and Islands as a floating wind manufacturing location.

Growing interest in green hydrogen production at scale is being driven by factors including heat and transport decarbonisation, and moves to curtail European reliance on Russian gas. HIE has worked with Scottish Development International (SDI) to ensure key regional assets are included in Team Scotland pitches. Our renewable resources, infrastructure and opportunity for skills transfer are major attractors for potential inward investment.

A key milestone for marine energy was reached with the successful deployment of Mocean Energy's scale wave device at Scapa Flow in Orkney. Wave Energy Scotland has supported the company through all stages of developing the device.

REGIONAL FUNDING

Staff continued to work with Scottish Government and partners to understand and influence emerging UK regional funding streams, including the UK Shared Prosperity Fund, whose details were released in April 2022.

HIE played a key role in the establishment of the Regional Economic Partnership (REP) as an important new forum to consider funding possibilities alongside wider regional opportunities and challenges.

TRANSPORT

HIE staff worked with Highlands and Islands Airports Ltd, the University of the Highlands and Islands and technology developers to support the ongoing success of the Sustainable Aviation Test Environment (SATE) project in the region. We took the lead in writing the successful bid application to UK Research and Innovation which will see an expansion of SATE in its next £13.5M phase over the next two years. HIE's role as part of the SATE consortium is focused on working with project lead HIAL to capitalise on economic opportunities for our region.

Throughout the year, we engaged with Transport Scotland, contributing evidence and analysis to inform the socio-economic rationales for transport enhancements in our region. Key issues included the need to improve ferry services; the Strategic Transport Project Review (STPR2), and development of the Scottish Government aviation strategy.

SUPERFAST BROADBAND

Our superfast broadband infrastructure project completed build in early 2021, having invested £146m to deliver improvements to over 193,000 premises. During 2022, work was ongoing to achieve final project closure with our partner Openreach, reviewing all spend and activity since 2014.

HIE will continue work with local and national partners to ensure that all parts of our region have equitable access to essential digital infrastructure that will underpin future economic prosperity and community wellbeing. This includes working with the Scottish Government on delivery of the Scottish Broadband Voucher Scheme.

HOUSING

Although it lies outwith HIE's remit, housing provision plays an essential role in regional economic development and community wellbeing. For this reason, HIE is committed to work with partners to influence the development of new approaches that will increase housing supply across the region, particularly in remote and rural areas.

We contributed to the Scottish Government's rural and island housing action plan, raising awareness of the housing issue in the region, as well as soaring costs and concerns from employers facing severe recruitment challenges. HIE is also working with Comhairle nan Eilean Siar on an action plan for South Uist which includes housing and other investments.

Other housing-related activities in 2021/22 included:

- 19 of 34 HIE-funded delivery resource officers were working for communities engaged in housing projects;
- We supported live/work units in Tomintoul, Moray;
- We worked with business partnerships to pilot new models for developing workers' accommodation, including Aviemore and Fort William;
- We supported innovation and carbon efficiency in the supply chain, including Ecosystems Technologies in Invergordon, who design, test and manufacture sustainable low carbon buildings, and
- We supported Community Land Scotland to commission research into mechanisms to control second and holiday homes in areas of housing pressure.

POPULATION

HIE is on the Convention of the Highlands and Islands Repopulation Working Group which aims to develop responses to housing needs in areas of fragile population. This encouraged the Scottish Government to investigate the development of repopulation zones for future implementation. We are also working with Scottish Government on a national approach to 'work anywhere', with a focus on helping to repopulate rural areas.

Three posts of settlement officer, part funded by HIE, have been established at locations in Argyll, Highland and the Outer Hebrides to support population retention and attraction.





STRATEGIC PROJECTS

Strategic projects are always complex and challenging, while promising benefits to the national economy as well as their own local area. During 2021/22, these included our ambitious plans for a commercial spaceport to launch satellites into low Earth orbit (Space Hub Sutherland), Cairngorm, Arnish Business Park, the European Marine Science Park and Growth Deals across the region.

SPACE HUB SUTHERLAND

HIE continued to develop ambitious plans to establish a small commercial spaceport to launch satellites into Earth orbit from a 10-acre site on the A' Mhoine peninsula, Sutherland. Once complete, the project is expected to support around 275 jobs in the Highlands and Islands, including more than 40 at the site itself, and be a key UK launch location in the growing national space sector. Innovative rocket manufacturer Orbex, which has created dozens of highly skilled jobs in Forres, will launch its biofuel-powered Prime rocket from Sutherland.

Ground investigation work was carried out in summer 2021, with positive results. Work also continued to purify planning conditions for construction to start during 2022/23. A full business case for the project was approved by the HIE Board in March 2022 and submitted to the Scottish Government for final approval.

HIE successfully applied for a variation in land use from the Scottish Land Court, and a judicial review of the Highland Council's planning approval was dismissed in the Court of Session. Following these decisions in favour of development, HIE signed a memorandum of understanding with neighbouring landowner Wildland Ltd.

CAIRNGORM

Despite good progress being made on the funicular reinstatement works during 2021/22, completion was delayed as a result of technical challenges, weather, Covid and supply issues. The funicular is now due to return to operations in winter 2022/23.

HIE supported operating company Cairngorm Mountain (Scotland) Ltd (CMSL) to deliver a range of priority capital investments, including an adventure play park, online ticketing, car park entry system and a substantial refurbishment of the Ptarmigan building.

In June 2021, we published a long-term masterplan for the Cairngorm Estate, created following widespread consultation to act as a framework for future planning decisions.

HIE and CMSL made plans to engage with statutory consultees in relation to the evolution of the S50 Agreement that regulates access to the mountain from the Ptarmigan building, and ecology and habitat restoration work continued. A review of ownership and operating models was also begun.



GROWTH DEALS

HIE is project lead and partner supporting the development of business cases for Growth Deal projects across the region. These include: Manufacturing Innovation Centre in Moray; Orkney Research and Innovation Centre (ORIC) Phase 2; the marine aquaculture programme, Argyll; the TalEntEd and Shellvolution islands programmes; Dales Voe Ultra Deep Water Port, Shetland; destination development; and Creative Islands and Wellbeing.

Extensive support has been given to partners on adopting carbon guidance for Growth Deal investments. HIE also approved £2m of support to take forward the redevelopment of Inverness Castle as part of the Inverness and Highland City-Region Deal.

ARNISH

We secured a tenancy with Harland and Wolff for renewable energy fabrication at Arnish, Stornoway, creating 70 FTE manufacturing jobs.

HIE leases 48ha (119 acres) of land at Arnish from the Stornoway Trust. In addition to Harland and Wolff, current tenants include Bakkafrost and Hebridean Seaweed.

The site offers fully serviced plots with deep water and heavy load quay facilities, great connectivity and sea and air links. During 2021/22 we continued to attract interest from potential investors in a range of sectors.

EUROPEAN MARINE SCIENCE PARK

As part of the Phase 2 infrastructure project for the European Marine Science Park, near Oban, road improvements, servicing infrastructure and car parking were all completed and sites are now ready for development.

Three laboratories were fitted-out in Malin House and handed over to new tenants in September 2021: Norwegian fish health specialists Patogen; diving research company Tritonia Scientific, and seaweed biotech / circular economy company Oceanium.

A further three incubator labs have been fitted out and let to innovative marine businesses including Shetland-based marine engineering company Ocean Kinetics Ltd and specialist marine consultancy Ocean Ecology Ltd.





DELIVERY

EXTENDING OUR REACH

During 2021/22, we revised our approach to client engagement and support, using a more agile model of delivery that aims to target support to organisations whose growth is expected to result in good quality jobs, lower greenhouse gas emissions, and a fairer and more inclusive economy.

Throughout the year, we reached significantly more customers through online delivery of services and initiatives such as our Young Company Capital Investment and Digital Enablement Grant schemes, both of which proved highly popular.

HIE also recognises the many challenges facing island and remote rural communities and responds in the way we deliver programmes, products and services. For example, our Graduate Support Programme which has been supported through additional Covid Consequential funding, targets COHI repopulation zones and island areas.

LOCAL, ISLAND AND REGIONAL KNOWLEDGE

In addition to area and sector-based intelligence, HIE seeks to build an evidence base to support strategy and policy development. Focused research in 2021/22 included: Rural and regional disadvantage, inclusive growth profiling, regular Business Panel surveys, and a significant household survey entitled *My Life in the Highlands and Islands*.

FAIR WORK

We made the implementation of fair work practices a condition for clients seeking financial support from HIE, introducing this measure in April 2022. Staff are supporting clients to implement fair work, and we updated our website with relevant information and a fair work employer support tool that can be used to develop an action plan.

CUSTOMER SERVICE DELIVERY

The successful rollout of HIE's customer relationship and project management system, MyHIE, has improved access to services through digital technology. By the end of March 2022, around 400 clients had been signed on to access support, and a benefits realisation plan put in place to measure performance. This environment also allows for current and future integration with the wider public sector support landscape.

ENTERPRISE AND SKILLS AGENCY COLLABORATION

As a partner in the Business Support Partnership (BSP) HIE is influencing a shift in the public sector business support landscape across Scotland. The BSP has developed a five-year strategic plan and HIE continues to play an active role in all workstreams, including leading on the creation of a new data and products and service environment.

FINANCIAL MANAGEMENT COMMENTARY

This section provides commentary to support the Financial Statements and our performance during financial year (2021/22) plus a brief section on future financial outlook. The Financial Statements are set out from page 66. Note 4 to the Financial Statements on page 78 details the net operating costs for each of the segments below and notes 5 to 10 on pages 80 to 83 set out the expenditure and income in detail. Below are the largest movements in spend, comparing 2021/22 to 2020/21.

DISCRETIONARY SPEND £16.5M (£2.0M DECREASE)

Generally, this is expenditure that is controlled and directed by HIE's area teams (which cover eight geographical areas within the region) and sector teams (which cover region-wide sector activity).

Discretionary spend was c£2m lower than the previous year. The discretionary spend total includes multiple projects of varying value. The primary reason for the decrease in spend was due to reduced "local" Covid interventions (i.e. funded from HIE's own budgets rather than from budgets provided by the Scottish Government as part of national programmes) in 2021/22 compared to 2020/21.

In the previous year, there was c£4.4m of "local" Covid spend within the discretionary total compared to c£0.8m in 2021/22. However, this decrease was partly offset by new non-Covid related spend in 2021/22 on the Young Company Capital Investment and Greening Community Assets programmes, and the Green Jobs Fund.

PRIORITY INVESTMENT £35.8M (£14.7M INCREASE)

Priority investments are generally those that are too significant to be managed within a discretionary budget and are therefore funded via a top-sliced central budget.

The most significant example is the project to reinstate the funicular at Cairngorm Mountain with spend of £10.7m in 2021/22 compared to £2.5m in the previous year. Other significant priority investments included grant funding of £5.9m for Nigg – East Quay and £1.9m of own hand infrastructure works at the European Marine Science Park near Oban.

There was c£5.8m more spend on own hand capital in 2021/22 than in the previous year, contributing to the overall higher priority investment spend total.

BUSINESS SUPPORT £7.1M (£1.1M INCREASE)

Business support relates to internal expenditure which directly supports the frontline activities of the organisation, for example, irrecoverable VAT and property factoring costs. The higher spend on business support in 2021/22 is primarily due to irrecoverable VAT being £1.3m higher than the previous year. This was due to the release of an accrual in 2020/21 reducing the VAT figure.

CAIRNGORM MOUNTAIN (SCOTLAND) LTD (CMSL) AND CAIRNGORM PROJECT COSTS £1.8M (£0.2M DECREASE)

CMSL is a subsidiary of HIE that operates on the mountain. Its funding differs from most of HIE's funding in that its net operating position is not covered by a budget but shows as an authorised overspend. This process has been agreed by the Scottish Government and is due to the fact that its income and costs are too uncertain (since they rely on the winter weather patterns on the mountain) to enable a budget to be set in accordance with the parliamentary timetable.

WAVE ENERGY SCOTLAND (WES) £6.0M (£1.3M DECREASE)

WES is a subsidiary of HIE whose purpose is to research and develop wave energy technology that can survive in real world conditions. It receives specific funding via HIE from the Scottish Government and does not draw upon HIE's core funding. The closing WES budget in 2021/22 was £1.2m lower than in 2020/21. Technical issues with the deployment of a device in March 2022 resulted in c£0.2m of slippage on forecast.

COVID SUPPORT £7.3M (£11.3M DECREASE)

There has been a significant reduction in Covid support spend in 2021/22 compared with 2020/21. This reflects the reduction in Scottish Government funding allocated to this purpose and less focus on direct Covid-related support in 2021/22.

OTHER INCOME LESS OTHER EXPENDITURE £1.9M (£2.1M INCREASE)

This comprises of income and expenditure which is funded via European income, City Region Deal, Scottish Land Fund and other similar income and expenditure streams. The decrease is primarily due to the release of provisions for losses which were not required.

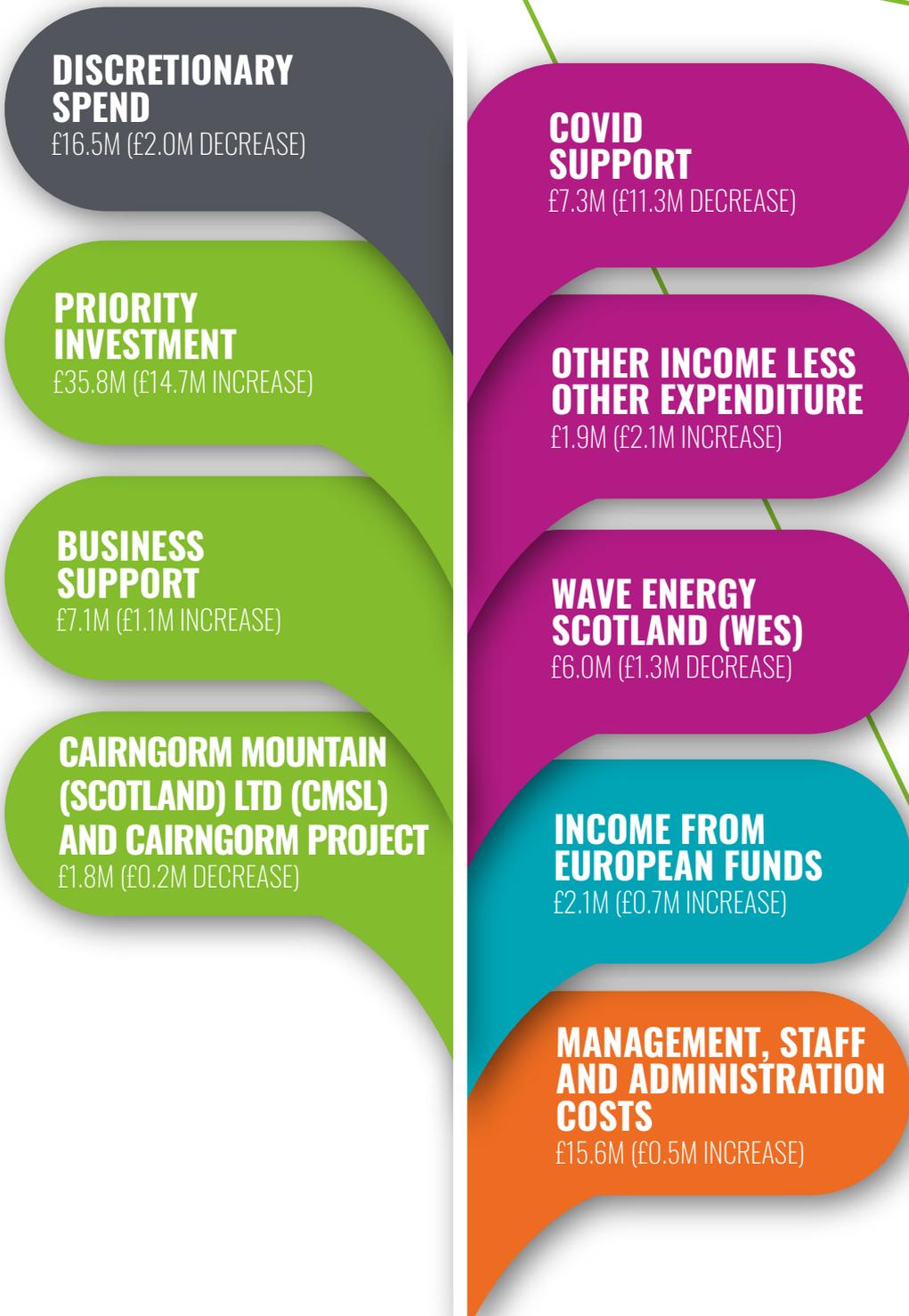
INCOME FROM EUROPEAN FUNDS £2.1M (£0.7M INCREASE)

European income increased in 2021/22 primarily due to increases in income for the Life Sciences Innovation Centre construction at Inverness Campus, and Port of Cromarty Firth.

MANAGEMENT, STAFF AND ADMINISTRATION COSTS £15.6M (£0.5M INCREASE)

The increase is due primarily to a £0.4m increase in salary costs, and is explained by the pay award applied and the transfer of a number of staff during the year from project posts to core staff costs.

The table below summarises the year's expenditure against budget in a format that reflects categories of budget and budget timetable as set by the Scottish Parliament



FINANCIAL OUT-TURN 2021/22	OPENING BUDGET ALLOCATION	AUTUMN BUDGET REVISION	SPRING BUDGET REVISION	FINAL BUDGET ALLOCATION	SPEND	(OVER) / UNDERSPEND
	£000	£000	£000	£000	£000	£000
Resource Budget	32,645	596	235	33,476	34,661	(1,185)
Capital Budget	30,200	4,787	13,461	48,448	47,499	949
Financial Transactions Expenditure	2,600	-	(1,350)	1,250	550	700
	65,445	5,383	12,346	83,174	82,710	464
Ringfenced Resources - Expected Credit Losses	-	-	-	-	(1,948)	1,948
Non-cash costs including depreciation	5,095	-	-	5,095	1,290	3,805
Total	70,540	5,383	12,346	88,269	82,052	6,217
Annually Managed Expenditure	-	-	7,500	7,500	11,473	(3,973)
Total Budget/Spend	70,540	5,383	19,846	95,769	93,525	2,244

The resource budget covers day-to-day expenditure including staff salaries, consumables spent directly by HIE and grants to clients for similar categories of expenditure. It is supplemented by other forms of income, such as EU funding and income from property rentals.

The capital budget covers expenditure that tends to be one-off in nature, usually on assets whose lives extend beyond the current financial year. Examples would include expenditure on purchasing property as well as research and development. It also includes grants to third parties for similar categories of expenditure. The budget is supplemented by other forms of income, such as EU funding or property sales.

Financial transactions (FTs) are funding that is available from Scottish Government to support investment in companies or the provision of loans. Unlike resource or capital, this funding has to be repaid to the Scottish Government.

Expected credit losses (ECL) covers issues such as equity or loan provisions and write-offs. The ECL budget cannot be used to support other types of expenditure.

The budget for non-cash costs covers technical accounting charges such as asset depreciation that do not include cash spend. This budget cannot be used to support resource or capital expenditure.

The budget for annually-managed expenditure (AME) covers volatile costs such as changes in provisions that cannot be controlled in- year. This budget cannot be used to support resource or capital.

Further details of HIE's financial outturn against the budget allocated by the Scottish Government for 2021/22 are included within the Parliamentary Accountability and Audit Report section of the Accountability Report.

SIGNIFICANT ITEMS IN HIE'S STATEMENT OF FINANCIAL POSITION (NOTE THESE NUMBERS REFLECT THE GROUP POSITION INCLUDING SUBSIDIARIES)

Property, plant and equipment of £35.7m is £3.3m higher than prior year. The increase mainly relates to the construction of a new life sciences building on Inverness Campus.

Intangible assets increased by £0.6m in the year to £2.0m following further development of a new core Microsoft environment to support our engagement with customers (functionality to include customer relationship management (CRM), customer portal, data warehouse and business application solutions).

Trade and other receivables of £13.7m are £3.8m higher than 2020/21. The increase primarily relates to EU funding debtor and trade debtors for reimbursement of construction activities.

The increase in cash and cash equivalents of £7.4m to £10.1m at the year-end relates to cash held in the Wave Energy Scotland subsidiary for the EuroWave project.

Trade payables and other current liabilities £8.5m (1.6m increase) are amounts owed by HIE to third parties.

Group trade and other payables increased by £2.7m during the year to £10.5m. The primary element of the increase was deferred income (£7.1m) for the EuroWave project within the Wave Energy Scotland subsidiary

Current year provisions of £10.1m relate to amounts set aside for liabilities where the exact value or timing is uncertain. Most of the provisions relate to the work to reinstate the Cairngorm funicular railway.

Retirement benefit obligation £46.9m is £13.7m lower than the prior year. The obligation is split between the HIE pension scheme (£45.4m) and the four local government pension schemes (LGPSs) (£1.5m) of which HIE is a member. The liability for the HIE scheme will take decades to crystallise and therefore does not represent an immediate risk to HIE’s cashflow. In addition, SG has provided a legally binding guarantee of its willingness to ‘stand behind’ the HIE pension scheme.

The liability for the LGPSs will crystallise more quickly due to the fact that they are closed to new members. However, there are guarantees in place from the Scottish Government that underwrite this risk and plans are progressing to consolidate these onto a single LGPS to aid management of the deficit. HIE has a pension recovery plan in place in relation to the HIE pension scheme, which was agreed with the HIE pension trustees in 2021. It also makes additional contributions to the local government pension schemes in order to reduce funding deficits over time.

FUTURE OUTLOOK

HIE’s 2022/23 opening capital budget allocation is in line with expectations based on the five year indicative capital budget released by SG in January 2021. HIE’s opening allocation is £25.6m, supplemented by an additional £3m for Cairngorm funicular reinstatement and £1.4m for Green Jobs Fund.

In late June 2022, SG agreed to make available in 2022/23 up to £7.0m additional capital budget, in excess of the £3.0m included in the opening budget, to fund the pressure on the Cairngorm funicular. The securing of this additional funding should enable HIE to manage the completion of the funicular reinstatement work in 2022/23 without negatively impacting other capital activity.

HIE will also receive £1.9m additional capital budget for Space Hub Sutherland (SHS) which will supplement significant milestone income expected for the project. The forecast expenditure and income in 2022/23 for SHS is still to be confirmed and could put pressure on HIE’s core budget.

HIE’s 2022/23 opening resource budget allocation of £29.6m is a ‘flat cash’ settlement on the previous year and in line with expectations. HIE’s expectation is that Cairngorm Mountain (Scotland) Limited operating costs and internal Cairngorm revenue costs will be fully funded by SG as in previous years. This may be via an authorised overspend as was the case in 2021/22.

HIE has been allocated a £2.6m Financial Transactions (FT) budget in 2022/23. Previous years have seen significant underspends against the FT budget and plans are being developed to maximise the usage of the budget.

HIE faces the following principal financial risks in 2022/23:

- Costs associated with Cairngorm Mountain (now significantly mitigated following confirmation of £7m funding from the Scottish Government)
- Costs associated with Space Hub Sutherland (SHS)
- Financial implications of other opportunities in the space sector other than SHS
- Costs associated with the Machrihanish site near Campbeltown
- Uncertainty in relation to the VAT partial recovery special method until such time as agreement on a new method is reached with HMRC
- Reduction in EU income and potential for previously anticipated income to be written off in 2022/23 if not resolved in 2021/22
- The wider Scottish Government financial position may impact HIE’s budget in 2022/23

The financial outlook beyond 2022/23 is likely to be exceptionally challenging, particularly in respect of resource. In May 2022, the Scottish Government published a targeted review of its previous Capital Spending Review. This covers the years through to 2026 and indicates that HIE’s baseline capital budget and additional funding for the funicular reinstatement will be largely as anticipated. There is currently no funding identified for Cairngorm Masterplan or Space Hub Sutherland pressures, although it is not unusual for such pressures to be dealt with in-year. This publication also covers Financial Transactions, but only at ministerial portfolio level – these indicate relatively modest reductions.

The Scottish Government also published a Resource Review in May 2022, but this was also only at Ministerial Portfolio level. HIE is part of the Enterprise, Tourism and Trade portfolio, which shows indicative reductions in each year between 2023/24 and 2025/26 before increasing in 2026/27. HIE will continue to engage with the Scottish Government on the detail and implications of this.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION

After the year end, three significant events were noted. The expected costs of reinstating the Cairngorm Funicular increased resulting in an increase of £1m in the provision for reinstatement. Secondly, additional provision was made for non-payment of 2 loans following delays in repayments. Thirdly, an associate company “This is Remarkable Ltd” appointed liquidators on 9 November 2022. An amount of £258k is included in investments in associates in the group accounts. It is likely that this investment will be written off in the 2022/23 financial 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 2021-22	PERFORMANCE 2020-21
In line with government policy, HIE aim to pay all invoices promptly - target 10 days Note: excludes items under dispute or where other terms are agreed with a supplier	75%	80%



OUR PEOPLE

2021/22 saw the development of Our People Strategy which defines HIE's ambition for its workforce through eight strategic people themes with corresponding actions and performance indicators for each. Our newly-developed Workforce Plan focuses on the key strategic theme of attracting, retaining and developing a workforce with the required skills, of the right size, shape, age profile cost and agility.

During 2021/22, we implemented a programme of organisational change with a focus on realigning our structure, approach and ways of working across all teams and our geography. The creation of the Enterprise Support directorate brought together the bulk of the former Business Growth directorate, alongside all eight area teams and parts of the Communities and Place directorate with a focus on the frontline delivery of products, services and support to all our client groups. A new directorate has also been created focusing on strategic projects, including the space programme, energy transition and net zero, WES, ORIC and other complex projects.

Area managers have taken on an influencing and supporting role for strategic themes and areas of priority at a corporate / regional level. Ongoing areas of focus to support HIE's organisational change agenda are staff communication and engagement; identification of skills gaps; realignment of resources; development needs; line management support and development; health and wellbeing, and succession planning.





Our new Workforce Planning Forum meets every month and monitors the recruitment pipeline. Decisions to date have focused on the youth agenda, more resource to the frontline, challenging life-for-like replacements and questioning how delivery could be different and helping find solutions that meet business requirements. This is set against the context of tight financial constraints. To support the development of the youth agenda, eight graduate placements and four modern apprenticeships were approved and are due to be recruited in 2022/23.

The majority of our staff have welcomed greater flexibility in both how and where they work. A key element in introducing hybrid working approaches has been support for staff to adopt the cultural changes required to adopt flexible working practices and associated behaviours. All HIE offices are now fully open, enabling hybrid working. Policy guidance and principles for the way in which we work are in place.

Our approach to induction, onboarding and development has been reviewed in line with this and to support staff with the strong emphasis on face-to-face contact. We continue to focus on treating opportunities for collaboration, innovation and creativity as well as safeguarding mental health and wellbeing, work-life balance and caring responsibilities.

As part of this approach, it has been vital to prioritise mental wellbeing. The establishment of a team of mental health first aiders, introduced during the pandemic, along with our employee assistant programme and occupational health service, provides additional support for employee health and wellbeing.

For several years, HIE has emphasised the important contribution workplace health and wellbeing makes as a driver for fair work, employee engagement and performance. Employee wellbeing remains an underpinning component in contributing to our organisational culture of delivery and success.

Our Process Change Group identified a schedule of organisational training and development priorities to support financial due diligence, business case development and approval and the role of SRO/reviewers.

HIE is an accredited real living wage employer, provides and promotes flexible opportunities through our flexible working policy and approach to hybrid working. Our commitment to youth employment is demonstrated through our status as gold investor in young people (IIYP) and our young people programme. HIE is also recognised at second level of the government's new disability confident scheme and at bronze level by the armed forces covenant. As a Fair Work employer, the work of the staff forum and engagement with unions provide a valuable voice for consultation and feedback.



PUBLIC INTEREST REPORTING

Information request processing

As a publicly-funded organisation, HIE is committed to full compliance with the Freedom of Information (Scotland) Act 2002 (FOISA), Environmental Information (Scotland) Regulations 2004 (EIRs), and the Data Protection Act 1988.

In 2021/22, HIE received 56 requests for information. These comprised 51 requests under FOISA, three EIRs and two subject access requests.

INFORMATION REQUEST HANDLING PERFORMANCE

	2021/22	2020/21
Average time to respond fully and close a request for information	14 days	15 days
Percentage of requests requiring a response that received one within statutory timescales	93%	95%
Percentage of requests that received a late response	7%	5%
Percentage of requests requiring a response that were fully or partially disclosed	100%	100%
Percentage of requests that were vexatious	0%	0%
Percentage of requests withdrawn	0%	1%
Percentage of requests for which HIE did not hold information	13%	10%

FOISA EXEMPTIONS AND EIRS EXCEPTIONS APPLIED TO REQUESTS

The tables below show the number of occasions when FOISA exemptions or EIR exceptions were applied by HIE when responding to information requests during 2021/22.

SECTION OF ACT (FOISA)	DESCRIPTION OF EXEMPTION	2021/22	2020/21
30 (b) or (c)	Prejudice effective conduct of public affairs / Free or frank exchange of advice	5	19
33 (1) (b)	Prejudice commercial activities	8	12
38 (1) (b)	Breach of data protection principles / third party personal data	6	16
36 (2)	Confidentiality of communications	4	0
27	Information intended for future publication	0	0
25	Information otherwise accessible	4	3
17	Information not held	8	11

REGULATION (EIR)	DESCRIPTION OF EXCEPTION	2021/22	2020/21
10 (4) (a)	Information not held	0	1
10 (4) (d)	Material still in the course of completion	1	0
10 (4) (e)	Internal communications	1	0
10 (5) (a)	Public safety	1	2
10 (5) (f)	Third party interests	1	0
10 (5) (g)	Protection of the environment	0	2
11 (2)	Personal data	0	3

REVIEWS AND APPEALS

We received three requests for review under FOISA (2020/21 = four) and none under EIR (2020/21 = none). Two appeals were made to the Office of the Scottish Information Commissioner (2020/21 = none).

In line with a request from the Scottish Information Commissioner to all Scottish public authorities, we provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering 2021/22.

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

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 1 April 2021 – 31 March 2022, a total of 17 complaints were resolved at the frontline (2020/21 = 16). Four required an investigation (2020/21= three). No complaints were considered by the Scottish Public Services Ombudsman.

COMPLIMENTS

In 2021/22, we recorded a total of 71 compliments.

SUSTAINABILITY

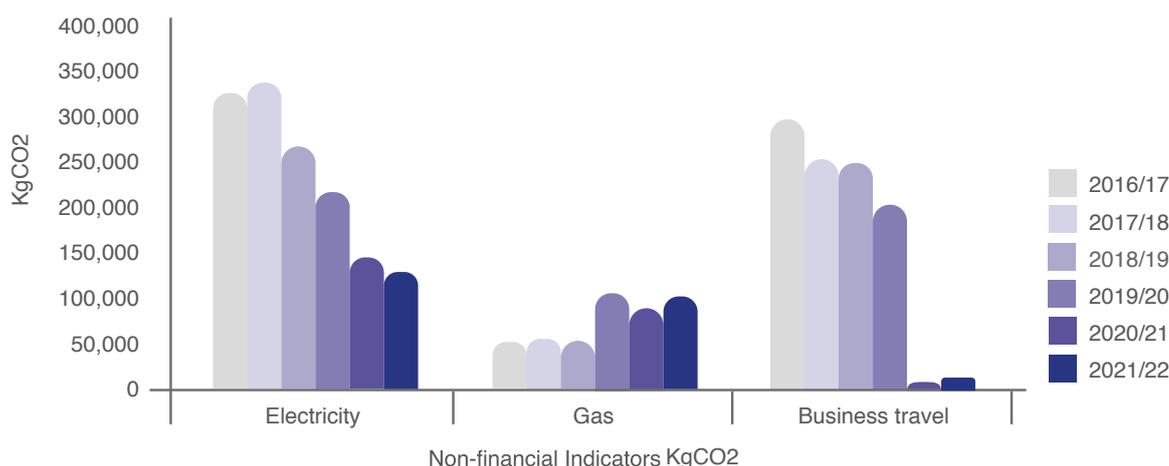
Highlands and Islands Enterprise recognises the importance of managing its carbon footprint, reducing its emissions and continuing to move towards a low carbon region. Net zero is a key priority for HIE and is embedded in our operating plan and revised property strategy.

HIE monitors CO2 emitted throughout the organisation and works with employees to generate ideas for initiatives to achieve future carbon reductions. Our Property team has targeted three offices and three commercial / investment portfolio properties to apply for grant funding to reduce CO2 emissions in key buildings. We are working closely with the Scottish Futures Trust, Built Environment – Smarter Transformation and our property agents to run a programme to do this, as well as exploring the use of an app to monitor utility usage.

We continue to plan transition to net zero, with both our occupied offices and investment portfolio being a key focus.

UTILITIES AND BUSINESS TRAVEL		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Non-financial indicators (KgCO2)	Electricity	324,639	337,080	267,803	218,258	144,612	130,840
	Gas	45,940	54,269	50,267	104,560	89,839	102,033
	Business travel	292,376	248,049	245,274	200,239	6,675	11,883
Related energy consumption (KWh)	Electricity	792,634	966,262	953,442	860,708	625,919	622,571
	Gas	225,139	277,008	234,684	488,163	419,434	476,365
Financial indicators (£'s)	Electricity	117,113	120,675	107,546	102,628	81,904	91,357
	Gas	14,971	14,459	14,563	22,288	17,853	18,246
	Business travel	700,263	694,228	672,018	600,977	23,403	58,551

Greenhouse gas emissions from buildings and business travel



Electricity consumption reduced slightly in comparison with previous years, mainly because HIE staff were working from home throughout 2021/22. There was also a 10% carbon emission reduction alongside a cost increase of 12%, primarily due to utility price increases.

Gas usage in our occupied Inverness, Lochgilphead and Forres offices increased over the previous year by 13%, as staff began to return to offices in late winter. With windows open to meet Covid guidelines, heating systems had to work harder to maintain temperatures.

As more employees return to working from offices, consumption and costs relating to electricity and gas may rise, however we aim to reduce our consumption continuously compared to pre-Covid levels. We will be embarking on an energy efficiency and transition to net zero programme for An Lòchran, Inverness, in 2022/23 and expect to apply to the SG energy efficiency fund to make appropriate changes.

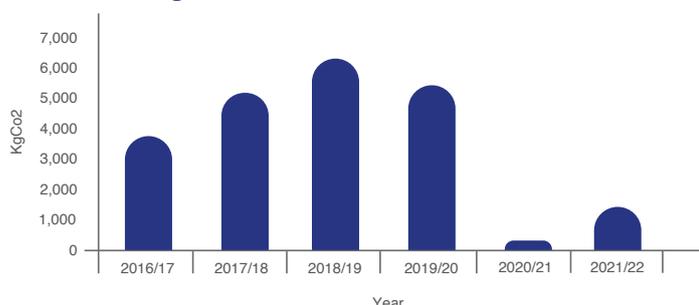
Business travel saw a carbon increase of around 45%, and a cost increase of around 60% compared with the previous year. This was driven by a rise in work-related business travel as pandemic guidelines eased. Travel restrictions during the pandemic meant that staff adapted to holding meetings virtually rather than physically and this is a trend that HIE is looking to continue in future years. The business travel budget has been reduced for the upcoming financial year to reflect hybrid working (home and office-based) and will now be managed at a more granular level, with teams managing individual travel budgets.

Targets for 2022/23 year continue to challenge HIE to seek new initiatives to meet the Scottish government's net zero target for 2045.

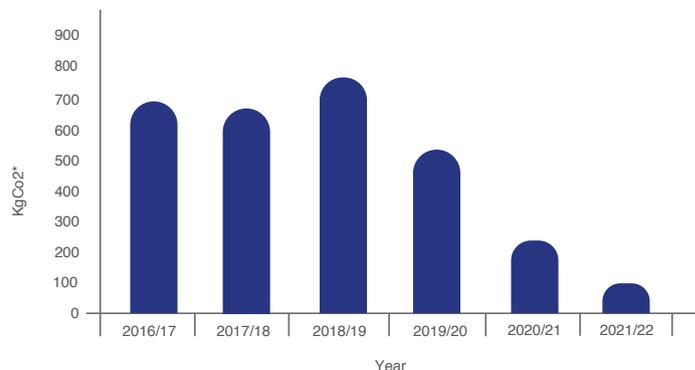
WASTE AND WATER MANAGEMENT

WASTE AND WATER		2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Non-financial indicators (KgCO ₂ e)	Total greenhouse emissions from general waste	3,811	5,183	6,344	5,326	224	1,460
	Measurable greenhouse emissions from water	707	666	782	460	259	103
Non-financial indicators	General waste (kg)	9,051	8,801	10,817	9,081	489	3,125
	Recycled waste (kg)	22,280	16,520	18,167	14,997	2,651	2,677
	Measurable consumption (m ³)	2,054	1,937	2,272	1,337	752	691
Financial indicators (£'s)	Disposal cost	54,852	47,266	27,705	14,969	8,015	12,957
	Measurable water cost	38,548	18,156	15,814	13,059	17,346	22,111

Greenhouse gas emissions from waste



Greenhouse gas emissions from water



Carbon emitted through general waste rose in 2021/22, but remained well below pre-Covid levels. The increase can be attributed to workspace reconfiguration in many of our offices, which led to disposal of some items that were no longer required. Where possible, surplus furniture was recycled through charitable organisations. Water costs increased as pipes had to be flushed regularly during Covid for health and hygiene reasons, in accordance with HSE guidelines.

During 2022/23, we expect to see waste levels increase but water usage decrease to pre-Covid levels.

J. S. Black

DR J S BLACK

Chief Executive and Accountable Officer
Highlands and Islands Enterprise

06 December 2022

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

- Mr A Dodds CBE (Chair)
- Prof D MacRae OBE (Deputy Chair)
- Ms C Wright (Chief Executive) (Resigned 31 July 2021)
- Ms C Buxton (Interim Chief Executive) (1 August 2021 to 31 December 2021)
- Dr J S Black (Chief Executive) (Appointed 1 January 2022)
- Ms A Bryan
- Mr A Campbell
- Mr P Crerar CBE
- Mr R McIntosh CBE (Retired 31 March 2022)
- Ms F Newton MBE
- Ms A B Oldfield
- Mr C Ross
- Dr K Nicholson (Appointed 13 June 2022)
- Ms A Raeburn (Appointed 13 June 2022)
- Ms A Salgado (Appointed 13 June 2022)

LEADERSHIP TEAM

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

LEADERSHIP TEAM MEMBERSHIP

- Dr J S Black (Chief Executive) (Appointed 1 January 2022)
- Ms C Wright (Chief Executive) (Resigned 31 July 21)
- Mr N B Kenton (Director of Finance and Corporate Services)
- Ms C Buxton (Deputy Chief Executive) / (Interim Chief Executive 1 August 2021 to December 2021)
- Mr D Cowan (Director of Communities and Place)
- Mr D J Oxley (Director of Strategic Projects)
- Ms S Dunbar (Director of Business Improvement and Internal Audit)
- Ms K Moncrieff (Director of Human Resources)*
- Ms H Herd (Interim Director of Human Resources) (20 September 2020 to 30 November 2021)
- Mr M Johnson (Director of Strategy and Regional Economy)
- Ms R Hunter (Director of Service Delivery)

* Ms K Moncrieff had a period of extended leave from 17 August 2020 to 30 November 2021.

REGISTER OF BOARD MEMBERS' INTERESTS

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

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's primary source of funding is grant-in-aid (GIA) from the Scottish Government. The budget allocation for 2022/23 is £65.4m 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, is 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 26 to the annual 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 20 to the accounts.

DATA LOSS

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

APPOINTMENT OF AUDITORS

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2022 was Pauline Gillen, Audit Director, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £144,110 (2021 £141,390). There were no fees payable to Audit Scotland for non-audit work during the year (2021 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, statement of financial position 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 the 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 of Highlands and Islands Enterprise as its Accountable Officer. 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, I confirm that, 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.

SCOPE OF RESPONSIBILITY

As Chief Executive and Accountable Officer from 1 January 2022, 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.

During 2021-22, this responsibility was previously exercised by Charlotte Wright, who was Chief Executive and Accountable Officer until 31 July 2021, and from 1 August until 31 December 2021 by Carroll Buxton, who held the post of Interim Chief Executive and Accountable Officer.

I have specific responsibility in relation to:

- Best value, including 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 the Accountable Officer's responsibility is to ensure HIE's internal control systems comply with the requirements of the SPFM. No written authorities were provided to the Accountable Officer in 2021-22.

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the principal risks facing HIE. The system aims to evaluate the nature and extent of risks, and manage them efficiently, effectively and economically. The system cannot eliminate the risk of failure to achieve HIE's aims and objectives but has been designed to provide reasonable assurance.

GOVERNANCE FRAMEWORK

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

Ministers expect HIE to do this by pursuing Scotland's Economic Strategy.

A Framework Agreement, drawn up by the Scottish Government, sets out the broad framework within which HIE will operate. It does not convey any legal powers or responsibilities.

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

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

HIE requires high standards of integrity for all staff, clients and suppliers and has policies and controls in place to minimise risk and ensure a strong control framework operates effectively. An Information Security and Fraud Governance Group exists to consider reports and make recommendations for action required on suspected fraud or irregularity and suspected security breaches, including cyber security. It also makes recommendations for strengthening existing controls and communicating lessons learned.

We align to the Scottish Government's Scottish Public Finance Manual which provides clear guidance on the approach and methodology to address fraud, corruption and bribery. HIE takes part in the National Fraud Initiative which further enhances our consideration of the control environment.

In year, the Covid-19 pandemic continued to impact on HIE's activities, with unprecedented challenges for our economy and clients, and how we operate as an organisation. We continued to respond to these challenges, ensuring our internal control and governance arrangements remained fit for purpose and supported agile and proportionate decision-making, enabling us to meet the needs of our communities and businesses in a time-critical manner.

Board and other meetings continued to be conducted virtually or via a hybrid approach, using digital technology.

HIE supported the delivery of £7.3m dedicated funding to address the impacts of Covid-19 on businesses and communities across our region.

HIE has worked closely with Scottish Government and other partners, and continues to do so, to ensure appropriate solutions can be delivered to deal with hardship, resilience, recovery and sustainability of our businesses and communities.

ENTERPRISE AND SKILLS STRATEGIC BOARD

The Enterprise and Skills Strategic Board (ESSB) was established following the Scottish Government's Enterprise and Skills Review in 2017, The ESSB Strategic Plan 2019-22 has provided a framework with clear actions for the agencies.

Aligned to the ESSB objectives, we have been collaborating with our partners as part of the Business Support Programme in creating a new client delivery environment. During 2021/22, emphasis was on establishing a target operating model to streamline the system of business support, and working on projects such improving access to public sector business support in Scotland through [FindBusinessSupport.gov.scot](https://www.findbusinesssupport.gov.scot) along with new governance arrangements for products and services, and creation of an insights-driven data environment.

The publication of Scotland's National Strategy for Economic Transformation (NSET) in March 2022 set out a new vision and framework establishing new policy programmes including one focused on developing a "A Culture of Delivery". One of the actions was to restructure the ESSB and establish new governance including a NSET Portfolio Board on which HIE sits. The Portfolio Board will monitor progress, collaboration and resolve issues relating to delivery of the policy programmes. HIE is also involved in a number of associated programme delivery boards and groups.

The Business Support Programme activity will be important in supporting delivery of NSET and the agencies will continue to work closely on developing new strategies in 2022-23 to realise NSET ambitions.

OPERATION OF THE HIE BOARD AND SUB-COMMITTEES

As at 31 March 2022, the Board of Highlands and Islands Enterprise comprised the Chair, eight non-executive members and the Chief Executive. This total includes one non-executive member whose term ended on 31 March 2022.

Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government.

Individual Board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE.

The Board met in full as planned six times in year. It met a further seven times to consider specific, time-critical matters. Seven local area-focused Board engagement sessions were also held in year, using digital technology.

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 Scottish Ministers;
- Ensuring Scottish Ministers are kept informed of any changes which are likely to impact on the strategic direction of HIE;
- Ensuring HIE complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that HIE operates within the delegated authorities agreed with the Scottish Government Directorate for Economic Development;
- Ensuring review of regular financial information concerning the management of HIE;
- Ensuring high standards of corporate governance are observed at all times;
- Providing commitment and leadership in the development and promotion of best value principles throughout HIE;
- Overseeing delivery of planned results by monitoring performance against agreed corporate objectives, measures and targets on both an in-year and longer-term basis, and
- The Board is supported by the Risk and Assurance Committee and the Remuneration Committee. Additional Board sub-groups have been created to specifically consider issues related to Cairngorm and Space.

RISK AND ASSURANCE COMMITTEE

The Risk and Assurance Committee comprises a Chair and three non-executive members. Meetings are attended by representatives of the Scottish Government sponsor team, Audit Scotland, the Chief Executive, Director of Finance and Corporate Services and Director of Business Improvement and Internal Audit.

The committee met in full as planned four times in the year. Minutes of the Risk and Assurance Committee are provided to the full Board for information and an annual report on its activities is also provided.

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

- Prof D MacRae OBE (Chair)
- Ms A B Oldfield
- Mr A Campbell
- Mr C Ross

In year, the Risk and Assurance Committee also met in private with representatives of external audit. They attended separate development sessions and undertook a review of their effectiveness in accordance with good practice.

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

REMUNERATION COMMITTEE

The Remuneration Committee reviews and agrees the reward arrangements of HIE's Chief Executive and the HIE executive directors, in line with Scottish Government pay policy. The committee met once in year.

The members of the committee during the year were:

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

OTHER BOARD SUB-GROUPS

As required, additional sub-groups of the Board may be formed to consider any specific issues. In year, two sub-groups met regularly.

The Cairngorm sub-group met six times in-year to consider governance issues and make recommendations for improvement related to operations at Cairngorm.

The Space sub-group met six times in-year to consider issues related to HIE's activities to support the growth of the regional space sector.

Both sub-groups report on their activity to the full Board. They are chaired by the HIE Chief Executive (and previously by the Interim Chief Executive), and all non-executive members are invited to attend. Key senior staff normally attend these meetings.

OPERATION OF GOVERNANCE-COMMITTEES

Health and Safety Committee

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

An annual stewardship report has been prepared on work undertaken by the committee in-year. No control issues have been noted for inclusion here.

Information Security and Fraud Governance Group

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

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

An annual stewardship report has been prepared on work undertaken by the group in-year. No control issues have been noted for inclusion here.

STRATEGIC AND OPERATIONAL FRAMEWORK

Strategy and planning

Highlands and Islands Enterprise's three-year strategy sets out our ambition to develop sustainable and inclusive growth, in each and every part of the region. Throughout the year, we continued to work with our partners to deliver for the region and for Scotland.

Our operating plan 2020/21 was unusual, owing to the serious impacts of the COVID-19 pandemic on our businesses and communities and the pressing need for us to focus on supporting their survival and building resilience. We iterated operating plans through the year to the HIE Board as circumstances developed and the out-turns are recorded in our performance summary on page 12.

Business improvement

HIE has a single strategic programme of continuous improvement activity to ensure that, internally and externally, we are regarded as an organisation which delivers best value, inspires innovation and achieves successful outcomes. This includes working with partners to develop solutions which help optimise efficiency and effectiveness.

A significant element of this is a business transformation programme which is focused on creating a new target operating model to support smarter delivery and extend the reach of our support. A key element, introduced in 2021-22, is a new digital delivery model, bringing improved customer experience and enabling HIE staff to make greater use of data and analytics to target support and confirm impact.

Aligned to this, we are implementing new intervention and delivery approaches to ensure the needs of our region and clients are best supported. We continue to collaborate with ESSB partners through the Business Support Partnership to ensure a joined-up customer journey. This collaboration includes shared initiatives such as [FindBusinessSupport.gov.scot](https://www.findbusinesssupport.gov.scot), a new product and service environment and the development of partner data strategy to improve customer delivery, impact assessment and resource targeting.

Best value

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

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

- We hold board engagement sessions, engaging with and listening to local communities and businesses.
- Our Business Panel surveys inform us of the challenges and opportunities facing businesses, community groups and social enterprises across the Highlands and Islands and during this year had a particular focus on the impact of COVID and of Brexit.
- Our research, informs our own and partnership interventions.

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

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

We continue to develop the shared portal and performance measurement through enterprise and skills agency collaboration, to ensure we establish consistent models, where appropriate, with partner agencies.

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

A number of evaluations were undertaken or commenced during this year covering covid support, digital, leadership, innovation, female entrepreneurship and support for communities. These evaluations helped shaped future programme design and development and the new HIE strategy.

Continuing to support inclusive and sustainable growth in a changing economic environment requires us to be alert to emerging challenges, including the implications of COVID-19 and Brexit. HIE has undertaken full regional analysis of the impacts of the pandemic, including at a sub-regional level, and worked closely with partners to share client and area insights to support our collective response.

HIE was fully engaged in delivering the Prepare for Brexit campaign in partnership with Scottish Government and other agencies to support businesses planning in Scotland. Incorporating Brexit and COVID-19 impact questions in our Business Panel research has helped us assess business confidence over time.

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

BEST VALUE

POLICY DEVELOPMENT, APPRAISAL, RESOURCE ALLOCATION AND IMPLEMENTATION

- clear employee roles and behaviours
- account management based on customer journey
- support local needs and opportunities
- address inequalities
- investment strategy

LEADERSHIP, ACCOUNTABILITY AND GOVERNANCE

- regional vision aligned to national strategy
- integrate economic and community development
- deliver national initiatives such as WES
- publish approvals

OVERARCHING STRATEGIC DIRECTION

Scotland's Economic Strategy |
Enterprise and Skills Strategic Board |
National Performance Framework
Programme for Government |
Economic Action Plan | Response
to the Advisory Group
on Economic Recovery

REVIEW, EVALUATION AND BENEFITS REALISATION

- track indicators and performance
- ensure long-term projects deliver change
- manage, review and evaluate performance
- follow performance framework
- manage risk

RESPONSIVENESS, CONSULTATION AND JOINT WORKING

- engage with stakeholders, such as HIE Business Panel
- build evidence through focused research
- collaborate in economic partnerships such as COHI, community planning and growth deals
- collaborate with government and enterprise and skills partners
- support community empowerment

Performance management

HIE's corporate reporting framework considers organisational performance throughout the year. This was considered and discussed at each Board meeting. New measurement was developed at the end of the year for use in 2021-22 to support our net zero approach.

Corporate governance

HIE complies with 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 evidence.

Risk management arrangements

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

HIE has a robust risk management strategy which empowers staff to be dynamic and 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:

- Use of a financial planning model
- Use of risk appetite statements
- Assessment of risk by management on at least a six-weekly basis
- Maintenance of business unit risk registers and an overarching corporate risk register
- Provision of corporate risk register to the Board at each meeting
- Assessment of risk at individual project level
- Independent reviews for high-risk projects and activities
- Action plans with clear accountability and timescales to address risks
- Alignment to the corporate reporting framework

The corporate risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year. The Risk and Assurance Committee also received updates relating to the risk processes, including revised risk appetite statements. HIE continually assesses those risks which are considered significant to the achievement of its objectives and undertakes an annual refresh of the corporate risk register.

HIE also ensured that a risk-based approach was taken to our delivery environment and internal controls to ensure that these remained fit for purpose and proportionate as we responded to the challenges such as recovery from COVID and Russia's invasion of Ukraine.

Significant risks

Principal risks and uncertainties identified at the end of 2021/22 are described in the Performance summary (page 10).

These concern:

- Economic uncertainty and resilience
- Financial and budget
- Major project delivery
- Information and data governance
- Planning environment and strategic prioritisation
- Organisational delivery environment

NON-DORMANT GROUP COMPANIES

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

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

Orkney Research and Innovation Campus (ORIC) was established as a joint venture by HIE and Orkney Islands Council to establish a multi-disciplinary academic / business campus, based around Orkney's marine energy and sustainability expertise.

The venture is undertaking the physical redevelopment of property assets in Stromness and owns and operates the resultant campus facilities. An internal control checklist and annual assurance statement was provided for ORIC which highlighted no issues.

Cairngorm Mountain (Scotland) Ltd (CMSL) is a subsidiary with the remit of delivery of operations at Cairngorm Mountain. Significant support has been provided to ensure appropriate governance arrangements and controls are in place which will allow the subsidiary to meet this remit. As noted above, HIE activity in this area was supported by our HIE Board sub-group. An internal control checklist and annual assurance statement was provided for CMSL which highlighted no issues.

ASSURANCE ACTIVITY

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

- The Leadership Team, which has responsibility for the development and maintenance of HIE's governance, performance and internal control frameworks and normally meets weekly
- An Investment Committee to support HIE in defining and updating strategic priorities, agreeing resource prioritisation principles and intervention approaches and to make decisions and matters delegated by Leadership Team
- The Board, which has responsibility for receiving, monitoring and commenting on regular management reports on governance matters, performance outcomes and risk management
- The Risk and Assurance Committee whose work includes ongoing review of external assurance functions and internal assessments on governance, risk and best value
- The Business Improvement and Internal Audit team, who submit regular reports which include independent and objective opinion on the adequacy and effectiveness of the systems of internal control, together with recommendations for improvement
- Other assurance undertaken in-year, through procured arrangements
- Comments made by the external auditors in their management letters and other reports

As part of HIE's internal control arrangements, we have in place an internal control assessment framework. This requires the heads of each business unit, including non-dormant group companies, to undertake an annual review of their area's internal controls.

For 2021/22, each business unit and non-dormant group company completed a review which is used to identify any control issues, and to allow completion of an organisational internal control checklist and certificate of assurance for HIE. We also received assurance from the Head of Information Governance and EIS Chief Information Officer for IT services that they were not aware of any significant control issues.

DATA SECURITY AND INFORMATION SECURITY ASSURANCE

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. In-year, one instance of suspected data breach was reported to HIE. This was fully investigated, and no breach was found to have occurred. No report to the Information Commissioner's Office (ICO) was required and no further action needed.

Revised arrangements for our IT services provision were introduced during 2015/16 and are delivered by Enterprise Information Systems, who sit within Skills Development Scotland. These arrangements were refreshed in 2019/20, and a revised memorandum of understanding agreed by the partners, who currently comprise HIE, Skills Development Scotland, Scottish Enterprise and South of Scotland Enterprise

During 2021/22, the Business Improvement and Internal Audit team liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to IT services provision in the period.

An assurance mapping exercise was undertaken and an agreed programme of systems assurance work developed with our partners and for HIE specific activity. Reviews undertaken in-year included conclusion of a partner cyber maturity follow-up review, EIS strategy review, and HIE specific reviews to follow up on HIE cyber maturity recommendations and review information governance and data protection. Work is ongoing for the HIE-specific reviews. Prioritised action plans have been developed for areas where opportunities for improvement were identified.

Internal audit

HIE has a Business Improvement and Internal Audit team which is independent of any operational group. The Director 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. The annual assurance plan was based on this analysis and was endorsed by the Risk and Assurance Committee.
- Provided me with regular reports on internal audit activity and an annual report which included the Director's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings
- Supported HIE in developing appropriate and fit for purpose governance arrangements for key investments and complex projects
- Supported HIE in consideration of risk and development and design of tailored internal controls
- Collated and disseminated lessons learned from activity in-year

As part of HIE's internal audit programme of assurance reviews, improvement opportunities have been noted and will be taken forward in 2022/23. These include:

- access to, benefiting from and compliance with other funding opportunities;
- subsidy regime; project appraisal and delivery environment, and
- refreshed approach to intervention and risk.

External audit

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland identified no significant control issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2022 and on the regularity of transactions reflected in the accounts.

REVIEW OF EFFECTIVENESS AND CONCLUSION

As Chief Executive and 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 that these systems were in place for the year ended 31 March 2022 and to the date of signature of the accounts and there were no significant control weaknesses or identified lapses in data security reported.

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 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.

REMUNERATION COMMITTEE

The Remuneration Committee reviews annually the broad policy framework for the remuneration of the Chief Executive, the Executive Leadership Team and any exceptional issues of remuneration identified by the Chief Executive or Director of Human Resources. This policy is set within applicable Government guidelines and is approved by the Scottish Government Pay Policy Unit and HIE's Scottish Government sponsor team.

The remuneration of HIE Board members for the year ended 31 March 2022 was as follows:

	2022	2021	
	£	£	APPOINTMENT EXPIRES
Mr Alistair Dodds CBE (Chair)	45,174	44,634	30 April 2023
Ms Amanda Bryan	10,065	10,065	31 March 2024
Mr Angus Campbell	10,065	10,153	31 August 2024
Mr Patrick Crerar CBE	10,065	10,065	31 March 2023
Ms Ailsa Gray	Nil	10,065	Resigned 31 March 2021
Prof Donald MacRae OBE (Deputy Chair)	10,065	10,064	31 March 2023
Mr Robert McIntosh CBE	10,065	10,065	Retired 31 March 2022
Ms Freda Newton MBE	10,065	10,065	31 August 2024
Ms Anne B Oldfield	10,065	10,065	31 March 2024
Mr Calum Ross	10,065	10,065	31 August 2024

The figures represent emoluments earned as Board members during the relevant financial year. The board members have not received any benefits in kind or any pension benefits in the last two financial years.

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairs and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2022 £56,380 (2021 - £58,417) was paid to these former members.

COMMITTEE MEMBERSHIP

Mr P Crerar CBE (Chair)

Mr A Dodds CBE

Prof D MacRae OBE

Section 2 - 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 fixed period of three years. Under certain circumstances Board members may be eligible for reappointment for a second term. Their remuneration is set by the Scottish Government and is not pensionable.

EXECUTIVE LEADERSHIP TEAM REMUNERATION

The Executive Leadership Team is responsible for the day-to-day management of HIE's activities and operations. The Chief Executive is a member of both the Board and the Executive Leadership team.

The contracts of members of the Executive 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).

Active members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 27.9% of the employees' pensionable salary throughout the year. C Wright contributed 10% of pensionable salary to the Highland Council LGPS while D Cowan contributes 9.5% of pensionable salary to the Strathclyde LGPS. HIE contributes 35.3% to all members of the Highland Council LGPS and 26% towards the Strathclyde LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. Further information about the pension funds can be found in the Notes to the Accounts (note 20).

Remuneration of the Executive Leadership Team who served during the year ended 31 March 2022 was as follows:

	NOTE	2021/22			2020/21		
		SALARY	PENSION BENEFITS	TOTAL	SALARY	PENSION BENEFITS	TOTAL
		£000	£000	£000	£000	£000	£000
Dr J Stuart Black Chief Executive from 1 January 2022	1	60-65	4	60-65	-	-	-
Charlotte Wright, Chief Executive to 31 July 2021	2	45-50	13	60-65	110-115	34	145-150
Carroll Buxton, Deputy Chief Executive	3	100-105	38	140-145	100-105	55	155-160
Douglas Cowan, Director of Communities and Place		95-100	33	130-135	95-100	33	130-135
David J Oxley, Director of Strategic Projects		90-95	23	115-120	90-95	26	115-120
Nicholas Kenton, Director of Finance and Corporate Services		90-95	21	110-115	90-95	21	110-115
Sandra Dunbar, Director of Business Improvement and Internal Audit		75-80	24	100-105	75-80	35	110-115
Karen Moncrieff, Director of Human Resources	4	60-65	39	100-105	70-75	43	115-120
Rachel Hunter, Director of Service Delivery		70-75	32	105-110	65-70	37	105-110
Martin Johnson, Director of Strategy and Regional Economy		85-90	33	115-120	80-85	24	100-105
Helen Herd, Interim Director of Human Resources	4	45-50	41	85-90	30-35	25	55-60

(1) Dr J Stuart Black has been on the Executive Leadership Team since 2 August 2021, firstly as Lead Area Manager from 2 August 2021 to 31 December 21 then as Chief Executive from 1 January 2022. The full-time equivalent salary for his role as Lead Area Manager was in the band £75-£80k and for his role as Chief Executive was in the band £110-£115k.

(2) The full-time equivalent salary for Charlotte Wright who left HIE on 31 July 2021 was in the band £115-£120k.

(3) Carroll Buxton has been on the Executive Leadership Team for the full year firstly as Deputy Chief Executive from 1 April to 31 July 2021 then as acting Chief Executive from 1 August 2021 to 31 December 2021, returning to her role as Deputy Chief Executive from 1 January 2022. The full-time equivalent salary for her role as Deputy Chief Executive was in the band £90-95k and for her role as acting Chief Executive was in the band £115-£120k.

(4) Karen Moncrieff had a period of extended leave from 17 August 2020 to 30 November 2021. Helen Herd served on the Executive Leadership Team from 1 April to 30 November 2021. The full-time equivalent salary for the period during which Helen Herd served on the Executive Leadership team was in the band £60-£65k.

Salaries quoted above relate to the period that the individual served on the Executive Leadership Team.

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

There were no performance-related pay payments in 2021/22 or 2020/21 and no member of the Executive Leadership Team received any benefits in kind in either year.

No employee received remuneration in excess of the highest paid director in 2021/22 or 2020/21.

Retirement benefits of members of HIE Leadership Team:

	CASH EQUIVALENT TRANSFER VALUE				
	ACCRUED PENSION AT NORMAL RETIREMENT DATE AS AT 31 MARCH 2022 AND RELATED LUMP SUM	REAL INCREASE IN PENSION AND RELATED LUMP SUM AT PENSION AGE	AT 31 MARCH 2022	AT 31 MARCH 2021	INCREASE IN TRANSFER VALUE DURING YEAR (NET OF MEMBER CONTRIBUTIONS)
	£000	£000	£000	£000	£000
Dr J Stuart Black*	0 - 5 Lump sum 5 - 10	0 - 2.5 Lump sum 0 - 2.5	43	42	0
Charlotte Wright*	55 - 60 Lump sum 95 - 100	0 - 2.5 Lump sum 0 - 2.5	993	1,008	-24
Carroll Buxton	30 - 35 Lump sum 95 - 100	0 - 2.5 Lump sum 5 - 7.5	886	837	38
Douglas Cowan	40 - 45 Lump sum 55 - 60	0 - 2.5 Lump sum 0 - 2.5	790	738	39
David J Oxley	20 - 25 Lump sum 60 - 65	0 - 2.5 Lump sum 2.5 - 5	547	513	26
Nicholas Kenton	5 - 10 Lump sum 15 - 20	0 - 2.5 Lump sum 2.5 - 5	116	89	20
Sandra Dunbar	30 - 35 Lump sum 95 - 100	0 - 2.5 Lump sum 2.5 - 5	903	865	29
Karen Moncrieff	30 - 35 Lump sum 90 - 95	0 - 2.5 Lump sum 5 - 7.5	847	798	41
Rachel Hunter	20 - 25 Lump sum 60 - 65	0 - 2.5 Lump sum 5 - 7.5	524	489	28
Martin Johnson	20 - 25 Lump sum 60 - 65	0 - 2.5 Lump sum 5 - 7.5	531	487	37
Helen Herd*	15 - 20 Lump sum 55 - 60	0 - 2.5 Lump sum 5 - 7.5	603	477	120

*For members who did not serve as a director for the full year, the accrued pension and capital values stated are as at the start and end of the period of the year for which the member served as director.

The Chief Executive and members of the HIE Leadership Team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPS. The assets of these Career Average Revalued Earning (CARE) schemes are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the schemes' trustees.

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

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

LGPS benefits accrue at one-eightieth of pensionable salary plus three-eighths 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.

RETIREMENT BENEFITS - CASH EQUIVALENT TRANSFER VALUES

A cash-equivalent transfer value (CETV) is the actuarially-assessed capitalised value of the pension scheme benefits accrued by a member to a particular point in time. The benefits valued are the member's benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued because 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.

FAIR PAY DISCLOSURE

PERCENTAGE CHANGE IN REMUNERATION OF HIGHEST PAID DIRECTOR

	2021/22	2020/21
Salary of highest paid director *	£117,500	£112,500
Movement from previous year	4%	0%

* Based on highest full-time equivalent salary of a director during the year

PERCENTAGE CHANGE IN REMUNERATION OF ALL OTHER EMPLOYEES

	2021/22	2020/21
Average remuneration	£44,545	£44,050
Movement	1%	4%

PAY RATIO INFORMATION

The ratio of the remuneration of the highest paid director to the pay of employees in the financial year was as follows:

	2021/22	2020/21
25th percentile pay ratio	3.5:1	3.4:1
Median pay ratio	2.7:1	2.6:1
75th percentile pay ratio	2.6:1	2.5:1

The median remuneration of HIE's employees is based on the annualised full-time equivalent salary of employees at 31 March 2022.

The full-time equivalent remuneration paid to HIE staff ranged from £21.5k to £98k (2021 £19k to £97k). No employee received remuneration in excess of the highest paid director in either year.

The movement in pay ratios is consistent with HIE's pay and progression policies applicable to all staff.

Total pay relating to the employee whose pay is on the following percentile of pay of employees for the financial year was as follows:

	2021/22	2020/21	2019/20
25th percentile	£34,003	£33,336	£32,365
50th percentile	£43,068	£42,642	£41,400
75th percentile	£45,221	£44,773	£43,469

There were no performance-related pay payments or benefits in kind payable to any employee in 2021/22 or 2020/21.

STAFF REPORT

STAFF NUMBERS AND COST - GROUP

	GROUP			GROUP		
	2022			2021		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,954	3,001	11,955	8,484	3,314	11,798
Voluntary severance packages	-	-	-	-	-	-
Social security costs	1,061	307	1,368	1,046	322	1,368
Other pension costs	3,248	671	3,919	2,745	710	3,455
Contract/temporary staff	-	212	212	-	126	126
	13,263	4,191	17,454	12,275	4,472	16,747
Board members' remuneration	367	-	367	457	-	457
	13,630	4,191	17,821	12,732	4,472	17,204

The average number of employees was as follows:

	GROUP			GROUP		
	2022			2021		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
Senior management	52	20	72	55	20	75
Operational staff	33	33	66	33	35	68
Administration and support staff	122	74	196	130	69	199
	207	127	334	218	124	342

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

STAFF NUMBERS AND COST - HIE

	HIE			HIE		
	2022			2021		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,100	2,184	10,284	7,631	2,633	10,264
Voluntary severance packages	-	-	-	-	-	-
Social security costs	962	232	1,194	945	278	1,223
Other pension costs	3,172	606	3,778	2,666	685	3,351
Contract/temporary staff	-	212	212	-	126	126
	12,234	3,234	15,468	11,242	3,722	14,964
Board members' remuneration	367	-	367	372	-	372
	12,601	3,234	15,835	11,614	3,722	15,336

The average number of employees was as follows:

	HIE			HIE		
	2022			2021		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
Senior management	52	13	65	54	13	67
Operational staff	33	6	39	33	11	44
Administration and support staff	122	39	161	118	46	164
	207	58	265	205	70	275

COMPENSATION AND EXIT PACKAGES

No staff left under voluntary severance terms between 1 April 2021 and 31 March 2022 (2020/21 nil). The total cost of lump sum payments to staff was nil in both years.

STAFF TURNOVER

HIE had a staff turnover rate of 11.4% for 2021/22.

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

EMPLOYEES BY SEX

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

Highlands and Islands Enterprise staff:

	MALE	FEMALE	TOTAL
Board*	6	3	9
Leadership Team*	5	4	9
Other employees	100	166	266

* Dr J Stuart Black (Chief Executive) is included as a member of the Board in the table above. He is also a member of the Leadership Team.

SICKNESS ABSENCE

Highlands and Islands Enterprise staff:

The attendance record for HIE employees for the year to 31 March 2022 was 1,409 (2021 1,356) days' sick leave out of a total of 59,154 (2021 59,382) possible working days, representing a lost time through sickness rate of 2.38% (2021 2.28%).

TRADE UNION FACILITY TIME

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

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

There was 1 staff member who was a trade union official during 2021/22.

PERCENTAGE OF WORKING HOURS SPENT ON FACILITY TIME	UNION OFFICIALS
	No.
1 – 50%	1

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

STAFF POLICIES IN RESPECT OF DISABLED PERSONS

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

Getting the right people for your business (7 criteria)

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

Keeping and developing your people (6 criteria)

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

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

DIVERSITY AND INCLUSION

Our inclusive working environment is enhanced by flexible working. Since last year, the percentage of HIE staff with agreed flexible working arrangements has increased from 30% to 36%. To promote and encourage greater diversity and inclusion, we ensure that the default position for all roles advertised in HIE is that they can be done from a flexible location unless there is a specified overriding business consideration. We encourage the geographic dispersal of jobs, particularly to our island communities. All staff have the option to work flexibly on an informal basis. The majority of HIE staff are able to blend home and office working as part of our transition to a hybrid working model since the pandemic.

We were an early adopter and promoter of the 'Happy to Talk Flexible Working' strapline which features prominently on our website recruitment pages and as part of recruitment campaigns.

HIE has a suite of family friendly and flexible working policies that help set the context and tone for our approach, backed up by practical support, tools, facilities and resources to help all our employees balance the demands of work and home, whether that's for childcare, foster care, eldercare, young people, preretirement, as community volunteers etc. HIE is also a Carer Positive employer and, having reached the second level of that scheme, we are in the process of working towards the top 'Exemplary' level, which would make us the first to be recognised at this level in the Highlands and Islands.

Our latest equal pay audit shows that HIE's gender pay gap has increased marginally from 14.35% to 15%, although in nearly all grades there are small improvements and progress from previous years, which saw a high of 22.54% in 2009. More men are at the top of their grades while women are still travelling through the salary scales in some areas, which also indicates that more women are being promoted. HIE's employment equality outcomes have been refreshed to look at how we can further advance and support equality of opportunity for all employees.

As noted above, as a Disability Confident employer, HIE plans to progress to seek accreditation as Disability Confident Leader.

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

HIE has achieved the Armed Forces Covenant bronze award by the Ministry of Defence for support of the armed forces community. Specific commitments include supporting the employment of veterans, recognising military skills and qualifications in our recruitment and selection process; working with the Career Transition Partnership to support the employment of service leavers, as well as supporting our employees who are reservists and volunteer cadet leaders in granting paid and unpaid leave for training and deployment.

Along with partner organisations, HIE has signed up to the guarantee which is a joint commitment to provide opportunities for young people through jobs, apprenticeships, further and higher education, training programmes and volunteering. HIE's guarantee commitment has been cited by Scottish Government as an example of best practice.

PARLIAMENTARY ACCOUNTABILITY REPORT

The results for the year to 31 March 2022 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.

Summary of Resource and Capital outturn

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

The net outturn for Highlands and Islands Enterprise for the year ended 31 March 2022 was as follows:

SUMMARY OF RESOURCE AND CAPITAL OUTTURN					
	Expenditure	Income	Outturn	Final Budget Allocation	(Over)/Under spend
	£000	£000	£000	£000	£000
Resource Budget	42,656	7,995	34,661	33,476	(1,185)
Capital Budget	51,431	3,932	47,499	48,448	949
Financial Transactions expenditure	550	-	550	1,250	700
Ring Fenced Resource - expected credit losses	(1,948)	-	(1,948)	-	1,948
	92,689	11,927	80,762	83,174	2,412
Non-cash costs including depreciation	1,288	-	1,290	5,095	3,805
Annually managed expenditure	11,473	-	11,473	7,500	(3,973)
	105,450	11,927	93,525	95,769	2,244

Highlands and Islands Enterprise net underspend against its allocated budget excluding expected credit losses for the year to March 2022 was £0.5m. The overall budget underspend was £2.2m

SOURCES OF FINANCE

Grant In Aid allocation

Highlands and Islands Enterprise drew down Grant in Aid of £85.3m of the £86.0m Grant in aid available from Scottish Government including an authorised overspend of £2.8 million.

Budget Outturn

The resource outturn of £34.6 million was £1.2 million higher than the budget allocation. The overspend was agreed with SG post spring budget allocation and forms part of the £2.8 million additional GIA allocation.

The capital expenditure outturn of £47.5 million was £0.9 million lower than budget. The main element of the underspend related to slippage on large construction projects.

Financial transactions expenditure of £0.6 million was £0.7 million under budget.

Non cash costs including depreciation were £1.3 million, £3.8 million under the provision set by the Scottish Government.

The Annually Managed Expenditure was £11.5 million against a budget of £7.5 million. £4.0 million over the provision set by the Scottish Government. The main element of the overspend relates to higher than expected downward valuation of property construction projects

The Budget for 2022/23 of £64.2 million awarded by the Scottish Government comprises Grant-in-Aid and 'ringfenced' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

RECONCILIATION OF RESOURCE AND CAPITAL OUTTURN TO GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE	NOTE	£000
Resource and capital outturn		93,523
Property plant and equipment disposals HIE	11	665
Property plant and equipment additions HIE	11	(17,412)
Intangible asset additions	12	(975)
Investment additions	13	(619)
Consolidation adjustments	4	(871)
Investment disposals and repayments	13	2,847
Net expenditure after interest		77,158

LOSSES AND SPECIAL PAYMENTS

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.

Highlands and Islands Enterprise continues to pursue all outstanding debts where there is a reasonable chance of recovery of the debt.

LOSSES AND SPECIAL PAYMENTS				
	GROUP		HIE	
	No of cases	£000	No of cases	£000
Financial Asset losses (losses arising from the disposal of financial assets)	2	212	2	212
Claims Waived	10	1,355	10	1,355

In the year to 31 March 2022 there were 0 (2021 - 1) financial asset losses which exceeded £250,000.

	2022
	£000
	0
	0

In the year to 31 March 2022 there was 1 (2021 - 1) claim waived which exceeded £250,000.

	2022
	£000
Scotland Electronics (International) Ltd	965
	965

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.



DR J S BLACK

Chief Executive and Accountable Officer
Highlands and Islands Enterprise
06 December 2022

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HIGHLANDS AND ISLANDS ENTERPRISE, THE AUDITOR GENERAL FOR SCOTLAND AND THE SCOTTISH PARLIAMENT

Reporting 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 2022 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, Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Government Financial Reporting Manual (the 2021/22 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 body's affairs as at 31 March 2022 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

BASIS FOR OPINION

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 18 March 2022. This is the first year of my appointment. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

CONCLUSIONS RELATING TO GOING CONCERN BASIS OF ACCOUNTING

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the body's current or future financial sustainability. However, I report on the body's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

RISKS OF MATERIAL MISSTATEMENT

I report in my separate Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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.

In preparing the financial statements, the Accountable Officer is responsible for assessing the body's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the body's operations.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the body is complying with that framework;
- identifying which laws and regulations are significant in the context of the body;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the body's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting 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. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, 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.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on audited part of the Remuneration and Staff Report

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

OTHER INFORMATION

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

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

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 the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on Performance Report and Governance Statement

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

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

MATTERS ON WHICH I AM REQUIRED TO REPORT BY EXCEPTION

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

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

I have nothing to report in respect of these matters.

CONCLUSIONS ON WIDER SCOPE RESPONSIBILITIES

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pauline Gillen

Pauline Gillen

Audit Director
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT
06 December 2022

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2022

	Notes	Group		HIE	
		2022	2021	2022	2021
		£000	£000	£000	£000
Expenditure					
Operating expenditure	6	64,452	72,855	66,053	75,137
Net management expenditure on staff costs	7	14,712	12,646	13,683	11,613
Other management expenditure	7	6,722	8,995	5,255	7,932
Depreciation and amortisation	7	1,357	(536)	1,238	(649)
		87,243	93,960	86,229	94,033
Income					
Income from activities	5	(2,718)	(2,371)	(2,730)	(2,390)
Other income	5	(8,369)	(11,251)	(6,229)	(10,901)
		(11,087)	(13,622)	(8,959)	(13,291)
Net operating expenditure		76,156	80,338	77,270	80,742
Interest payable and similar charges	9	24	(9)	6	(25)
Amounts written off financial assets measured at amortised cost		-	-	-	-
Share of (profits)/losses in equity accounted investees	13	(66)	91	-	-
Income from investments		-	-	-	-
Interest receivable	8	(196)	(323)	(196)	(323)
Other finance charges/(income)	8	1,240	1,025	1,240	1,025
Net expenditure after interest		77,158	81,122	78,320	81,419
Taxation	10	658	480	658	480
Net expenditure after taxation		77,816	81,602	78,978	81,899
Minority interests		(3)	2	-	-
Net expenditure		77,813	81,604	78,978	81,899
Other comprehensive expenditure/(Income)					
Items that will not be reclassified to net expenditure					
Net (gains)/losses on revaluation of property, plant and equipment		(1,854)	(169)	(1,854)	(169)
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		-	-	-	-
Actuarial (gains)/losses recognised in retirement benefit scheme	20	(16,025)	17,636	(16,025)	17,636
Items that may be reclassified to net expenditure					
(Gains)/ losses in revaluation of available for sales assets		-	-	-	-
Reclassification to net expenditure in the year		-	-	-	-
Other comprehensive expenditure/(income) for the year		(17,879)	17,467	(17,879)	17,467
Total comprehensive net expenditure/(Income) for the year		59,934	99,071	61,099	99,366

2021 figures have been restated to reallocate a provision release from management expenditure to operating expenditure

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2022

	Notes	GROUP		HIE	
		Restated		Restated	
		2022	2021	2022	2021
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	11	35,741	32,365	34,230	31,784
Intangible Assets	12	2,009	1,385	2,009	1,385
Financial Assets	13	1,931	1,965	3,394	3,400
Investment in associate	13	1,162	1,076	-	-
Total non-current assets		40,843	36,791	39,633	36,569
Current assets					
Inventories		46	26	-	-
Trade and other receivables	15	13,722	9,949	13,776	9,907
Cash and cash equivalents	16	10,088	2,663	381	617
Assets classified as held for sale	17	1,975	1,701	1,975	1,701
Total current assets		25,831	14,339	16,132	12,225
Total assets		66,674	51,130	55,765	48,794
Current liabilities					
Trade payables and other current liabilities	18	(10,468)	(7,752)	(8,565)	(6,884)
Taxation	18	(526)	(389)	(434)	(329)
Provisions	19	(11,098)	(13,096)	(11,098)	(13,096)
Total current liabilities		(22,092)	(21,237)	(20,097)	(20,309)
Non-current assets plus net current assets		44,582	29,893	35,668	28,485
Non-current liabilities					
Trade payables and other liabilities	18	(10,461)	(3,022)	(4,117)	(3,022)
Provisions	19	(185)	(4,005)	(185)	(4,005)
Retirement benefit obligation	20	(46,877)	(60,580)	(46,877)	(60,580)
Total non-current liabilities		(57,523)	(67,607)	(51,179)	(67,607)
Assets less liabilities		(12,941)	(37,714)	(15,511)	(39,122)
Tax Payers' Equity					
Revaluation reserve		3,914	2,061	3,913	2,061
Other reserve		6	5	4	2
Pension reserve		(46,877)	(60,580)	(46,877)	(60,580)
Minority Interests		391	394	-	-
General reserve		29,625	20,406	27,449	19,395
Total Equity		(12,941)	(37,714)	(15,511)	(39,122)

J. Stuart Black

DR J S BLACK

Chief Executive and Accountable Officer, Highlands and Islands Enterprise
The Accountable Officer authorised these financial statements for issue on 06 December 2022

Date: 06 December 2022

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2022

		Group		HIE	
		2022	2021	2022	2021
			Restated		Restated
	Notes	£000	£000	£000	£000
Cash flow from operating activities					
Net expenditure after interest		(77,158)	(81,122)	(78,320)	(81,419)
Adjustments for non-cash items:					
Depreciation	7	1,357	(536)	1,238	(649)
Provision for irrecoverable debts and losses		(29)	(547)	(29)	(547)
Investments written off, net of provision		(1,914)	(291)	(1,921)	(75)
Surplus of disposal of investments	5	(500)	-	(500)	-
Deficit on revaluation of property		14,968	4,714	14,969	4,714
Surplus on disposal of property, plant and equipment		(62)	(240)	(62)	(240)
Share of Associates profit/(loss)	13	(66)	91	-	-
Interest payable	9	24	(9)	6	(25)
Interest receivable	8	(196)	(323)	(196)	(323)
Retirement benefit scheme net changes		2,322	960	2,322	960
		(61,254)	(77,303)	(62,493)	(77,604)
(Increase)/decrease in inventories		(20)	(10)	-	-
(Increase)/decrease in trade and other receivables		(4,025)	1,179	(4,121)	4,287
Increase/(decrease) in trade and other payables		9,291	(3,574)	1,877	(4,261)
(Decrease)/Increase in provision for future liabilities		(5,818)	2,488	(5,818)	2,488
Net cash outflow from operating activities		(61,826)	(77,220)	(70,555)	(75,090)
Cash flows from investing activities					
Investment in associates		(20)	(80)	(20)	(80)
Proceeds of disposal of property, plant and equipment		763	1,547	753	1,547
Proceeds of disposal of preference shares		2,500	-	2,500	-
Interest received		197	326	197	326
Loans advanced in year	13	(619)	(111)	(619)	(111)
Loans repaid in year	13	847	352	847	352
Purchase of intangible assets		(975)	(1,257)	(975)	(1,257)
Purchase of property, plant and equipment		(18,128)	(4,816)	(17,068)	(4,811)
Net cash inflow from investing activities		(15,435)	(4,039)	(14,385)	(4,034)
Cash flows from financing activities					
Grants from Scottish Government		84,710	78,848	84,710	78,848
Interest paid	9	(24)	9	(6)	25
Net cash inflow from financing activities		84,686	78,857	84,704	78,873
Net increase/(decrease) in cash and cash equivalents in the period	16	7,425	(2,402)	(236)	(251)
Cash and cash equivalents at the beginning of the period	16	2,663	5,065	617	868
Cash and cash equivalents at the end of the period	16	10,088	2,663	381	617

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**FOR THE YEAR ENDED 31 MARCH 2022**

	Revaluation reserve	Other reserve	Pension reserve	Minority Interest	General reserve	Total reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2020	1,877	5	(41,984)	392	22,217	(17,493)
Changes in taxpayers' equity for 2020/21						
Net gain/(loss) on revaluation of property, plant and equipment	169	-	-	-	-	169
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	15	-	(960)	-	945	-
Actuarial Gain/(loss)	-	-	(17,636)	-	-	(17,636)
Retained Surplus/Deficit	-	-	-	2	(81,604)	(81,602)
Total recognised income and expense for 2020/21	184	-	(18,596)	2	(80,659)	(99,069)
Grant from Scottish Government	-	-	-	-	78,848	78,848
Balance at 31 March 2021	2,061	5	(60,580)	394	20,406	(37,714)
Changes in taxpayers' equity for 2021/22						
Net gain/(loss) on revaluation of property, plant and equipment	1,853	1	-	-	-	1,854
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	-	-	(2,322)	-	2,322	-
Actuarial Gain/(loss)	-	-	16,025	-	-	16,025
Retained Surplus/Deficit	-	-	-	(3)	(77,813)	(77,816)
Total recognised income and expense for 2021/22	1,853	1	13,703	(3)	(75,491)	(59,937)
Grant from Scottish Government	-	-	-	-	84,710	84,710
Balance at 31 March 2022	3,914	6	(46,877)	391	29,625	(12,941)

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 £4k (2021 £2k) and the share of equity accounted investee reserves £2k (2021 £3k).

Pension reserve is the accumulated deficit arising from the HIE Superannuation Scheme and the Local Government Pension Scheme.

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 2022**

	Revaluation reserve	Other reserve	Pension reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2020	1,877	2	(41,984)	21,501	(18,604)
Changes in taxpayers' equity for 2020/21					
Net gain/(loss) on revaluation of property, plant and equipment	169	-	-	-	169
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	15	-	(960)	945	-
Actuarial Gain/(loss)	-	-	(17,636)	-	(17,636)
Retained Surplus/Deficit	-	-	-	(81,899)	(81,899)
Total recognised income and expense for 2020/21	184	-	(18,596)	(80,954)	(99,366)
Grant from Scottish Government	-	-	-	78,848	78,848
Balance at 31 March 2021	2,061	2	(60,580)	19,395	(39,122)
Changes in taxpayers' equity for 2021/22					
Net gain/(loss) on revaluation of property, plant and equipment	1,852	2	-	-	1,854
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	-	-	(2,322)	2,322	-
Actuarial Gain/(loss)	-	-	16,025	-	16,025
Retained Surplus/Deficit	-	-	-	(78,978)	(78,978)
Total recognised income and expense for 2021/22	1,852	2	13,703	(76,656)	(61,099)
Grant from Scottish Government	-	-	-	84,710	84,710
Balance at 31 March 2022	3,913	4	(46,877)	27,449	(15,511)

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 £4k (2021 £2k).

Pension reserve is the accumulated deficit arising from the HIE Superannuation Scheme and the Local Government Pension Scheme.

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

NOTES TO THE ACCOUNTS

1. Accounting policies

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the 2021/22 Government Financial Reporting Manual (FReM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990.

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

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

- property (note 11)
- financial assets (note 13)
- assets classified as held for sale (note 17)
- financial commitments (note 22)

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

GOING CONCERN

The financial statements for the year ended 31 March 2022 show net liability position of £13.9m (Group £11.3m net liabilities). The position of net liabilities has arisen due to the HIE Superannuation Scheme and Local Government Pension Scheme deficits. These liabilities will be funded by the Scottish Government as they arise. The financial statements have therefore been prepared on a going concern basis.

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.

BASIS OF CONSOLIDATION

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

(a) Subsidiaries

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

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

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

(b) Associates and joint arrangements

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

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

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

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

(c) Other

In respect of other invested companies, Highlands and Islands Enterprise considers that in general, the role of the Group is normally that of a passive investor and that investment holdings taken will be disposed of at the earliest opportunity. Highlands and Islands Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland. Other investments which are not considered subsidiaries, joint arrangements or associates are recorded at historic cost, fair value or amortised cost as appropriate.

ACCOUNTING FOR GRANT-IN-AID

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

EUROPEAN UNION FUNDING AND OTHER GRANTS

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

INCOME

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

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

Revenue from contracts with customers is accounted for in accordance with IFRS 15. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The impact on the consolidated accounts is not qualitatively and quantitatively material due to minimal contracts with customers and no revenues from taxation, fines and penalties.

EXPENDITURE

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

PROPERTY, PLANT AND EQUIPMENT

HIE has 4 categories of property, plant and equipment:

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

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

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

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

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

- Buildings – structure: 12-60 years
- Buildings – engineering: 12-45 years
- Buildings – specialist engineering: 12-45 years
- Plant and equipment: 1-40 years
- Tenants' improvements: 10 years
- IT equipment: 4 years

The Current Value for completed property is based on the Fair 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.

INTANGIBLE ASSETS

Expenditure on intangible assets, which includes purchased computer software licences and internally developed software, HIE capitalises any purchases over £5,000. When capitalising internally developed assets such as software, only directly attributable costs are included where it is deemed that the asset will generate future economic benefits in the way of savings or improvements to internal processes.

FReM directs users to value intangible assets at fair value of the asset rather than cost and recommends depreciated replacement cost as an appropriate method. However, HIE does not currently index software on the basis that assets have a short useful life, costs are unlikely to fluctuate significantly over that life, and that the asset may not be replaceable like for like due to technological advances. Applying indexation to the original cost would also not give a reliable estimation of the replacement cost of the asset. Intangible assets are therefore carried at depreciated historical cost. Intangible assets are amortised over 4-8 years.

FINANCIAL ASSETS - EQUITY

Equity instruments which have been classified as financial assets at fair value through profit and loss and are shown at Fair Value in accordance with IFRS 9. HIE holds financial assets for economic development and regeneration. These financial assets are valued at fair value through profit and loss. A review of the Share Agreements and Articles of Association of the Investee companies was carried out for all HIE's Investments to establish the correct classification of each. As there is no active market in most of HIE's investments, Fair Value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arm's length and Net Assets based valuations. Other valuation methods were not considered appropriate due to a lack of marketplace 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.

FINANCIAL ASSETS - LOANS AND RECEIVABLES

Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure.

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

For credit exposures where there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. For trade receivables, HIE applies the simplified approach permitted by IFRS 9 which requires lifetime losses to be recognised from initial recognition to the receivables.

INTANGIBLE ASSETS GOODWILL

Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight-line basis over a period of 4-8 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 Fair Value with an allowance made for legal costs related to the sales.

IRRECOVERABLE INCOME

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

LEASE COMMITMENTS

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

RESEARCH EXPENDITURE

All research expenditure is charged in the year it occurs.

INSURANCE

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

TAXATION

The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2020 have been agreed with the relevant tax authorities.

EMPLOYEE BENEFITS

Retirement Benefits

Most staff are members of the Highlands and Islands Enterprise Superannuation Scheme or Local Government Pension Schemes. The Highlands and Islands Enterprise superannuation scheme is a defined benefits scheme based on career average salary. The appointed actuary for the scheme is Spence and Partners. 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 schemes are defined benefit schemes, the assets of which are held in independently administered funds.

On the advice of independent qualified actuaries, contribution payments are made to the schemes to ensure that the scheme assets are sufficient to cover future liabilities. Assets are measured using market values. 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 schemes expected to arise from employee service in the period is charged against operating surplus.

The expected return on the assets of the scheme and the increase during the period in the present value of the liabilities arising from the passage of time are included in investment income. Actuarial gains and losses are recognised in the Statement of Changes in Taxpayers' Equity.

Additional information is disclosed in note 20.

Short term employee benefits

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

TRADE RECEIVABLES AND PAYABLES

All commercial and trade sums due and payable (Receivables and Payables) are stated at fair value.

CASH AND CASH EQUIVALENTS

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

PROVISIONS

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

■ IFRS 16 – Leases

IFRS 16 replaces "IAS 17 – Leases" and largely removes the distinction between operating and finance leases for leases 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. As a result of the current COVID-19 response implementation of IFRS 16 has been deferred to 1 April 2022. If IFRS 16 had been adopted the effect would have been to increase leased assets and financial liabilities by £10.0m as at 31 March 2022. In addition, expenditure would have been reduced by £0.7m and depreciation charges would have increased by £0.6m

2. Critical judgements made in applying accounting policies

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.
- The actuary of the Highland and Islands Enterprise superannuation scheme estimates the longevity of current and future pensioners using the Vita Club CMI 2016 tables. This differs from the VitaCurves tables used by the actuary for the local government pension funds.

(b) Fair value of financial instruments

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

(c) Held-to-maturity investments

The Group follows the guidance of IFRS 9 to determine the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk when a financial asset held at amortised cost is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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

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

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

The Group follows the guidance of IFRS 9 to determine when a financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(e) EU Income

The Group operates a series of programmes which attract financial support from the European Union. Funding is claimed in arrears at the intervention rate agreed at the start of the programmes and based upon the costs incurred to deliver the programme and the successful delivery of strategic operational outcomes. Claims submitted during the financial year are recognised as income in the financial year they are presented. At the end of each financial year an assessment is made of eligibility of the expenditure incurred and for which the Group will be able to secure the evidence standards required to make a claim for European funding in the future. Based upon the completed verification work and extended to expenditure still to be fully verified, an estimate is made of associated income not yet claimed which is then accrued in the financial statements.

(f) Property

Each year HIE commissions a valuation of its land and buildings.

The valuation report has been used to inform the measurement of assets in these financial statements. The valuer has continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to the Group at 31 March 2022 and can be relied upon.

(g) Provisions

Each year HIE reviews the value of the provisions. The value of each provision is based on the most recent cost information available at the time of preparation of the accounts

3. Assumptions made about the future and other sources of estimation uncertainty

The financial statements contain estimated figures that are based on assumptions made by HIE about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The balance sheet of HIE at 31 March 2022 includes the following items for which there is significant risk of material adjustment in the forthcoming financial year:

ITEM	UNCERTAINTIES	EFFECT IF RESULTS DIFFER FROM ASSUMPTIONS
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The HIE Superannuation Scheme has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.	The impact of changes in assumptions used to calculate the pension liability has been assessed by the actuaries as described in note 20.

4. 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 2021 and 2022 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.

SEGMENTAL INFORMATION		
	2022	2021
	£000	£000
Expenditure		
Block A		
Discretionary spend	16,518	18,546
Priority Investment	35,799	21,079
Business support	7,103	5,969
Cairngorm Mountain (Scotland) Limited	1,771	1,973
WES	6,026	7,295
Total Block A	67,217	54,862
Block B		
Management, staff and administration cost	15,660	15,059
Total Block B	15,660	15,059
Total Gross Expenditure	82,877	69,921
Income		
Loan repayments	847	352
Equity sales	2,500	0
Property sales	753	1,546
Property rental	2,143	2,144
Loan interest / dividend	224	271
Scottish Government Grant	441	4,917
Other income	534	1,583
Total other income	7,442	10,813
Net expenditure funded by core SG income	75,435	59,108

Other income and expenditure		
Expenditure		
European Funds	2,076	1,776
Broadband	0	0
Community Renewal fund	26	0
Scottish Land Fund (SLF)	488	396
City Region Deal - Science Skills Academy	471	407
City Region Deal - Northern Innovation Hub	1,144	1,116
Covid Support	7,274	18,633
Orkney the Brand	280	74
Expected Credit Losses	(1,948)	92
	9,811	22,494
Income		
European Funds	2,076	1,365
Community Renewal fund	26	0
Scottish Land Fund (SLF)	488	396
City Region Deal - Science Skills Academy	471	407
City Region Deal - Northern Innovation Hub	1,144	1,116
Orkney the Brand	280	74
	4,485	3,358
Financial position (I&E)	80,761	78,244
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	(80,761)	(78,244)
Pension (IAS19)	(2,322)	(960)
Depreciation	(1,006)	535
Amortisation	(351)	-
Provisions and charges	5,939	(2,479)
Timing differences	-	1
Property cost of sales	(665)	(1,288)
Capital revaluation and additions	1,071	1,306
Taxation provision and charges	-	(25)
HIE Ventures Limited	-	(1)
Associate companies	66	(11)
Consolidation adjustments	871	44
Group net operating cost before taxation	(77,158)	(81,122)

5. Income from operating activities

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

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Income from Activities				
Property rentals	2,130	2,125	2,142	2,144
Surplus/(loss) on disposal of property	88	246	88	246
Surplus/(loss) on disposal of investments	500	-	500	-
	2,718	2,371	2,730	2,390
Other Income				
Other European contributions	2,098	1,351	2,098	1,351
Scottish Government receipts	570	4,917	570	4,917
Other external income	5,701	4,983	3,561	4,633
	8,369	11,251	6,229	10,901

6. Expenditure on operating activities

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

						Restated	
	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2021	
	£000	£000	£000	£000	£000	£000	
Highlands and Islands Enterprise	26,865	12,003	19,001	-	57,869	65,985	
Cairngorm Mountain (Scotland) Limited	-	-	-	1,427	1,427	781	
Wave Energy Scotland	5,156	-	-	-	5,156	6,089	
HIE Ventures Limited	-	-	-	-	-	-	
Group	32,021	12,003	19,001	1,427	64,452	72,855	
2021	30,249	12,411	29,414	781	72,855		

Expenditure includes grants of £35,959k (2021 £45,455k) of which £692k (2021 £212k) were made to the public sector and £35,267k (2021 £45,243k) to the private sector.

Property revaluation and management costs of £5,018k (2021 £1,645k) are included within Business Support expenditure above.

Fees chargeable for audit services provided by Audit Scotland amounted to £144k (2021 £141k).

						Restated	
	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2021	
	£000	£000	£000	£000	£000	£000	
Highlands and Islands Enterprise	35,049	12,003	19,001	-	66,053	75,137	
Cairngorm Mountain (Scotland) Limited	-	-	-	-	-	-	
Wave Energy Scotland	-	-	-	-	-	-	
HIE Ventures Limited	-	-	-	-	-	-	
Highlands and Islands Enterprise	35,049	12,003	19,001	-	66,053	75,137	
2021	33,312	12,411	29,414	-	75,137		

7A. ADMINISTRATION AND MANAGEMENT CHARGES BY ORGANISATION

	GROUP	
	Restated	
	2022	2021
	£000	£000
Highlands and Islands Enterprise	20,038	18,384
Cairngorm Mountain (Scotland) Limited	1,421	1,342
Wave Energy Scotland Limited	1,331	1,377
Former LECs	-	-
HIE Ventures Limited	1	2
Continuing operations	22,791	21,105

7B. ADMINISTRATION AND MANAGEMENT CHARGES

	GROUP		HIE	
	Restated		Restated	
	2022	2021	2022	2021
	£000	£000	£000	£000
Continuing operations				
Staff and board member salaries	13,630	12,711	12,601	11,678
IAS 19 adjustment in respect of service costs and curtailments	1,082	(65)	1,082	(65)
	14,712	12,646	13,683	11,613
Travel and subsistence - board members	1	-	1	-
Travel and subsistence - staff	105	40	79	38
Accommodation	1,053	1,170	983	1,141
Hospitality – board members	-	-	-	-
Hospitality – staff	-	5	-	5
Audit fees	163	157	144	141
Operating lease rentals – equipment	46	40	17	18
Equipment and furnishings	14	152	14	152
Provision for irrecoverable debts and losses and write off of debts	13	46	13	46
Movement in investment provisions and write off of investments	(1,933)	(411)	(1,933)	(361)
Investment fair value adjustments	19	119	12	286
Other provisions	4,307	4,757	4,307	4,757
Other administration costs	2,934	2,920	1,618	1,709
	6,722	8,995	5,255	7,932
Depreciation of fixed assets	1,006	(536)	887	(649)
Amortisation of intangible assets	351	-	351	-
	1,357	(536)	1,238	(649)
Total administration and management charges	22,791	21,105	20,176	18,896

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

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

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Interest receivable				
Loan interest receivable	(195)	(315)	(195)	(315)
Bank interest receivable	(1)	(8)	(1)	(8)
	(196)	(323)	(196)	(323)
Other finance (income) / charges				
Interest income on retirement benefit assets	(2,763)	(2,797)	(2,763)	(2,797)
Interest on retirement benefit scheme obligations	4,003	3,822	4,003	3,822
	1,240	1,025	1,240	1,025

9. INTEREST PAYABLE

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Other	24	(9)	6	(25)
	24	(9)	6	(25)

10. Taxation

Corporation tax is charged at 19% (2021 19%) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10% and 20% on the taxable incomes of its subsidiaries.

10. TAXATION				
	GROUP			HIE
	2022	2021	2022	2021
	£000	£000	£000	£000
Current tax				
Current tax on profits for the year	-	-	-	-
Adjustment in respect of prior years	-	-	-	-
Total current tax	-	-	-	-
Deferred tax				
Current year	209	564	209	564
Adjustment in respect of previous periods	(153)	(219)	(153)	(219)
Effect of changes in tax rates	602	135	602	135
Total deferred tax	658	480	658	480
Tax per statement of comprehensive net expenditure	658	480	658	480
Factors affecting tax charge for the period				
Net expenditure after interest	77,158	81,122	78,320	81,419
Tax on loss at 19% (2021 19%)	(14,660)	(15,413)	(14,881)	(15,470)
Tax under/(over) provided in previous years	(153)	(219)	(153)	(219)
Non taxable income and disallowable expenditure	14,848	15,826	15,069	15,883
Effect of changes in Tax Rates	602	135	602	135
Revaluation	21	151	21	151
Current tax charge	658	480	658	480

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

11. Property Plant and Equipment

Land and buildings held for industrial and commercial use, were valued at 31 March 2022 on a fair 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 and had a total value of £34.1m (2021: £29.7m). Kinloch house was purchased in March 2022 and is included in the Statement of Financial Position at open market value.

PROPERTY PLANT AND EQUIPMENT - GROUP

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2020	23,745	3,478	175	27,398	1,319	1,216	7,860	37,793
Prior year adjustment	-	-	-	-	-	(358)	-	(358)
Restated at 1 April 2020	23,745	3,478	175	27,398	1,319	858	7,860	37,435
Additions	1,706	-	3,261	4,967	-	-	41	5,008
Write down	-	-	-	-	-	-	-	-
Disposals	(179)	-	-	(179)	-	(292)	(264)	(735)
Reclassifications	499	-	-	499	-	-	-	499
Revaluations	(1,587)	2	-	(1,585)	-	-	-	(1,585)
Impairment	-	-	(3,261)	(3,261)	-	-	-	(3,261)
At 31 March 2021	24,184	3,480	175	27,839	1,319	566	7,637	37,361
Depreciation								
At 1 April 2020	-	-	-	-	1,223	675	4,709	6,607
Prior year adjustment	-	-	-	-	-	(230)	-	(230)
Restated at 1 April 2020	-	-	-	-	1,223	445	4,709	6,377
Charged in year	252	49	-	301	11	197	(1,049)	(540)
Write down	-	-	-	-	-	-	4	4
Disposals	-	-	-	-	-	(292)	(252)	(544)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(252)	(49)	-	(301)	-	-	-	(301)
At 31 March 2021	-	-	-	-	1,234	350	3,412	4,996
Net Book Value								
At 31 March 2021	24,184	3,480	175	27,839	85	216	4,225	32,365
At 1 April 2021	24,184	3,480	175	27,839	1,319	566	7,637	37,361
Additions	3,862	349	13,063	17,274	13	58	1,127	18,472
Write down	-	-	-	-	-	-	-	-
Reclassifications	(880)	-	-	(880)	-	-	-	(880)
Disposals	(66)	-	-	(66)	(1,237)	-	(19)	(1,322)
Revaluations	(1,491)	50	-	(1,441)	-	-	235	(1,206)
Impairment	-	-	(12,178)	(12,178)	-	-	-	(12,178)
At 31 March 2022	25,609	3,879	1,060	30,548	95	624	8,980	40,247

Depreciation								
At 1 April 2021	-	-	-	-	1,234	350	3,412	4,996
Charged in year	243	45	-	288	8	119	520	935
Write down	-	-	-	-	-	-	71	71
Disposals	-	-	-	-	(1,200)	-	(8)	(1,208)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(243)	(45)	-	(288)	-	-	-	(288)
At 31 March 2022	-	-	-	-	42	469	3,995	4,506
Net Book Value								
At 31 March 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741
At 1 April 2021 (restated)	24,184	3,480	175	27,839	85	216	4,225	32,365
At 1 April 2020	23,745	3,478	175	27,398	96	413	3,151	31,058
Analysis of asset financing:								
	Land and buildings held for regeneration purposes £000	Land and buildings held for own use £000	Assets under construction £000	Total land and buildings £000	Tenants improvements £000	IT equipment £000	Plant and equipment £000	Total £000
Owned	23,884	3,480	175	27,539	85	216	4,225	32,065
Finance leased	300	-	-	300	-	-	-	300
Net Book Value								
At 1 April 2021 (restated)	24,184	3,480	175	27,839	85	216	4,225	32,365
Owned	25,309	3,879	1,060	30,248	53	155	4,985	35,441
Finance leased	300	-	-	300	-	-	-	300
Net Book Value								
At 31 March 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741
At 1 April 2021 (restated)	24,184	3,480	175	27,839	85	216	4,225	32,365
At 1 April 2020	23,745	3,478	175	27,398	96	413	3,151	31,058

PROPERTY PLANT AND EQUIPMENT - HIE

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2020	23,747	3,478	175	27,400	1,319	1,217	7,026	36,962
Prior year adjustment	-	-	-	-	-	(358)	-	(358)
Restated at 1 April 2020	23,747	3,478	175	27,400	1,319	859	7,026	36,604
Additions	1,706	-	3,261	4,967	-	-	36	5,003
Write down	-	-	-	-	-	-	-	-
Disposals	(179)	-	-	(179)	-	(292)	(264)	(735)
Reclassifications	499	-	-	499	-	-	-	499
Revaluations	(1,587)	2	-	(1,585)	-	-	-	(1,585)
Impairment	-	-	(3,261)	(3,261)	-	-	-	(3,261)
At 31 March 2021	24,186	3,480	175	27,841	1,319	567	6,798	36,525
Depreciation								
At 1 April 2020	-	-	-	-	1,224	676	4,565	6,465
Prior year adjustment	-	-	-	-	-	(230)	-	(230)
Restated at 1 April 2020	-	-	-	-	1,224	446	4,565	6,235
Charged in year	252	49	-	301	11	197	(1,162)	(653)
Write down	-	-	-	-	-	-	4	4
Disposals	-	-	-	-	-	(292)	(252)	(544)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(252)	(49)	-	(301)	-	-	-	(301)
At 31 March 2021	-	-	-	-	1,235	351	3,155	4,741
Net Book Value								
At 31 March 2021	24,186	3,480	175	27,841	84	216	3,643	31,784
At 1 April 2021	24,186	3,480	175	27,841	1,319	567	6,798	36,525
Additions	3,862	349	13,063	17,274	13	52	73	17,412
Write down	-	-	-	-	-	-	-	-
Reclassifications	(880)	-	-	(880)	-	-	-	(880)
Disposals	(66)	-	-	(66)	(1,237)	-	-	(1,303)
Revaluations	(1,491)	50	-	(1,441)	-	-	235	(1,206)
Impairment	-	-	(12,178)	(12,178)	-	-	-	(12,178)
At 31 March 2022	25,611	3,879	1,060	30,550	95	619	7,106	38,370

Depreciation								
At 1 April 2021	-	-	-	-	1,234	351	3,156	4,741
Charged in year	243	45	-	288	8	119	401	816
Write down	-	-	-	-	-	-	71	71
Disposals	-	-	-	-	(1,200)	-	-	(1,200)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(243)	(45)	-	(288)	-	-	-	(288)
At 31 March 2022	-	-	-	-	42	470	3,628	4,140

Net Book Value								
At 31 March 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
At 1 April 2021 (restated)	24,186	3,480	175	27,841	84	216	3,643	31,784
At 1 April 2020	23,747	3,478	175	27,400	95	541	2,461	30,497

Analysis of asset financing:

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	23,886	3,480	175	27,541	84	216	3,643	31,484
Finance leased	300	-	-	300	-	-	-	300

Net Book Value								
At 31 March 2021	24,186	3,480	175	27,841	84	216	3,643	31,784
Owned	25,311	3,879	1,060	30,250	53	149	3,478	33,930
Finance leased	300	-	-	300	-	-	-	300

Net Book Value								
At 31 March 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
At 1 April 2021 (restated)	24,186	3,480	175	27,841	84	216	3,641	31,784
At 1 April 2020	23,747	3,478	175	27,400	95	541	2,461	30,497

Plant and Equipment at Machrihanish was acquired by HIE in previous years. These assets, which were not previously included, have been independently valued at £0.235 as at 31 March 2022 and added to the Statement of Financial Position.

The revaluation surplus included in an item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised. There is no transfer of this surplus to retained earnings while the asset is in use.

RECONCILIATION OF PROFIT ON SALES:

	GROUP	
	2022	2021
	£000	£000
Sales value of disposals	753	1,522
Net book value of disposals	(665)	(1,275)
Profit on sales	88	247

ANALYSIS OF FUNDING OF ASSET ADDITIONS (INCLUDING ASSETS UNDER CONSTRUCTION)

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Government Grant in Aid	17,861	4,351	16,801	4,351
EU and other income	611	657	611	652
Total	18,472	5,008	17,412	5,003

12. INTANGIBLE ASSETS

At 31 March 2022, HIE had an internally generated intangible asset under construction.

INTANGIBLE ASSETS - GROUP			
	Intangible assets in development	Intangible assets	Total intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2020	-	-	-
Prior year adjustment	-	358	358
Additions	1,257	-	1,257
At 31 March 2021	1,257	358	1,615
Amortisation			
At 1 April 2020	-	-	-
Prior year adjustment	-	230	230
Charged in year	-	-	-
At 31 March 2021	-	230	230
Net Book Value			
At 31 March 2021	1,257	128	1,385
Cost or valuation			
At 1 April 2021	1,257	358	1,615
Additions	151	824	975
Disposals	-	-	-
Reclassifications	(1,257)	1,257	-
Impairment	-	-	-
At 31 March 2022	151	2,439	2,590
Amortisation			
At 1 April 2021	-	230	230
Charged in year	-	351	351
Write down	-	-	-
Disposals	-	-	-
Reclassifications	-	-	-
At 31 March 2022	-	581	581
Net Book Value			
At 31 March 2022	151	1,858	2,009
At 1 April 2021 (restated)	1,257	128	1,385

INTANGIBLE ASSETS - HIE

	Intangible assets in development	Intangible assets	Total Intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2020	-	-	-
Prior year adjustment	-	358	358
Additions	1,257	-	1,257
At 31 March 2021	1,257	358	1,615
Amortisation			
At 1 April 2020	-	-	-
Prior year adjustment	-	230	230
Charged in year	-	-	-
At 31 March 2021	-	230	230
Net Book Value			
At 31 March 2021	1,257	128	1,385
Cost or valuation			
At 1 April 2021	1,257	358	1,615
Additions	151	824	975
Disposals	-	-	-
Reclassifications	(1,257)	1,257	-
Impairment	-	-	-
At 31 March 2022	151	2,439	2,590
Amortisation			
At 1 April 2021	-	230	230
Charged in year	-	351	351
Write down	-	-	-
Disposals	-	-	-
Reclassifications	-	-	-
At 31 March 2022	-	581	581
Net Book Value			
At 31 March 2022	151	1,858	2,009
At 1 April 2021 (restated)	1,257	128	1,385

13. Financial Assets

FINANCIAL ASSETS - GROUP

			2022	2021
			£000	£000
Financial assets at fair value through profit and loss				
Unlisted equity shares			18	2
Investment through membership			-	-
			18	2

Financial assets at fair value through profit and loss consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

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

LOANS AND RECEIVABLES				
	Preference	Loans and	Total	Total
	shares	receivables	2022	2021
	£000	£000	£000	£000
Amortised cost				
At 1 April 2021	2,276	5,818	8,094	8,950
Additions	-	619	619	111
Repayments	-	(847)	(847)	(352)
Disposals	(2,000)	-	(2,000)	-
Fair value adjustment	-	(36)	(36)	(117)
Reclassification	-	-	-	-
Written off	-	(249)	(249)	(498)
At 31 March 2022	276	5,305	5,581	8,094
Diminution in value				
At 1 April 2021	2,276	3,297	5,573	6,498
Additions	-	89	89	29
Disposals	-	-	-	-
Released	(2,000)	(507)	(2,507)	(606)
Reclassification	-	-	-	-
Risk premium	-	486	486	150
Written off	-	(250)	(250)	(498)
At 31 March 2022	276	3,115	3,391	5,573
Net book value				
At 31 March 2022	-	2,190	2,190	2,521
At 1 April 2021	-	2,521	2,521	
Analysis of loans and receivables				
Due within 1 year	-	277	277	558
Due over 1 year	-	1,913	1,913	1,963

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.

Risk premium represents the movement in risk premium in year.

FINANCIAL ASSETS - HIE

			2022	2021
			£000	£000
Financial assets at fair value through profit and loss				
Unlisted equity shares			545	529
Investment through membership			878	850
			1,423	1,379

LOANS AND RECEIVABLES

	Preference Shares	Loans and receivables	Total 2022	Total 2021
	£000	£000	£000	£000
Amortised cost				
At 1 April 2021	2,276	6,238	8,514	9,370
Additions	-	619	619	111
Repayments	-	(847)	(847)	(352)
Disposals	(2,000)	-	(2,000)	-
Fair value adjustment	-	(36)	(36)	(117)
Converted to unlisted equity shares	-	-	-	-
Written off	-	(249)	(249)	(498)
At 31 March 2022	276	5,725	6,001	8,514
Diminution in value				
At 1 April 2021	2,276	3,659	5,935	6,859
Additions	-	89	89	29
Disposals	-	-	-	-
Released	(2,000)	(507)	(2,507)	(605)
Reclassification	-	-	-	-
Risk premium	-	486	486	150
Written off	-	(250)	(250)	(498)
At 31 March 2022	276	3,477	3,753	5,935
Net book value				
At 31 March 2022	-	2,248	2,248	2,579
At 1 April 2021	-	2,579	2,579	
Analysis of loans and receivables				
Due within 1 year	-	277	277	558
Due over 1 year	-	1,971	1,971	2,021

Financial assets at fair value through profit and loss consist of investments in unlisted ordinary shares, which by their nature have no fixed maturity or redemption date.

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

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.

OTHER INVESTMENTS				
		Other	Total	Total
		Investments	2022	2021
		£000	£000	£000
At 1 April 2021		850	850	883
Additions		20	20	80
Increase/(Decrease) in value		8	8	(113)
At 31 March 2022		878	878	850

Risk premium represents the movement in risk premium in year.

SUBSIDIARIES

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

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

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 2022.

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

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

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

On 9th November 2022 This is Remarkable Limited was placed in voluntary administration. The company carrying value in Group investments in associates is £258,443. It is likely this investment will be written off in 2022/23.

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

LIMITED BY SHARES

Name of company	Country of incorporation	Accounting period end date	Percentage of potential voting rights held	Nature of business
Inverness Airport Business Park	Scotland	31 March	25%	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. HIE's controlling interest arises due to HIE having the right to appoint 2 of the 8 IABP directors.

LIMITED LIABILITY PARTNERSHIPS

Name of company	Country of incorporation	Accounting period end date	Percentage of membership	Nature of business
Orkney Research and Innovation Campus	Scotland	31 March	50%	Construction, development and management of a research and Innovation Campus

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

	NON CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	CURRENT LIABILITIES	NON CURRENT LIABILITIES	TOTAL LIABILITIES	REVENUE	EXPENSES	PROFIT/(LOSS)
As at March 2020	688	6,297	6,985	(5,436)	(523)	(5,959)	1,305	(10,803)	(9,498)
As at March 2021	580	2,626	3,206	(1,455)	(498)	(1,954)	1,230	(8,475)	(7,245)
As at March 2022	1,490	10,654	12,144	(3,048)	(1,383)	(4,432)	3,376	(9,403)	(6,027)

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 2020	7,843	2,621	10,464	(4,613)	(3,290)	(7,903)	3,640	(4,682)	(1,042)
As at March 2021	8,257	1,395	9,652	(2,723)	(4,455)	(7,178)	2,453	(2,699)	(246)
As at March 2022	7,804	2,607	10,411	(4,207)	(3,394)	(7,601)	2,433	(2,421)	12

MOVEMENTS IN CARRYING AMOUNT OF INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	£000
Carrying amount as at 1 April 2020	1,087
Investment in the year	80
Share of net profit/(Loss)	(91)
Carrying amount as at 31 March 2021	1,076
Carrying amount as at 1 April 2021	1,076
Investment in the year	20
Share of net profit/(Loss)	66
Carrying amount as at 31 March 2022	1,162

SIGNIFICANT HOLDINGS

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

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

Name of company	Activity	Percentage of voting rights	Holding as at 31 March 2022	Share value paid £000	Original loan capital £000
Inverness Airport Business Park Limited	Construction and operation of Business park	25%	500 Class 'C' Ordinary shares	-	1,000
			24,997 Class 'D' Ordinary shares	29	-
			275,000 Redeemable Preference shares	550	-
HIE Ventures Limited	Equity investment company	55%	110,000 Ordinary Shares	61	1,000
			40,000 Class 'A' Ordinary shares	40	-
Cairngorm Mountain (Scotland Limited)	Tourism Attraction Operator	100%	1,060,952 Ordinary Shares	1,061	700
Investments in 25 other businesses				770	4,218
				2,511	6,918

14. FAIR VALUE AND IMPAIRMENTS

GROUP

	Statement of comprehensive net expenditure	Revaluation reserve	Total 2022	Total 2021
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	2,771	(1,853)	918	1,284
Intangible Assets	-	-	-	-
Financial assets	19	-	19	118
	2,790	(1,853)	937	1,402

Impairments				
Property, plant and equipment	12,178	-	12,178	3,261
Intangible Assets	-	-	-	-
Assets classified as held for sale	20	-	20	-
Financial assets	1,932	-	1,932	(195)
	14,130	-	14,130	3,066

HIE

	Statement of comprehensive net expenditure	Revaluation reserve	Total 2022	Total 2021
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	2,770	(1,852)	918	1,284
Intangible Assets	-	-	-	-
Financial assets	12	-	12	173
	2,782	(1,852)	930	1,457

Impairments				
Property, plant and equipment	12,178	-	12,178	3,261
Intangible Assets				
Assets classified as held for sale	20	-	20	-
Financial assets	1,932	-	1,932	244
	14,130	-	14,130	3,505

15. TRADE AND OTHER RECEIVABLES

	Note	GROUP		HIE	
		2022	2021	2022	2021
		£000	£000	£000	£000
Trade receivables		11,483	7,850	11,477	7,851
Impairment for bad debts		(1,086)	(1,116)	(1,086)	(1,116)
		10,397	6,734	10,391	6,735
Taxation recoverable		930	901	844	833
Accrued income and prepayments		2,118	1,756	1,878	1,490
Owed by subsidiary undertakings		-	-	386	291
Loans and other receivables	13	277	558	277	558
		13,722	9,949	13,776	9,907

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

		GROUP		HIE	
		2022	2021	2022	2021
		£000	£000	£000	£000
Balances with other central government bodies		956	1,093	870	1,093
Balances with local authorities		119	365	119	365
Balances with NHS bodies		-	212	-	212
Balances with similar public bodies		257	269	257	269
		1,332	1,939	1,246	1,939
Balances with bodies external to government		12,390	8,010	12,530	7,968
		13,722	9,949	13,776	9,907

16. CASH AND CASH EQUIVALENTS

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Balance at 1 April	2,663	5,065	617	868
Net change in cash and cash equivalent balances	7,425	(2,402)	(236)	(251)
Balance as at 31 March	10,088	2,663	381	617

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Group and HIE funds	9,814	2,254	107	208
Deposits held	163	-	163	-
Other scheme funds held	111	409	111	409
	10,088	2,663	381	617

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

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Community Broadband Scotland	111	409	111	409
	111	409	111	409

17. Assets Classified as 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.

ASSETS CLASSIFIED AS HELD FOR RESALE - GROUP				
	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2020	3,316	-	-	3,316
Transfers to/(from) assets held for resale	(498)	-	-	(498)
Disposals of non current assets held for sale	(1,095)	-	-	(1,095)
Other costs associated with sale of assets	(22)	-	-	(22)
Impairment recognised on remeasurement	-	-	-	-
At 31 March 2021	1,701	-	-	1,701
	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2021	1,701	-	-	1,701
Transfers to/(from) assets held for resale	882	-	-	882
Disposals of non current assets held for sale	(548)	-	-	(548)
Other costs associated with sale of assets	(40)	-	-	(40)
Impairment recognised on remeasurement	(20)	-	-	(20)
At 31 March 2022	1,975	-	-	1,975

During the year it was decided 2 assets (2021 - 6) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

ASSETS CLASSIFIED AS HELD FOR RESALE - HIE

	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2020	3,316	-	-	3,316
Transfers to/(from) assets held for resale	(498)	-	-	(498)
Disposals of non current assets held for sale	(1,095)	-	-	(1,095)
Other costs associated with sale of assets	(22)	-	-	(22)
Impairment recognised on remeasurement	-	-	-	-
At 31 March 2021	1,701	-	-	1,701

	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2021	1,701	-	-	1,701
Transfers to/(from) assets held for resale	882	-	-	882
Disposals of non current assets held for sale	(548)	-	-	(548)
Other costs associated with sale of assets	(40)	-	-	(40)
Impairment recognised on remeasurement	(20)	-	-	(20)
At 31 March 2022	1,975	-	-	1,975

During the year it was decided 2 assets (2021 - 6) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

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

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Trade payables	5,949	4,031	5,045	3,684
Accruals and deferred income	4,131	3,379	2,614	2,622
Prepaid rental income	388	342	388	342
Owed to subsidiary undertakings	-	-	518	236
	10,468	7,752	8,565	6,884
Taxation and social security	526	389	434	329
Corporation tax	-	-	-	-
	526	389	434	329
	10,994	8,141	8,999	7,213
2021 figures have been restated to reclassify an amount of deferred income from trade payables				
Analysis of trade and other payables within boundaries for whole government accounts				

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Balances with other central government bodies	460	389	326	329
Balances with local authorities	170	546	170	546
Balances with similar public bodies	770	372	352	372
	1,400	1,307	848	1,247
Balances with bodies external to government	9,594	6,834	8,151	5,966
	10,994	8,141	8,999	7,213

AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Deferred income	6,520	238	176	238
Scottish Government	1,433	934	1,433	934
Deferred tax	2,508	1,850	2,508	1,850
	10,461	3,022	4,117	3,022

19. PROVISIONS

	GROUP			HIE		
	Tax	Construction costs	Total	Tax	Construction costs	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2020	70	14,543	14,613	70	14,543	14,613
Increase during the year	44	4,784	4,828	44	4,784	4,828
Released during the year	(70)	(2,270)	(2,340)	(70)	(2,270)	(2,340)
Reversed during the year	-	-	-	-	-	-
Recognised on re-measurement	-	-	-	-	-	-
At 31 March 2021	44	17,057	17,101	44	17,057	17,101

Timing of provisions

Due within 1 year	44	13,052	13,096	44	13,052	13,096
Due over 1 year	-	4,005	4,005	-	4,005	4,005
	44	17,057	17,101	44	17,057	17,101

	GROUP			HIE		
	Tax	Construction costs	Total	Tax	Construction costs	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2021	44	17,057	17,101	44	17,057	17,101
Increase during the year	-	4,351	4,351	-	4,351	4,351
Released during the year	-	(10,125)	(10,125)	-	(10,125)	(10,125)
Reversed during the year	(44)	-	(44)	(44)	-	(44)
Recognised on re-measurement	-	-	-	-	-	-
At 31 March 2022	-	11,283	11,283	-	11,283	11,283

Timing of provisions

Due within 1 year	-	11,098	11,098	-	11,098	11,098
Due over 1 year	-	185	185	-	185	185
	-	11,283	11,283	-	11,283	11,283

TAX PROVISION

This provision relates to potential charges arising from underpaid output VAT.

CONSTRUCTION COSTS

This provision relates to a programme of engineering works to reinstate the Cairngorm funicular railway. HIE expects the works to be completed during the winter of 2022/23.

20. Retirement Benefit Obligation

Highlands and Islands Enterprise operates the Highlands and Islands Enterprise Superannuation Scheme for staff which is a defined benefit scheme. New employees are automatically enrolled into the Scheme.

The level of benefits provided is based on Career Average Revalued Earnings (CARE), a pension of 1/80 x pensionable salary for each year of service accrued. Prior to 1 August 2014, benefits were based on final pensionable salary (1/80 x final pensionable salary x pensionable service up to and including 31 July 2014).

The retirement age for members in the superannuation scheme prior to 1 September 2016 is 65, after this date for all new entrants in the scheme retirement age is in line with state pension age. The employee contribution rate is 6% of pensionable salary.

Some employees are part of a Local Government Pension Scheme (LGPS). LGPS pension funds consist of The Highland Council, Orkney Islands Council, Strathclyde and Shetland Islands Council, these are all now closed schemes. THE LGPS is also a defined benefit scheme based on CARE, a pension of 1/49 of pensionable salary for each year of service accrued. Prior to 1 April 2015 this was based on final pensionable salary.

In 21/22 there were 25 (20/21 26) HIE employees in the LGPS's between Highland, Orkney and Strathclyde and no active members in the Shetland Islands Council Pension fund.

The actuarial assumptions for the HIE and LGPS scheme differ due to the use of different actuaries

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

The service cost for both HIE Superannuation and LGPS's has been calculated using the Projected Unit method.

The expected rates of return on HIE Superannuation scheme and LGPS's 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.

HIGHLANDS AND ISLANDS ENTERPRISE SUPERANNUATION SCHEME

The IAS 19 valuation at 31 March 2022, indicated a potential deficit of £45.4 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 actuarial shortfall. The plan was updated in December 2018 and further updated in April 2021 to:

- Lump sum contributions of over the period 5 April 2021 to 5 April 2035 to be paid no later than as set out in the following schedule. For brevity only the first five years' cumulative contributions are shown.
 - 5 April 2023 £0.600m
 - 5 April 2024 £1.220m
 - 5 April 2025 £1.860m
 - 5 April 2026 £2.520m
 - 5 April 2027 £3.200m
- Pay additional contributions per months as a percentage of pensionable salaries from 2021 to 2035 of 11.1%.

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.

A full actuarial valuation was carried out at 5 April 2018 and updated to 31 March 2022 by a qualified independent actuary.

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

	31 MARCH 22	31 MARCH 21	31 MARCH 20	31 MARCH 19	31 MARCH 18
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	2.50	2.50	3.00	3.45	3.35
Rate of pension increase CPI (% per annum)	3.33	2.87	1.92	2.45	2.35
Discount rate (% per annum)	2.73	2.03	2.44	2.40	2.65
Inflation rate RPI (% per annum)	3.83	3.47	2.82	3.45	3.35

During the year, Highlands and Islands Enterprise paid monthly contributions of 27.9% of pensionable salaries.

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

THE ASSETS IN THE SCHEME AND EXPECTED RATE OF RETURN WERE:					
	Value at				
	31 March				
	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
Equities	76,592	69,560	55,074	70,318	70,623
Gilts	28,253	25,756	23,911	16,127	12,965
Bonds	-	-	-	-	-
Property	9,777	8,859	8,638	8,438	8,182
Cash	2,633	7,530	8,076	2,880	2,239
Estimated employer assets	117,255	111,705	95,699	97,763	94,009
Present value of scheme liabilities	(162,646)	(168,790)	(134,576)	(139,518)	(128,691)
Deficit in the scheme	(45,391)	(57,085)	(38,877)	(41,755)	(34,682)
Related deferred tax asset/ (liability)	-	-	-	-	-
Net pension liability	(45,391)	(57,085)	(38,877)	(41,755)	(34,682)

The current values show a decrease in the deficit from 31 March 2021 of £11.7m to £45.4m at 31 March 2022.

LOCAL GOVERNMENT PENSION FUNDS

The IAS 19 valuation at 31 March 2022, indicated a potential deficit of £1.5m in the LGPS pension funds.

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.

A full actuarial valuation was made at 31 March 2018 and updated to 31 March 2022 by a qualified independent actuary.

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

	31 MARCH 22	31 MARCH 21	31 MARCH 20	31 MARCH 19	31 MARCH 18
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	2.50	2.59	3.00	3.45	3.35
Rate of pension increase CPI (% per annum)	3.33	2.87	1.92	2.45	2.35
Discount rate (% per annum)	2.73	2.02	2.44	2.40	2.65
Inflation rate RPI (% per annum)	3.83	3.37	2.82	3.20	3.35

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

THE ASSETS IN THE SCHEME AND EXPECTED RATE OF RETURN WERE:					
	Value at				
	31 March				
	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
Equities	17,667	18,269	12,997	13,896	12,726
Gilts	671	287	273	130	658
Bonds	3,596	2,641	2,829	2,975	1,940
Property	2,677	1,834	1,705	1,692	2,098
Cash	921	1,370	1,135	703	425
Estimated employer assets	25,532	24,401	18,939	19,396	17,850
Present value of scheme liabilities	(26,289)	(27,123)	(21,367)	(24,088)	(21,442)
Present value of unfunded liabilities	(729)	(772)	(679)	(787)	(745)
Deficit in the scheme	(1,486)	(3,494)	(3,107)	(5,479)	(4,337)
Related deferred tax liability	-	-	-	-	-
Net pension liability	(1,486)	(3,494)	(3,107)	(5,479)	(4,337)

The pension contributions with effect from 1 April 2022 for the local government pension funds are:

	2022	2021
Highland Council Pension Fund	30.1%	30.1%
Orkney Islands Council Pension Fund	17.0%	17.0%
Strathclyde Pension Fund	33.6%	33.6%

HIE paid £32k for unfunded pension contributions in 2021/22 for the Shetland Islands Council Pension Fund.

RETIREMENT BENEFIT OBLIGATION - GROUP & HIE

	HIE	LGPS	Total	HIE	LGPS	Total
	2022	2022	2022	2021	2021	2021
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	4,216	605	4,821	2,740	471	3,211
Past service cost	-	-	-	-	-	-
Admin expenses	189	-	189	265	-	265
Interest income on retirement benefit assets	(2,267)	(496)	(2,763)	(2,333)	(464)	(2,797)
Interest on retirement benefit scheme obligations	3,436	567	4,003	3,283	539	3,822
Net pension scheme expense	5,574	676	6,250	3,955	546	4,501
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	3,339	464	3,803	13,912	4,791	18,703
Experience gains and (losses) arising on the scheme liabilities	(5,201)	(30)	(5,231)	2,324	(7)	2,317
Changes in financial assumptions underlying the present value of the scheme liabilities	15,740	1,713	17,453	(33,436)	(5,220)	(38,656)
Defined benefit income/(cost) recognised in SOCE	13,878	2,147	16,025	(17,200)	(436)	(17,636)
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	168,790	27,895	196,685	134,576	22,046	156,622
	168,790	27,895	196,685	134,576	22,046	156,622
Movement in year						
Current Service costs	4,405	605	5,010	3,005	471	3,476
Contributions by members	628	93	721	637	97	734
Past service costs	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(32)	(32)	-	(32)	(32)
Estimated benefits paid	(4,074)	(427)	(4,501)	(3,823)	(453)	(4,276)
Interest cost	3,436	567	4,003	3,283	539	3,822
Actuarial losses/(gains)	(10,539)	(1,683)	(12,222)	31,112	5,227	36,339
Closing defined benefit obligation	162,646	27,018	189,664	168,790	27,895	196,685
Present value of funded liabilities	162,646	26,289	188,935	168,790	27,123	195,913
Present value of unfunded liabilities	-	729	729	-	772	772
Reconciliation of fair value of assets						
Opening fair value of assets	111,704	24,401	136,105	95,699	18,939	114,638
Expected return on assets	2,267	496	2,763	2,333	464	2,797
Contributions by members	628	93	721	637	97	734
Contributions by employer	3,391	505	3,896	2,946	563	3,509
Contribution in respect of unfunded benefits	-	32	32	-	32	32
Actuarial gains/(losses)	3,339	464	3,803	13,912	4,791	18,703
Estimated unfunded benefits paid	-	(32)	(32)	-	(32)	(32)
Estimated benefits paid	(4,074)	(427)	(4,501)	(3,823)	(453)	(4,276)
	117,255	25,532	142,787	111,704	24,401	136,105
Net pension liability	(45,391)	(1,486)	(46,877)	(57,086)	(3,494)	(60,580)
Estimated employer contributions for the year ended 31 March 2023	5,091	505	5,596	5,698	537	6,235

Expenditure recognised in the Statement of Comprehensive Net Expenditure

	2022	2021
	£000	£000
Net management expenditure on staff costs	1,082	(65)
Other finance charges/(income)	1,240	1,025

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

	HIE				
	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	3,339	13,912	(5,035)	2,497	(616)
Value of assets	117,255	111,704	95,699	97,763	94,009
Percentage of scheme assets	2.8%	12.5%	(5.3)%	2.6%	(0.7)%
Experience gains and (losses) on scheme liabilities	(5,201)	2,324	(5,227)	1,269	8,200
Present value of liabilities	(162,646)	(168,790)	(134,576)	(139,518)	(128,691)
Percentage of scheme liabilities	3.2%	(1.4)%	3.9%	(0.9)%	(6.4)%
	LGPS				
	2022	2021	2020	2019	2018
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	464	4,791	(1,270)	676	38
Value of assets	25,532	24,401	18,939	19,396	17,850
Percentage of scheme assets	1.8%	19.6%	(6.7)%	3.5%	0.2%
Experience gains and (losses) on scheme liabilities	(30)	(7)	128	(26)	1,562
Present value of liabilities	(27,018)	(27,895)	(22,046)	(25,071)	(22,187)
Percentage of scheme liabilities	0.1%	0.0%	(0.6)%	0.1%	(7.0)%

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £16,025k gain (2021 £17,636k loss).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £24,694k (2021 £40,719k loss).

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 LGPS life expectancy and mortality are the weighted average of the four LGPS schemes. The assumptions are equivalent to expecting a 65-year-old to live for a number of years as follows:

	HIE		LGPS	
	2022	2021	2022	2021
1. Male member aged 65 (current life expectancy)	22.6	23.0	20.6	20.7
2. Male member age 45 (life expectancy at 65)	23.5	24.4	22.0	22.2
3. Female member aged 65 (current life expectancy)	24.5	24.6	23.1	23.3
4. Female member aged 45 (life expectancy at 65)	26.3	27.0	25.2	25.4

Defined benefit obligation analysed by participant status:

	HIE			
	2022		2021	
	%	£000	%	£000
Active members	38.0%	61,805	38.3%	64,646
Vested deferred members	22.8%	37,083	22.6%	38,147
Retired members	39.2%	63,758	39.1%	65,997
		162,646		168,790

	LGPS			
	2022		2021	
	%	£000	%	£000
Active members	60.1%	16,236	59.5%	16,590
Vested deferred members	23.7%	6,392	23.9%	6,657
Retired members	16.2%	4,390	16.7%	4,648
		27,018		27,895

SENSITIVITY ANALYSIS

	HIE		LGPS		HIE		LGPS	
	2022		2022		2021		2021	
	%	£000	%	£000	%	£000	%	£000
0.5% decrease in real discount rate	10.8%	17,566	9.5%	2,570	11.5%	19,411	9.9%	2,761
1 Year increase in member life expectancy	4.1%	6,668	4.0%	1,081	4.2%	7,107	4.0%	1,116
0.5% increase in the salary increase rate	0.7%	1,139	1.1%	295	0.9%	1,519	1.1%	313
0.5% increase in pension increase rate	8.2%	13,337	8.4%	2,265	8.7%	14,685	8.6%	2,388

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 on 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.

LIFE EXPECTANCY

	HIE	LGPS
	Years	Years
Weighted average duration of defined benefit obligation	20.7	20.3

21. COMMITMENTS

	GROUP		HIE	
	2022	2021	2022	2021
	£000	£000	£000	£000
Commitments				
Property	15,067	34,187	15,067	34,187
Grants and loans	68,119	64,185	66,524	60,450

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.

22. Financial Commitments

Highlands and Islands Enterprise has entered into commercial leases on certain properties and items of equipment. Lease commitments have a remaining duration of between 1 and 4 years.

FUTURE MINIMUM PAYMENTS DUE UNDER NON-CANCELLABLE OPERATING LEASES				
GROUP				
	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Obligations under operating and similar leases				
Within one year	329	33	362	762
Within two to five years	540	4	544	949
In over five years	-	-	-	-
	869	37	906	1,711
HIE				
	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Obligations under operating and similar leases				
Within one year	329	25	354	758
Within two to five years	540	-	540	944
In over five years	-	-	-	-
	869	25	894	1,702

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 2022 is £24k (2021 £440k).

Highlands and Islands holds office and manufacturing buildings for the purpose of economic development, which are let to third parties. These non-cancellable leases have remaining terms between 1 and 30 years.

FUTURE MINIMUM RENTALS RECEIVABLE UNDER NON-CANCELLABLE OPERATING LEASES

GROUP				
	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	1,782	11	1,793	2,444
Within two to five years	4,893	537	5,430	6,235
In over five years	3,422	1,012	4,434	12,298
	10,097	1,560	11,657	20,977
HIE				
	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	1,782	11	1,793	2,444
Within two to five years	4,893	537	5,430	6,235
In over five years	3,422	1,012	4,434	12,298
	10,097	1,560	11,657	20,977

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

FUTURE MINIMUM COMMITMENTS DUE UNDER NON-CANCELLABLE FINANCE LEASES

GROUP

	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Obligations under Finance and similar leases				
Within one year	315	49	364	284
Within two to five years	1,262	-	1,262	1,137
In over five years	6,705	-	6,705	6,233
	8,282	49	8,331	7,654
Finance charges allocated to future periods	-	-	-	-
	8,282	49	8,331	7,654
Present Value of minimum lease payments				
Within one year	315	48	363	284
Within two to five years	1,262	-	1,262	1,137
In over five years	6,705	-	6,705	6,233
	8,282	48	8,330	7,654
HIE				
	Property	Plant and Equipment	Total 2022	Total 2021
	£000	£000	£000	£000
Obligations under Finance and similar leases				
Within one year	315	-	315	284
Within two to five years	1,262	-	1,262	1,137
In over five years	6,705	-	6,705	6,233
	8,282	-	8,282	7,654
Finance charges allocated to future periods	-	-	-	-
	8,282	-	8,282	7,654
Present Value of minimum lease payments				
Within one year	315	-	315	284
Within two to five years	1,262	-	1,262	1,137
In over five years	6,705	-	6,705	6,233
	8,282	-	8,282	7,654

23. Contingent Liabilities

As the owner of the Cairngorm Mountain Estate, HIE has responsibility for the costs of removal of equipment and reinstatement of the funicular railway and associated buildings to a natural condition. The liability arises where a permanent discontinuance of operation occurs, and alternative operation is not secured within three years. The funicular is currently not operational pending reinstatement. The cessation of operation of the funicular for reinstatement does not crystallise the liability for its removal and reinstatement of the site.

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.

HIE has underwritten liability for decommissioning of wave or tidal devices at the EMEC test sites in Orkney, where EMEC is unable to fund the decommissioning. This liability is restricted to a maximum of £0.99m.

24. Transactions involving Board members' and Directors' registered interests

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

TRANSACTIONS WHERE A DIRECTOR HAD A FINANCIAL INTEREST.

DIRECTORS INTERESTS					
Business	Approvals brought forward	Amount approved/ (withdrawn) in year	Amount paid/ (billed) in year	Nature of transaction	Board member and interest
	£	£	£		
Crerar Hotels	241,570	-	211,734	Development grants	P Crerar - Chief Executive Officer
Loch Melfort Hotel	15,342	88,798	42,884	Development grants and training	C Ross - Partner
Scottish Water	-	21,984	21,984	Water charges	B Oldfield - Senior Manager

TRANSACTIONS WHERE A SENIOR MANAGER HAD A FINANCIAL INTEREST.

SENIOR MANAGEMENT INTERESTS					
Business	Approvals brought forward	Amount approved/ (withdrawn) in year	Amount paid/ (billed) in year	Nature of transaction	Senior Manager
	£	£	£		
Shetland Amenity Trust	-	46,500	46,500	COVID 19 Support Funding	R Hunter

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:

- Argyll and the Isles Tourism Cooperative Limited
- HIE Ventures Limited
- Highland Print Studio
- Jacobite Cruises Ltd
- Mull & Iona Community Enterprise
- NHS Highland
- Peoplematters (Europe) Ltd
- Scottish Aquaculture Innovation Centre Board
- This is Remarkable Limited
- Royal Scottish Geographical Society
- University of Highlands & Islands
- University of Strathclyde
- Visit Inverness Loch Ness Ltd
- Wave Energy Scotland Limited

25. Related party transactions

Highlands and Islands Enterprise is a Non-Departmental Public Body sponsored by the Scottish Government.

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

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

Transactions have taken place with:

- Argyll & Bute Council
- Audit Scotland
- Cairngorm Mountain (Scotland) Limited
- Cairngorm National Park Authority
- Comhairle Nan Eilean Siar
- Companies House
- Creative Scotland
- Her Majesty's Customs & Revenue
- Historic Environment Scotland
- North Ayrshire Council
- Moray Council
- Orkney Islands Council
- Orkney research and Innovation Campus LLP
- Scottish Enterprise
- Scottish Funding Council
- Scottish Natural Heritage
- Shetland Island Council
- Skills Development Scotland
- The Highland Council

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

Compensation of key management personnel

Key management personnel are considered to be the nonexecutive board members and the executive directors. Detail of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £6K (2021 £7K) employers national insurance contributions and Nil (2021 Nil) employer pension contributions.

26. Financial instruments

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

- Liquidity risk
- Credit risk
- Market risk

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

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

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

LIQUIDITY RISK

Liquidity risk is the risk that Highlands and Islands Enterprise will not be able to meet its financial obligations as they fall due. The organisation's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due. Highlands and Islands Enterprise's primary source of liquidity is the Grant in Aid provision from the Scottish Government. Highlands and Islands Enterprise has no debt or borrowing facility with any external party.

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

The table below details the contractual maturities of financial liabilities.

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2022 (2021: £nil).

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES				
2022				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	2,502	2,502	2,502	-
	2,502	2,502	2,502	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	7,178	7,178	7,178	-
	7,178	7,178	7,178	-
2021				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	6,590	6,590	6,590	-
	6,590	6,590	6,590	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	5,656	5,656	5,656	-
	5,656	5,656	5,656	-

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 financial assets at fair value through profit and loss 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:

CREDIT RISK EXPOSURE		
GROUP		
	Carrying Amount	Carrying Amount
	2022	2021
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	18	2
Preference shares	-	-
Loans and other receivables	2,190	2,521
Financial assets		
Trade and other receivables	11,735	7,715
Cash and cash equivalents	10,088	2,663
	24,031	12,901
HIE		
	Carrying Amount	Carrying Amount
	2022	2021
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	1,423	1,379
Preference shares	-	-
Loans and other receivables	2,248	2,579
Financial assets		
Trade and other receivables	11,729	7,716
Cash and cash equivalents	381	617
	15,781	12,291

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

Movements in impairment of trade and other receivables is shown in Note 15. 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.

AGEING				
GROUP				
	Gross	Impairment	Gross	Impairment
	2022	2022	2021	2021
	£000	£000	£000	£000
Not past due	12,371	-	8,424	-
Past due 0 to 30 days	139	-	171	(18)
Past due more than 31 days	428	(1,086)	1,011	(1,098)
	12,938	(1,086)	9,606	(1,116)
HIE				
	Gross	Impairment	Gross	Impairment
	2022	2022	2021	2021
	£000	£000	£000	£000
Not past due	12,248	-	8,159	-
Past due 0 to 30 days	139	-	171	(18)
Past due more than 31 days	428	(1,086)	1,011	(1,098)
	12,815	(1,086)	9,341	(1,116)

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:

INTEREST RATE RISK		
GROUP		
	Carrying Amount	Carrying Amount
	2022	2021
	£000	£000
Fixed rate instruments		
Financial assets	2,190	2,521
Financial liabilities	-	-
	<u>2,190</u>	<u>2,521</u>
Variable rate instruments		
Cash and cash equivalents	10,088	2,663
	<u>10,088</u>	<u>2,663</u>
HIE		
	Carrying Amount	Carrying Amount
	2022	2021
	£000	£000
Fixed rate instruments		
Financial assets	2,248	2,579
Financial liabilities	-	-
	<u>2,248</u>	<u>2,579</u>
Variable rate instruments		
Cash and cash equivalents	381	617
	<u>381</u>	<u>617</u>

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

INTEREST RATE RISK - CASH		
	GROUP	HIE
	100 basis points change	100 basis points change
	£000	£000
Cash and cash equivalents		
31 March 2021	39	7
31 March 2022	64	5

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:

FAIR VALUES				
GROUP				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2022	2022	2021	2021
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	18	18	2	2
Preference shares	-	-	-	-
Loans and other receivables	2,190	2,190	2,521	2,521
Trade and other receivables	11,735	11,735	7,715	7,715
Cash and cash equivalents	10,088	10,088	2,663	2,663
Trade and other payables	(2,502)	(2,502)	(6,590)	(6,590)
	<u>21,529</u>	<u>21,529</u>	<u>6,311</u>	<u>6,311</u>
HIE				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2022	2022	2021	2021
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,423	1,423	1,379	1,379
Preference shares	-	-	-	-
Loans and other receivables	2,248	2,248	2,579	2,579
Trade and other receivables	11,729	11,729	7,716	7,716
Cash and cash equivalents	381	381	617	617
Trade and other payables	(7,178)	(7,178)	(5,656)	(5,656)
	<u>8,603</u>	<u>8,603</u>	<u>6,635</u>	<u>6,635</u>

Financial assets at fair value through profit and loss 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.

FAIR VALUES (CONTINUED)

GROUP					
	2022	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	18	-	-	18	-
Non-recurring Measurements					
Property classified as held-for-resale	1,975	-	1,975	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-
HIE					
	2022	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	1,423	-	-	1,423	-
Non-recurring Measurements					
Property classified as held-for-resale	1,975	-	1,975	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-

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

The following table presents the changes in recurring fair value measurements of Unlisted equity shares categorised as Level 3.

CHANGES IN RECURRING FAIR VALUE MEASUREMENTS		
	GROUP	HIE
	£000	£000
Opening Balance	2	529
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	-	-
Disposals	-	-
Impairment	16	16
Total Gains or Losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	-	-
Closing Balance	18	545

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

QUANTITATIVE INFORMATION				
Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£18k	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 at fair value through profit & loss	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

27. PRIOR YEAR ADJUSTMENT

	Audited Accounts	Intangible Assets	Restated Balance
	£000	£000	£000
Group Statement Of Financial Position at 31 March 2021			
Property, Plant and Equipment	32,493	(128)	32,365
Intangible Assets	1,257	128	1,385

	Audited Accounts	Intangible Assets	Restated Balance
	£000	£000	£000
HIE Statement Of Financial Position at 31 March 2021			
Property, Plant and Equipment	31,911	(128)	31,783
Intangible Assets	1,257	128	1,385

Intangible Assets

A prior year adjustment has been recognised in the accounts to reclassify a prior year software development which had been accounted for as Property, Plant and Equipment in prior years. The effect of the adjustment is to increase Intangible Assets by £128k and reduce Property, Plant and Equipment by £128k.

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

A handwritten signature in blue ink, consisting of several stylized, overlapping loops and a long horizontal stroke at the end.

Head of Enterprise Policy Delivery Division

10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

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



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Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean