

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 2016 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

Highlands and Islands Enterprise Annual Report and Accounts 2015-16

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

September 2016

SG/2016/155

Contents

	Page
Performance Report	
Overview	3
Performance Analysis	6
Accountability Report	
Corporate Governance Report	
Directors' Report	14
Accountable Officers Responsibilities	15
Governance Statement	16
Remuneration and Staff Report	
Remuneration Report	19
Staff Report	21
Parliamentary Accountability and Audit Report	
Parliamentary Accountability Report	24
Independent auditors report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament	26
Financial Statements	
Group Statement of Comprehensive Net Expenditure	27
Group and HIE Statement of Financial Position	28
Group statement of Cash Flows	29
Group statement of changes in Tax Payers' Equity	30
HIE statement of changes in Tax Payers' Equity	31
Notes to the Accounts	32
Accounts Direction	65

Performance Report

Overview

History and statutory background

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

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

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

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

Strategic aims

The third Scotland's Economic Strategy was unveiled in March 15. The strategy focuses actions on the four strategic priorities which aim to increase competitiveness and tackle inequality. These four priorities are investing in our people and our infrastructure in a sustainable way; fostering a culture of innovation and research and development; promoting and creating opportunity through a fair and inclusive jobs market and regional cohesion; and promoting Scotland on the international stage to boost our trade and investment, influence and networks. For further information on Scotland's Economic Strategy please see <http://www.hie.co.uk/about-hie/what-we-do.html>

Principal activities

As the Scottish Government's economic and community development agency for north and west Scotland, HIE's purpose is to generate sustainable economic growth across the Highlands and Islands.

Our vision is for the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest. This is reflected to some extent in our 2020 ambitions which aim to see a region that is:

- A world-class digital region
- An international centre for marine renewables
- Home to more growth businesses operating in international markets
- Recognised internationally for digital healthcare and marine science expertise
- Characterised by dynamic, sustainable communities
- A globally-connected region
- An attractive region for young people

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

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

Details of the full range of HIE's activities are included in our Operating Plan. <http://www.hie.co.uk/about-hie/policies-and-procedures/operatingplan.html>

Chief Executive Statement

The progress we have seen in the Highlands and Islands over the past year is testament to the superb levels of ambition, entrepreneurship and innovation that thrives in businesses, social enterprises and communities across our region. HIE's role is in fostering these qualities and investing in initiatives that stimulate and enable growth.

The organisation helped attract six foreign direct investments which are expected to deliver 218 jobs and secure investment of £111 million for the region. These include Norbord's plans to invest £95 million in its Inverness mill and CS Wind UK's acquisition of Wind Towers Scotland in Machrihanish, which is set to safeguard over 130 skilled jobs and create a further 70.

In delivering its community development remit, HIE is now supporting 84 groups to acquire and manage assets ranging from shop premises to lifeline services to whole estates. Last year, 14 groups received £301,000 of HIE investment against total project costs of £2.4m.

A further 20 projects across the country (11 in the Highlands and Islands) received Scottish Land Fund support for land acquisition. Investment of £3.2 million, administered by HIE and Big Lottery, brought 42,121 acres into community ownership. A total of 52 communities have been awarded £10.8 million since the fund was launched in 2012.

There was major progress in specific sectors, such as life sciences, tourism, food and drink, energy and creative industries. This included £8.0 million investment by HIE subsidiary, Wave Energy Scotland, in 35 research and development projects, and two new life sciences ventures at the Alexander Graham Bell Centre in Moray.

The year marked 50 years since HIE's predecessor, the Highlands and Islands Development Board (HIDB), was established. The anniversary, combined with Scotland's Year of Food and Drink provided a platform to showcase the region's produce and the growing success of the food and drink and tourism sectors in particular.

New creative industry networks helped 250 businesses receive in-depth support and held 40 events across the region. These included the first Shetland Creative Industries Forum and the successful HIE-funded XpoNorth festival, which drew a record attendance of 1,465 to Inverness.

The year also saw the completion of a three-year entrepreneurship programme. This enabled account managed clients to tap into the knowledge and expertise of one of the world's leading business schools, the Massachusetts Institute of Technology.

The number of premises with access to superfast broadband through the HIE-led Digital Scotland Superfast Broadband project, reached 122,000 in 2015/16. HIE-led Community Broadband Scotland (CBS), which supports communities in the country's most hard-to-reach areas beyond the scope of mainstream fibre rollout, approved grants totalling £1.6 million and covering 2,100 premises.

HIE's regional IT Engagement programme focused on helping organisations understand and capitalise on the new opportunities that improved connectivity presents. More than 35 businesses received a 'Digital Health Check' and 750 delegates attended 68 digital workshops.

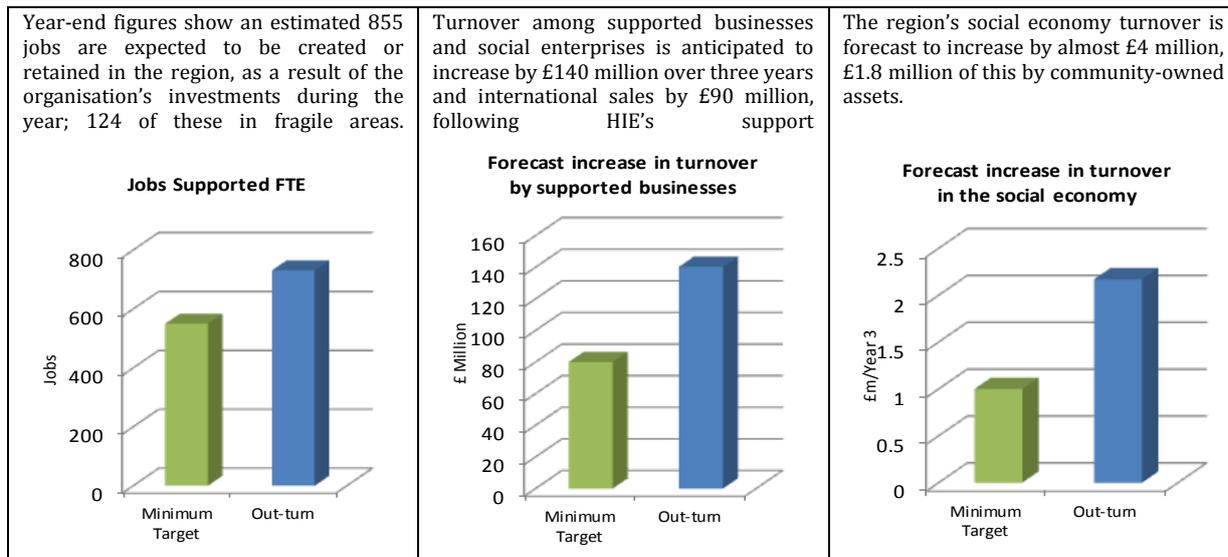
Activities to improve the region's appeal to young people meanwhile included the extension of ScotGrad, the popular graduate placement programme run in the region by HIE, to include placements with social businesses. Fifty two new graduates were placed with businesses across the Highlands and Islands during the year.

In addition to promoting economic and community development across the Highlands and Islands, HIE as an organisation continued to promote efficiency through management of overheads and office rationalisation, and absorbing inflation and additional employment costs with previous years budget. We progressed our adoption of digital technology to enhance our services and made significant changes to staff resource allocation to reflect our increased focus on account management, innovation and internationalisation.

Our employment practices were recognised by winning the large public sector employer category of the Scottish working family friendly awards.

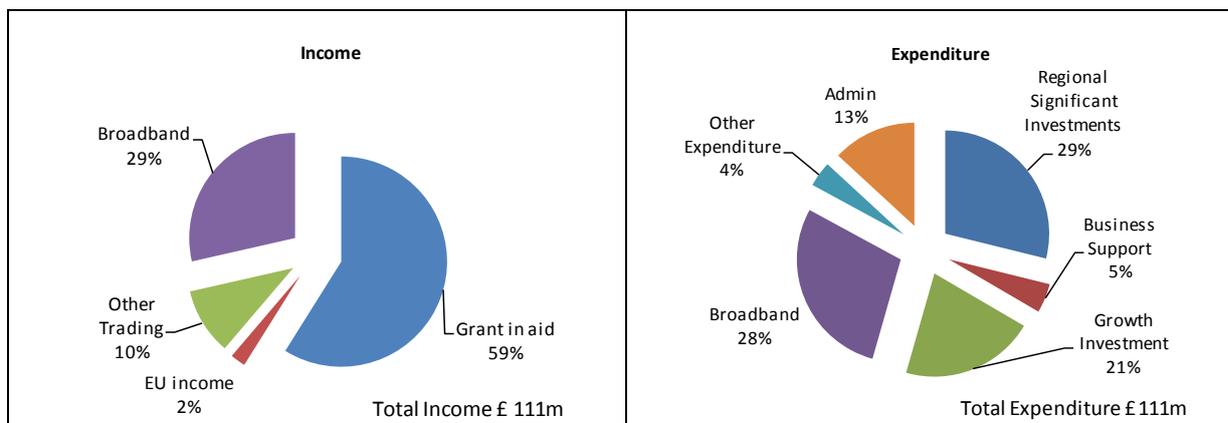
Performance Summary

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



<p>A number of major infrastructure projects moved forward, including the opening of Inverness Campus, Nigg South Quay and Lochboisdale Port, and completion of new business premises at Sandbank near Dunoon.</p>	<p>Digital connectivity continued to improve for businesses and households across the region, with the number of premises with access through the HIE-led Digital Scotland Superfast Broadband project reaching 122,000.</p>	<p>Delivery of HIE's objectives within the budget allocated by SG whilst continuing to achieve savings in administration costs and providing £975k of support for Scottish Government initiatives</p>
--	--	---

Highlands and Islands Enterprise income by sources and expenditure by category



Principal risks and uncertainties

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

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

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

- Ensuring effective support to businesses as they seek to grow in challenging economic conditions and heightened uncertainty following the EU Referendum result of the Scottish, United Kingdom and global economies.
- The effect of the costs and market uncertainties on realising the full benefits of the opportunities presented by renewable energy, and ensuring the investment in digital infrastructure is maximised for economic and community benefit.
- HIE's ability to attract and retain a highly skilled workforce in order to deliver its ambitious business plans

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

Performance Analysis

Performance Measures (Description)

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

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

Year-end performance

Excellent out-turns are reported against the key measures as detailed below. These results demonstrate excellent progress and an appropriate balance of effort in implementing our organisational priorities across the Highlands and Islands.

Key measures

Annual Measures	Range	Out-turn
Forecast increase in turnover by supported businesses (£m/year 3)	80-100	140.2
Forecast increase in international sales by supported businesses (£m/year 3)	30-40	90.3
Jobs supported (created/retained) FTE	700-900	855
- of which in fragile areas	100-150	124
Forecast increase in turnover in the social economy (£m/year 3)	2.5-3.5	3.98
of which generated by community-owned assets (£m/year 3)	1.5-2.0	1.81
Account managed communities delivering increased community benefit	40-60	42

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

During 2015-16, HIE approved GIA of £9.4m to support 80 business growth projects across the region. This investment, coupled with our earlier approval of support to Norbord Ltd, is expected to generate an increase in turnover of £140m and support the creation/retention of 855 full time equivalent jobs over the next three years.

In our fragile areas, we invested £4.6m to support 18 business projects which are expected to generate an increase in turnover of £22m and support 124 FTEs.

A further £800k supported 20 social enterprise projects with a forecast increase in turnover in the social economy of £1.8m.

Our efforts supported the capture of six foreign direct investments which are expected to deliver 218 jobs and secure investment of £111m.

HIE's account management model for business and social enterprises now consists of 34 dedicated account managers, 20 of whom are focused on those clients identified as having the capacity to deliver an accelerated rate of growth.

We encouraged account managed clients to sign the Scottish Business Pledge. Of the 24 Highlands and Islands businesses to have signed the Pledge by the end of March 2016, 17 were HIE accounts.

We promoted international opportunities widely throughout the year and, in partnership with SDI, we delivered specialist support to around 190 businesses.

20 companies were supported to deliver significant international growth projects which are expected to generate international sales of £49m.

HIE's leadership programme finished in 2015-16, bringing the total number of participants to 115

2015-16 saw the completion of a three year programme of entrepreneurship support delivered by HIE in conjunction with Scottish Enterprise. A robust assessment estimated that a return of at least 9:1 will be achieved, with real potential for this to rise.

HIE led the development of the Scotland Can Do SCALE programme with Scottish Enterprise and the Scottish Funding Council, attracting over 200 applications in 2015.

Our Innovate Your Business service delivered support to 97 companies, while sector specialists assisted 30 deeper innovation enquiries.

Innovation support was also provided through Interface, a business-academic matchmaking service, which had 89 enquiries – making a total of 453 over almost five years

35 businesses received a digital health check and over 750 people attended 68 digital workshops.

Priority 2 - Strengthening Communities and Fragile Areas

HIE is working with 47 communities, most funded through its Community Capacity Building Programme, developing projects to provide new/improved services and income generating assets.

Partner work is ongoing in crofting communities, including Galson Estate, where HIE, CnES, BnG and Registers of Scotland are helping the community realise ambitions around rich crofting and cultural assets, including Gaelic.

HIE is supporting 84 groups on asset acquisition, with projects ranging from shop premises to lifeline services and whole estate acquisitions. In 2015-16, 14 groups received financial interventions with a combined HIE investment of £301,000 against total project costs of £2.4m.

20 projects received acquisition funding through the Scottish Land Fund (SLF), including 11 in the HIE area. Investment of £3.2m brought 42,121 acres into community ownership.

There is a strong pipeline of 68 projects for the new SLF (2016-2020) of which 23 are new referrals (11 in the HIE area) with a total value of over £7 million.

20 communities, including 11 in fragile areas, took part our pilot HI-SHARES renewable energy programme to develop innovative energy systems.

Community Broadband Scotland (CBS) approved 5 capital grants totalling £1.6m and covering 2,100 premises. This brings the total for the programme since 2012 to £2.1m and 3,556 premises. Three of these projects are in the HIE area. The CBS pipeline now totals 92 projects.

A national, HIE-led collaborative research project, *Social Enterprise in Scotland: Census 2015*, showed that social enterprise activity contributes £1.68bn GVA to the Scottish economy and £130m to the Highlands and Islands.

HIE invested £250k in a dynamic three-year project 'Vital Spark', which will focus on supporting social entrepreneurs in Campbeltown, Dunoon and Rothesay.

Seven schools supported through HIE's *HI-Social Enterprise in Schools* programme received awards. A further 15 are in the process of setting up a social enterprise.

HIE's *Collaborative Creative Communities* initiative has supported 320 new learners and trainees. 180 young people gained career experience, 200 new cultural events were staged, and 6,000 participants engaged in creative activities.

Almost 2,000 young people have taken part in HIE's Youth Employment Accelerator (YEA), supporting employability in the culture and creative industries sector.

HIE funding for Fèisean nan Gàidhead Vibrant Gaelic Communities programme generated impacts including: £1.25m levered into the economy; 456 cultural events staged; 246 cultural tourism events; 4,334 participants in Fèis activities; 722 volunteers engaged, and 63 young people engaged in skills development.

At the year end, 37 communities were being supported to employ a Local Development Officer, with 11 social enterprises receiving funding. Outputs include 76 FTEs created/retained, 70 temporary jobs supported, £3.9m increase in turnover in the social economy and 69 revenue generating assets supported.

The Creative Futures Partnership (CFP), between HIE and the Glasgow School of Art, delivered 1,425 student days and supported community and business projects across the region with design expertise.

The HIE-funded Design Network engaged with over 200 businesses, launched a Youth Engagement plan, and engaged with Pixel Lab to bring international expertise to the region.

HIE support to North Ayrshire Council enabled the Field Studies Council (FSC) to develop a sustainable environmental education business at the Millport Marine Station on Cumbrae. HIE subsequently invested £58k in a £1m redevelopment of educational and aquarium facilities at the site.

Officially opened in September 2015, the £10m Lochboisdale Port of Entry infrastructure development is complete and HIE is now supporting the community to realise benefits.

Priority 3 - Developing Growth Sectors, particularly distinctive regional opportunities

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

Energy

The official opening of the Nigg South Quay, supported by HIE financial contribution, by Andy Samuel, UK Oil and Gas Authority (UKOGA) Chief Executive took place in September 2015.

HIE approved £1.2m to Lerwick Port Authority (LPA) (including £324k ERDF) towards a £12m quayside investment at Dales Voe South in Lerwick to develop a decommissioning facility in Shetland. In addition HIE approved £628k to Peterson (UK) Ltd to expand decommissioning capability at Lerwick.

Wave technology development in Scotland continues to be progressed through Wave Energy Scotland (WES), which was established as a subsidiary of HIE in 2014. WES is now working with 80 organisations across Europe and has awarded 25 contracts to support development of systems and concept designs in Scotland.

Ownership of Wind Towers (Scotland) Ltd was successfully transferred to global market leader CS Wind, which plans to expand the factory at Machrihanish to produce for both the onshore and offshore tower market.

The MeyGen project to establish the world's largest tidal stream array in the Pentland Firth continues with HIE focused on securing benefits including the potential to create a comprehensive tidal manufacturing facility at Nigg.

Life sciences

In 2015-16, HIE invested £3.7m to support growth including development of infrastructure, delivery of significant regional sector initiatives and direct support for companies.

A second Pathfinder Accelerator programme provided a hands-on environment to test business ideas and market opportunities to build a company or launch a product.

The volume of enquiries at the European Marine Science Park in Argyll is growing, and Scotland's first digital health centre of excellence, the Alexander Graham Bell Centre in Elgin, is now more than 50% occupied

Food and drink

HIE currently has c140 account managed client relationships in the food and drink sector. In 2015-16, the agency invested £1.8m in 27 projects valued at £5.8m, and used the Year of Food and Drink to raise awareness of the region's produce at a series of national and international events.

Creative industries

HIE's new industry networks supported over 250 businesses – almost 100 with international aspirations, and delivered 40 events. XpoNorth, the largest creative industries conference in Scotland was held in June 2015 around Inverness. The event attracted 1,465 delegates, including multinational players, and showcased 65 acts.

Tourism

We approved £5.2m to support 92 tourism projects with a total investment of £18.5m. The sector performed well with increasing business confidence and major private sector investment in Caithness, Inverness, Moray, Argyll, Lochaber and Skye.

Our work on the adventure and marine sectors along with other product niches and our overarching digital focus is helping create opportunities in remote parts of our region.

HIE is working with partners to roll out Digital Tourism Scotland, a £1.2m project featuring workshops, advice and supported the launch of the Marine Tourism Action Plan to deliver an additional £45m of growth in the sailing market.

At Cairngorm Mountain, operator Natural Retreats is developing strategic plans to transition the resort into an all year attraction.

Financial and business services

Improving the region's digital is key to increasing the reach of the sector across the region. Over the past twelve months there has been sector growth, including WebHelp UK recruiting in Dunoon, Serco Caledonian Sleeper creating high value posts in Inverness and Atos announcing an additional contract in Forres.

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

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

Creating a digital region

More than 122,000 new premises from Shetland to Argyll are now part of a next generation broadband network as a result of the Digital Scotland Superfast Broadband (DSSB) project.

Fibre based broadband is available in more than 140 towns and villages – only eight of which would have been reached by the commercial market.

Community Broadband Scotland (CBS) is supporting 90 communities across Scotland to get access to faster broadband.

HIE is also leading on a collaborative region wide programme which is helping businesses and communities maximise the potential benefits from online access. In 2015-16, over 35 businesses received a 'Digital Health Check' and more than 750 delegates attended almost 70 digital workshops.

HIE is engaged in a programme of extensive upgrading with Mobile Network Operators (MNOs) across the Highlands and Islands.

HIE secured Digital Scotland funding to establish #hellodigital – Scotland's first Digital Scotland demonstrator centre, at Inverness Campus.

A region for young people

Since 2010, HIE's graduate placement programme has enabled 268 people to live and work in the Highlands and Islands. Of the 98 supported in the last two years, 84% have moved into positive destinations in the region.

An extensive research study in 2015 explored the attitudes and aspirations of young people to the Highlands and Islands. The findings are being used by community planning partnerships to inform local population attraction and retention strategies.

HIE is working with regional and national stakeholders to develop a Science Skills Academy which secured £3m of the Inverness City & Region Deal to run five pilots in Highland Region.

Strategic property and business infrastructure

In addition to new property development in Inverness, Dunoon and Oban, HIE achieved a challenging property sales target of £4.5m to reinvest in economic development, and managed our commercial property to bring in more than £3.9m rental income.

Inverness Campus was officially opened to the public by Deputy First Minister, John Swinney, on 15 May 2015, and Inverness College UHI opened its new building there in August. A 1,000m² advance building, *Aurora*, is located within the designated Enterprise Area for Life Sciences and HIE has attracted a first tenant and several serious enquiries. 150 student residences are due for completion in August. A new 4,950m² collaborative building, An Lòchran, is now home to teams from HIE, UHI and SRUC.

Universities

HIE invested £3.3m in the universities sector in 2015-16, and approved a further £5.2m towards nine projects, three of which relate to UHI and six to other Scottish universities.

HIE approved £4m to UHI, largely to develop a School of Health and Wellbeing that will result in 400+ new health-related undergraduates.

The Scottish Funding Council approved match funding of £528k for our new Knowledge Exchange Placement programme to be launched in 2016/17, and HIE approved funding to support the placement of Masters students into businesses across our region.

We continue to work with the Scottish Innovation Centres programme.

Construction work at the Glasgow School of Art's Creative Campus at Altyre Estate near Forres is expected to be completed in summer 2016.

Financial commentary

Investment Spend

During the year HIE received additional funding of £7.2 million from the Scottish Government. This increased baseline grant in aid from £59.0 million to £66.2 million. The majority of the additional funding related to grant in aid for the operation of the Wave Energy Scotland Subsidiary.

Income from activities of £5.9 million was £0.9 million lower than the prior year. Property rental income was £1.5 million less than the prior year and profit from property sales increased by £0.6 million. Other income of £40.7 million was £10.4 million higher than 2014/15. This was mainly due to income associated with the rollout of superfast broadband. European income of £2.8 million was in line with the prior year.

Expenditure on continuing operating activities within HIE increased by 15.8% (Group 22.0%) to £90.4 million (Group £96.8 million) as a result of the increased funding for broadband. The full year of trading for Wave energy Scotland increased the operating expenditure of the group by 6.2% over HIE.

Underlying management and administration expenditure in HIE showed a decrease of £2.6 million (Group £1.7 million) due to reduced provisions against loans and receivables in the year.

Fixed Assets

During 2015/16 Highlands and Islands Enterprise spent £8.9 million (Group £8.9 million) on property construction projects, plant and equipment additions.

At 31 March 2016 the net book value of HIE property, plant and equipment was £44.0 million (Group £44.0 million). This is a decrease of £3.2 million (Group £3.3 million) on the prior year. Commercial properties were valued at market value.

Financial assets amounted to £2.2 million (Group £1.9 million). This was a decrease of £0.4 million (Group £0.9 million) on the prior year following an increase in provisions against financial assets.

Current Assets

Current assets stood at £17.6 million (Group £18.8 million) at 31 March 2016, £1.4 million (Group £1.9 million) higher than the prior year. The majority of the increase in assets relates to assets held for resale at the year end. Group current assets were also increase due to working capital cash holdings Wave Energy Scotland

Current Liabilities

Current liabilities stood at £14.4 million (Group £14.6 million) at 31 March 2016, £0.5 million (Group £0.4 million) higher than the prior year. The increase primarily relates to the increased accruals and deferred income at the end of the year.

Pension Liabilities

The group pension liability has increased from £34.5 million to £36.3 million in 2015/16.

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 2015/16	Performance 2014/15
In line with government policy, aim to pay all invoices promptly - target 10 days <i>Note: excludes items under dispute or where other terms are agreed with a supplier</i>	87%	88%

Events after the Statement of Financial Position

No post Statement of Financial Position events occurred.

Corporate governance

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

Conflicts of interest procedures

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

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

Future Developments

HIE's new three-year operating plan was formally launched by the First Minister on 26th March 2015.

Entitled 'Building our Future', the plan shows how HIE will invest its annual budget of £97.7m to build successful businesses, social enterprises and resilient communities; supporting the growth of industry sectors, and make key strategic interventions to create the conditions for a competitive global region.

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

Highlands and Islands Enterprise, which is currently leading a £146m project to deliver high-speed fibre broadband across the Highlands and Islands, also aims to expand and maximise the benefits of digital technologies.

Public interest reporting

Information request processing

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

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

In 2015-16, HIE received 59 information enquiries.

	2016	2015
Freedom of Information (Scotland) Act 2002 (FOISA):	59	134
Environmental Information (Scotland) Regulations 2004 (EIRs):	0	0
Data Protection Act 1998	0	0
Total	59	134

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

Information request handling performance	2016	2015
Average time to fully respond and close a request for information:	10 days	8 days
Percentage of requests which received a response within the statutory timescales:	100%	82%
Percentage of requests which received a late response:	0%	18%
Percentage of requests fully or partially disclosed:	76%	72%
Percentage of requests which were vexatious:	14%	17%
Percentage of requests which were withdrawn:	3%	1%
Percentage of requests not held:	8%	10%

FOISA exemptions and EIRs exceptions applied to requests for information

The number of occasions exemptions were applied to requests received under the Freedom of Information (Scotland) Act in 2015/2016.

Section of the Act	Description of exemption	2016	2015
30 (c)	Prejudice effective conduct of public affairs	1	9
33 (1) (b)	Prejudice commercial activities	6	18
38 (1) (b)	Breach of Data Protection Principles / Third Party Personal Data	10	17

Number of requests for reviews:	2016	2015
Freedom of Information (Scotland) Act 2002	1	3
Environmental Information (Scotland) Regulations 2004	0	0
Total	1	3

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

The Scottish Information Commissioner has asked all Scottish public authorities to provide FOI and EIR statistics on a quarterly basis. HIE has provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering the year 2015/16.

Customer Service

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

Complaints

We take all complaints seriously and have an effective, easy to use complaints procedure. Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. During the period from 1 April 2015 – 31 March 2016, a total of 22 were dealt with through Frontline Resolution with just 1 requiring an investigation.

	Frontline resolution	Investigation	SPSO
1 April 2015 – 31 March 2016	22	1	0

When a complaint cannot be resolved internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO.

Employee involvement and communication

Over the course of 2015/16, our HR activity has delivered on a number of priority areas and contributed to the wider development of the organisation.

Within the past year, HR dealt with a number of strategic organisational development and performance priorities. These include a strategic review of resources, input to the accelerating business growth agenda, promotion of equality, the review and development of progressive workplace policies, and key recruitment appointments and performance issues.

A key priority for HR over the last year has been the implementation of the review of resources. The overarching objective of the review was to ensure that in the context of current and future business plans, HIE staff resources are optimally deployed, additional needs anticipated and any new skills that are required, are developed. The review was carried out within the context of the evaluation recommendations for Achieving Business Growth through Account Management and in line with HIE's Digital aspirations.

Running in parallel to the review, HR has supported the development of WES and further development of the Community Broadband Scotland (CBS) and Scottish Land Fund (SLF) Scotland-wide teams which has involved a number of staff moves and new appointments. This year we have also benefitted from a number of incoming secondment arrangements e.g. from BoS, SIAC, UHI and SDI.

We continue to recognise the benefits of attracting younger people and support the Scottish Government's youth agenda through our graduate placement and modern apprenticeship programmes. Following our work with IIP Scotland and Scottish Government in developing the Investors in Young People (IYIP) standard further, we have now been recognised at silver level.

In terms of learning and development, a range of training approaches are being developed with the aim of supporting the continual development of staff to help them be confident in their role, credible and on message. These include the development of an "Immersion Programme" for account managers covering behavioural requirements, technical, systems and process elements within the context of the "new HIE approach to account management". This also provides the opportunity to reinforce the link to sector priorities, internationalisation, innovation and digital.

During the year we have also worked with Roffey Park in the delivery of our new senior leadership programme with twelve participants taking part in modules running from April to October 2015. The programme draws on latest approaches/best practice with an external focus, delivering impact for the business as well as developing the potential of individuals. To date, five of the participants have moved into promoted posts with four individuals leading on major change programmes for the organisation. We will continue with the delivery of a second programme over the course of the next financial year.

The HR team continues to develop policy and practice to encourage greater equality which includes working towards addressing each of HIE's employment equality outcomes which have a particular focus on youth employment, women in leadership and inclusive working practices which recognise the diverse ways that working in dispersed locations affects employees. Annual monitoring of equality categories of employees and HIE's recruitment activities enables HIE to identify key issues in employment and understand the impact of employment practices and to consider areas for changes in policy to support the changing needs of HIE's workforce and ensure equality of opportunity. . Further information can be found on the HIE website [equality and diversity](#) page..

We successfully implemented the second year of the two-year pay deal covering the period 1 August 2014 to 31 July 2016. Demonstrating our ongoing commitment to payment of the living wage for all staff, HIE has also recently become an accredited living wage employer. HIE's gender pay gap continues to reduce year on year. At HIE's last equal pay review, the gender pay gap was 15.94% which has narrowed from 26.5% in 2007.

In line with Scottish Government's commitment to fair workplace practices, HIE won the Scottish Top Employer for Working Families Award under the category best large public sector employer. This recognises HIE's family friendly culture and approach.

A range of opportunities for staff engagement and feedback focused on the topics of health and wellbeing, our recruitment processes and the experience of young people on our graduate placement scheme. These provide a useful temperature check and recommendations for continuous business improvement, particularly in the areas of staff engagement, building capability, performance management and health and wellbeing.

Social and Community

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

Diversity and equality

Equity is both a desired characteristic and driver of economic growth and HIE plays a significant role in supporting Scotland's Economic Strategy.

Our approach to equality and diversity is founded on the provisions of the Equality Act 2010 and the Public Sector Equality Duty as enabling frameworks which help focus our activity and achievements. A significant part of this is delivering against a suite of equality outcomes: addressing disadvantage faced by young people in employment, under-representation of women in leadership roles, disadvantage faced by employees working in dispersed locations and prejudice faced by a range of people living in our communities.

We continue to make progress in achieving our equality outcome to increase the number of young people in suitable employment across the Highlands and Islands. Since the launch of the ScotGrad graduate placement programme in August 2013, 106 of the placements facilitated in the Highlands and Islands region are now complete. Of these, post placement outcomes have been captured for 92% (98 graduates), of which 94% have gone on to positive destinations (the placement has been made permanent or extended, graduates have secured other graduate level employment, graduates have started their own business or they have returned to further study).

During 2015/16 we progressed our equality outcome to increase the number of women in leadership roles in the Highlands and Islands. Supporting the Scottish Government’s 50:50 by 2020 campaign we delivered a series of [“Quality Through Diversity”](#) events across Scotland with Changing the Chemistry and partner agencies. The events promoted the benefits of increased board diversity, focusing on raising the profile of board membership as a destination for a wider range of applicants. Broadcasting the events by webinar maximised the reach of the events for those unable to attend in person and included on online participation from Shetland to Argyll. Feedback indicated that 87% of those responding were more likely to apply for a board position as a result of the events. The subsequent vacancy round for the agencies involved resulted in women representing 50% to 68% of applicants and 50% to 69% of those interviewed. The proportion of women on HIE’s board has subsequently increased with women representing three of four new board members.

In 2016 HIE supported female entrepreneurship to help redress the under-representation of women led businesses in the Highlands and Islands. As well as delivering an entrepreneurship workshop (Scotland Can do Scale) at the Investing Women [‘Ambition & Growth’](#) conference HIE’s support enabled women travelling from the Highlands and Islands to attend the conference, encouraging an increased number of women to benefit from the event.

As a member of the Scottish Government-led Women’s Enterprise Scotland (WES) Implementation Group HIE oversees and contributes in some areas to the delivery of the [Scottish Framework and Action Plan for Women’s Enterprise](#). HIE is also a steering group member of the Close the Gap project, which aims to close the gender pay gap in Scotland. In 2016 we contributed to the development of guidance for public bodies in carrying out equal pay reviews, influencing the ability of the public sector to narrow the gender pay gap.

Occupational segregation is a key component of the gender pay gap. HIE’s involvement during 2015/16 in the “Equal Shetland” Tackling Inequalities Commission helped explore the impact of occupational segregation which acts as a drag on economic growth.

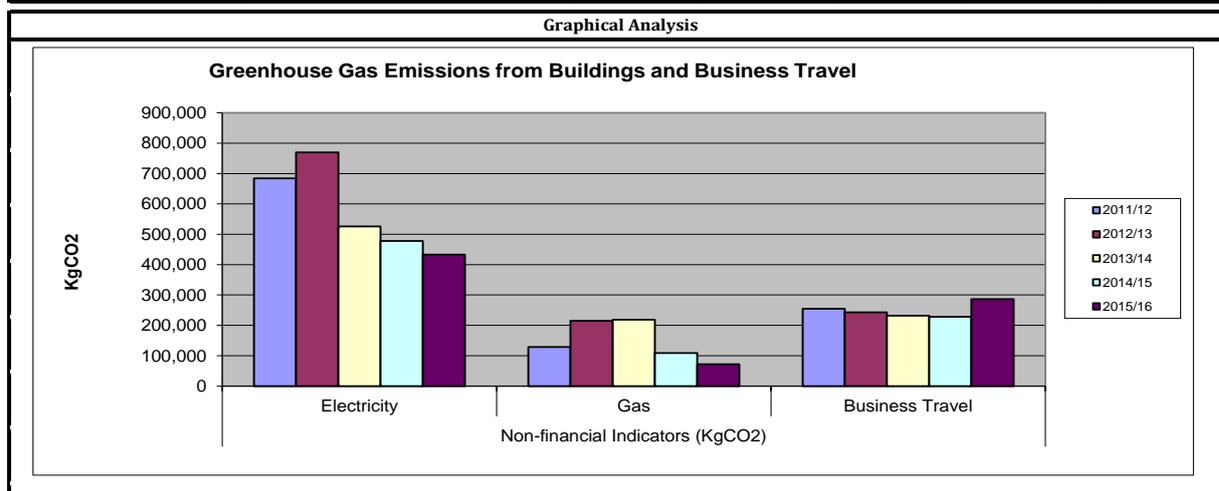
We will continue to build on our progress in achieving our equality outcomes and other activity which supports inclusive growth in the Highlands and Islands.

Sustainability and environment

HIE is committed to the reduction of carbon usage, our internal carbon management plan was launched in March 2011. Within the carbon management plan HIE set a target to reduce our carbon consumption by 20% by 2014. HIE are one of 14 organisations within the Highlands and Islands who signed up to the Joint climate change declaration in June 2010.

We encourage our clients to reduce their carbon consumption and are committed to creating the conditions for a competitive and low carbon region. Further details of our planning for a low carbon region can be found in the HIE operating plan.

Utilities and Business Travel		2011/12	2012/13	2013/14	2014/15	2015/16
Non-financial Indicators (KgCO2)	Electricity	683,920	769,564	525,754	477,762	432,942
	Gas	128,891	214,638	218,389	108,616	72,274
	Business Travel	254,410	243,140	231,599	227,952	286,437
Related Energy Consumption (KWh)	Electricity	1,323,285	1,433,080	979,058	889,687	806,224
	Gas	1,012,666	1,160,206	1,180,480	587,113	390,672
Financial Indicators (£’s)	Electricity	125,480	147,557	149,758	104,674	108,677
	Gas	29,015	39,538	52,673	23,705	15,865
	Business Travel	724,806	713,179	682,631	692,167	732,738

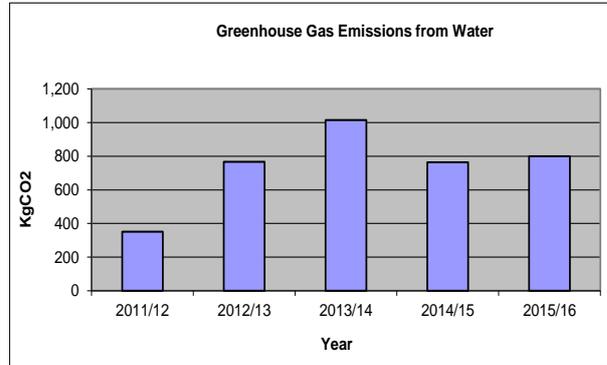
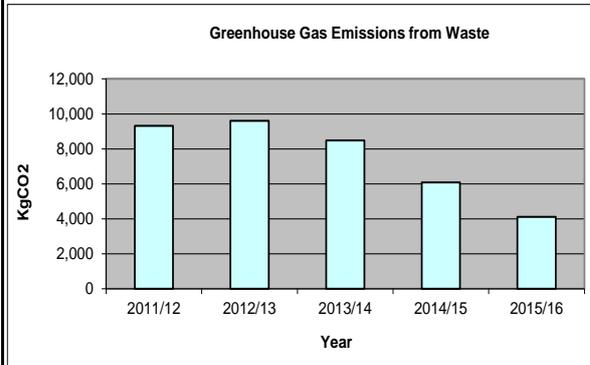


Performance Commentary
 The volume of gas and electricity usage again reduced on last period, with a further resultant reduction in carbon emissions from HIE occupied offices, although spend on electricity increased slightly due to an increase in tariffs. The move to the new Inverness office in 2016-17 will complete the relocation and realise further emissions savings. Business travel increased on last year, with a significant increase in both emissions and spend.

Controllable Impacts Commentary
 A refreshed HIE Carbon Management Plan in 2016 will identify opportunities to lower emissions across HIE occupied offices and business travel. The benefits of controlling these outputs contribute to an increase in efficiency and a reduction in associated costs.

Waste and Water		2011/12	2012/13	2013/14	2014/15	2015/16
Non-financial Indicators (KgCO2)	Total greenhouse emissions from general waste	9,322	9,602	8,482	6,086	4,122
	Measurable greenhouse emissions from water	352	767	1,015	764	800
Non-financial Indicators	General Waste (kg)	46,284	61,029	45,706	40,177	34,892
	Recycled Waste(kg)	25,430	39,548	26,730	26,563	25,670
	Measurable Consumption (m3)	872	1,898	2,512	1,891	2,000
Financial Indicators (£'s)	Disposal Cost	44,135	52,709	51,252	48,518	51,849
	Measurable Water Cost	43,615	38,784	50,536	37,414	25,850

Graphical Analysis



Performance Commentary

A further reduction in overall waste is mostly due to increased waste controls and management with our waste contractor. A review of recycling facilities across all sites has enabled staff to recycle more of their waste, and increases the focus on recycling over using general waste.

Controllable Impacts Commentary

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

Accounts direction

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

A L Paterson
Highlands and Islands Enterprise

Date 23 August 2016

Accountability Report

Corporate Governance Report

Directors' Report

Board

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

Board Membership

Prof. L D Crerar (Chair)
Mr A L Paterson (Chief Executive)
Mr C Spence (Appointment ended 31 March 2016)
Mr S Thomson (Appointment ended 31 March 2016)
Mr W Swann
Mr D MacDonald
Ms I MacTaggart
Prof D MacRae
Mr A Dodds
Mr P Crerar
Ms A Bryan (Appointed 1 April 2016)
Ms A Gray (Appointed 1 April 2016)
Mr R McIntosh (Appointed 1 April 2016)
Ms B Oldfield (Appointed 1 April 2016)
Ms S Campbell Lloyd (Shadow board member – 12 month contract)
Details of company directorships and other significant interests held by Board Members are available at <http://www.hie.co.uk/about-hie/who-we-are/hie-board.html>

Leadership Team

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

Leadership Team Membership

Mr A L Paterson (Chief Executive)
Mr F C Duthie (Finance and Corporate Services Director)
Mrs C Buxton (Regional Development Director)
Mrs C Wright (Business and Sector Development Director)
Ms R McCormack (Strengthening Communities Director)(Resigned 23/12/15)
Mr D Cowan (Strengthening Communities Director)(appointed 11/01/16)

Register of Board Members' Interests

Highlands and Islands Enterprise supports the highest standards of Corporate governance and has in place Codes of Conduct both for Board Members and Staff. In compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000, Highlands and Islands Enterprise Code of Conduct for Board Members is published on our website, together with details of company directorships and other significant interests held by Board Members.
<http://www.hie.co.uk/about-hie/who-we-are/board-members/default.html>

Performance Report

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

These matters are:-

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

Funding

Highlands and Islands Enterprise primary source of funding is Grant in Aid from the Scottish Government. The Grant in Aid allocation for 2016/17 is £67.2m and together with in year budget revisions and funds generated by Highlands and Islands Enterprise from the use or sale of assets, European income and other partner contributions are deemed adequate for HIE to continue for the foreseeable future.

Financial Instruments

Highland and Islands Enterprise has exposure to liquidity, credit and market risks from its use of financial instruments. The extent of these risks is set out in note 23 to the accounts.

Retirement benefits

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

Data loss

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

Statement as to disclosure of information to the auditor

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

Appointment of auditors

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2016 was Brian Howarth, Assistant Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £129,500 (2015 - £129,500). There were no fees payable to Audit Scotland for non-audit work during the year (2015 Nil).

Severance Payments

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

Statement of Accountable Officer's responsibilities

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

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

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

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

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

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

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

Governance Statement

Scope of responsibility

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

As Accountable Officer I have specific responsibility in relation to:

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

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

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

Governance framework

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

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

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

Operation of the Board and sub-committees

As at 31 March 2016, the Board of Highlands and Islands Enterprise comprised the Chair, eight non-executive members and Alex Paterson as Chief Executive. Our Board also included one Shadow Board member, HIE being a forerunner in the public sector in Scotland on this as part of a strategic approach to address Board diversity.

Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government. Individual Board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE.

The Board met in full six times in the year and met a further once to consider a specific item. It also attended two Board-to-Board meetings in year. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

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

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

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

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

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

Mr S Thomson (Chair)
 Mr D MacDonald
 Mr C Spence
 Mr A Dodds

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

The remuneration committee has been set up to deal specifically with the reward arrangements of HIE's Chief Executive and the HIE Executive Directors. With the agreement from the Chairman the committee did not meet in year as HIE were in the second year of a two year pay deal.

The members of the committee during the year were:

Professor D Macrae (Chair)(Appointed 1 April 2016)
 Mr C Spence (Chair) (Resigned 31 March 2016)
 Professor L Crerar
 Mr D MacDonald

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

Operational framework

Strategy and planning

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

Business improvement

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

Performance management

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

Decision making

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

Risk management arrangements

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

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

Implementation of the strategy includes:

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

The risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year. The Risk and Assurance Committee also considered the effectiveness of the process in year.

Data security

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

Subsidiary arrangements

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

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

Assurance Activity

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

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

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

Revised arrangements for our IT provision were introduced during 2015/16, these arrangements are delivered by Enterprise Information Systems who sit within Skills Development Scotland and are delivered in partnership with Scottish Enterprise. During 2015/16 the Business Improvement and Internal Audit team has liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to the provision of IS services in the period. This included a detailed controls report relating to the provision of IS services in the period. This noted an unqualified audit opinion.

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

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed and the annual Business Improvement and Internal Audit plan was based on this analysis. The plan was endorsed by the Risk and Assurance Committee
- Provided me with regular reports on internal audit activity and provided me with an annual report which included the Head of Business Improvement and Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. No significant control issues were noted in year
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings.

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland have identified no significant issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2016 and on the regularity of transactions reflected in the accounts.

Review of effectiveness and conclusion

As Accountable Officer I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2016 and to the date of signature of the accounts.

Remuneration and Staff Report

Remuneration report

Unaudited

Section 1 – General information

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

Remuneration Committee

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

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

Committee membership

Prof. D MacRae (Chair)(Appointed 1 April 2016)

Mr C Spence (Chair) (Resigned 31 March 2016)

Prof. L Crerar

Mr D Macdonald

Audited

Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2016.

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

The remuneration of HIE Board members for the year ended 31 March 2016 was as follows:

	2016	2015	Appointment
	£000	£000	Expires
Prof L Crerar (Chairman)	35-40	35-40	31 March 2018
P Crerar	10-15	10-15	31 March 2017
A Dodds	10-15	10-15	31 March 2017
D MacDonald	10-15	10-15	31 March 2017
D MacRae	10-15	10-15	31 March 2017
I MacTaggart	10-15	10-15	31 March 2017
C Spence	10-15	10-15	31 March 2016
W Swann	10-15	10-15	31 March 2017
S Thomson	10-15	10-15	31 March 2016
G Hamilton (Resigned on 11/02/2015)		5-10	31 March 2017

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

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2016 £98,607 (2015 - £104,526) was paid to these former members.

Remuneration of Chief Executive

The Chief Executive's contract of employment was signed on 2 July 2010. This contract is a permanent contract with a 6-month notice period. There are no early termination payment clauses within the contract. No benefits in kind were made to the Chief Executive.

Mr A L Paterson's remuneration, for the year ended 31 March 2015 and the year ended 31 March 2016 was as follows:

	2016	2015
	Remuneration as Chief Executive	Remuneration as Chief Executive
	£	£
Salary	112,000	109,254
Performance-related bonus (paid in respect of the previous financial year)	-	-
Pension Benefits	25,544	38,404
	137,544	147,658

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

Remuneration of other members of the HIE Leadership Team

The contracts of members of the HIE Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highland and Islands Enterprise Superannuation scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS) and D Cowan who is a member of the Strathclyde Local Government Pension Scheme (LGPS). The ordinary members of the Highlands and Islands Enterprise Superannuation scheme contributed 3% up until the 31st of July 2015 of pensionable salary. From the 1st August 2015 till the 31st of March 2016 ordinary members contributions increased to 4.5% of pensionable salary with HIE contributing 24.9% of the employees' pensionable salary throughout the year. C Wright contributes 9.6% of pensionable salary to the LGPS while D Cowan contributes 9.1% of pensionable salary to the LGPS. HIE contributes 20.7% to all members of the LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. The LGPS and the HIE scheme have a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the accounts (note 17).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2016 was as follows:

	2015-16					2014-15				
	Salary	Bonus (for 14/15)	Benefits in kind	Pension Benefits	Total	Salary	Bonus (for 13/14)	Benefits in kind	Pension Benefits	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
A Paterson	110-115	-	-	25	135-140	105-110	-	-	38	145-150
F C Duthie	85-90	-	-	22	105-110	80-85	-	-	26	110-115
C Buxton	85-90	-	-	21	105-110	80-85	-	-	29	110-115
C Wright	85-90	-	-	113	200-205	85-90	-	-	42	125-130
R McCormack (Resigned 23/12/15)	60-65 85-90*	-	-	15	75-80 100-105*	80-85	-	-	23	105-110
D Cowan (Started 11/01/2016)	15-20 75-80*			34	50-55 110-115*					

*Full time equivalent wage

Note: In line with Government guidance on pay restraint there were no payments of performances bonuses in 2015/16.

Mr D Cowan was an employee of HIE during 2014-15 but his remuneration for these years is not disclosed separately above as he was not a member of the HIE Leadership Team during that time.

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

The banded salary of the most highly paid director in Highland and Islands Enterprise in the financial year 2016 was £110k-£115k (2015 £105k-£110k). This was 3.2 times (2015 3.2 times) the median salary of the workforce, which was £35,206 (2015 £33,800). Staff remuneration ranged between £14k and £112k (2015 £14k-£109k).

In 2016 no employees (2015 None) received remuneration in excess of the highest paid director.

	2015-16	2014-15
Highest Paid Director's Total	£110k - £115k	£105k - £110k
Median Total Remuneration	35,206	33,800
Ratio	3.2	3.2

Retirement benefits of members of HIE Leadership Team:

	Accrued pension at age 65 as at 31/3/16 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/16	CETV at 31/3/15	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
A L Paterson	20-25 Lump sum 60-65	0-2.5 Lump sum 2.5-5	464	429	35
F C Duthie	20-25 Lump sum 70-75	0-2.5 Lump sum 2.5-5	564	532	32
C Buxton	15-20 Lump sum 55-60	0-2.5 Lump sum 2.5-5	444	*415	29
R McCormack	5-10 Lump sum 25-30	0-2.5 Lump sum 0-2.5	219	*200	19
C Wright	35-40 Lump sum 80-85	5-7.5 Lump sum 5-7.5	581	456	112+
D Cowan	20-25 Lump Sum 45-50	0-2.5 Lump Sum 0-2.5	380	368	12

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

+ Increase includes the effect of the change from scheme benefits accruing at 60th to 49th

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

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

Highlands and Islands Enterprise Superannuation Scheme benefits accrue at the rate of one-eightieth of pensionable salary for each year of service subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement. Normal retirement age under the scheme is 65.

LGPS, benefits accrue at one-eightieth of pensionable salary plus three-eightieth lump sum payable for service to 31 March 2009 with benefits from 1 April 2009 to 31 March 2015 accruing at one-sixtieth with lump sum by commutation. From 1 April 2015 benefits accrue at one forty-ninth with lump sum by commutation. Automatic lump sum service ceased accruing on 31 March 2009. Normal retirement age under the scheme is 65.

Section 3 - Other information**Retirement Benefits - Cash equivalent transfer values**

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

Real increase in CETV

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

Staff Report**Employees by sex**

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

Highlands and Islands Enterprise Staff:

	Male	Female	Total
Board*	9	1	10
Leadership Team*	2	2	4
Other employees	106	190	296

* Mr A L Paterson (Chief Executive) is included as a member of the Board in the table above. He is also a member of the Leadership Team.

In the final quarter of 2014-15, HIE developed a new Board Recruitment Strategy which aims to ensure that a suitably diverse range of candidates would be attracted to apply for vacant positions on the HIE Board. The strategy made recommendations on how opportunities to apply for Board positions should be advertised and promoted, in particular to reach and encourage more applicants from groups which are currently under-represented on boards across the public sector. In particular, it aims to support the Scottish Government's ambition to achieve a 50:50 gender balance on public boards by the year 2020. Recruitment for 4 new Board Members was completed during the financial year however the appointments do not commence until the financial year 2016/17.

Staff Numbers & Costs

	GROUP 2016			GROUP 2015		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	7,621	2,150	9,771	8,188	2,076	10,264
Voluntary severance packages	-	249	249	-	-	-
Social security costs	633	188	821	604	171	775
Other pension costs	1,988	557	2,545	1,742	702	2,444
Contract/temporary staff	-	202	202	-	202	202
	10,242	3,346	13,588	10,534	3,151	13,685
Board members' remuneration	405	-	405	389	-	389
	10,647	3,346	13,993	10,923	3,151	14,074

The average number of employees was as follows:

	GROUP 2016			GROUP 2015		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	Senior management	53	14	67	52	11
Operational staff	110	51	161	116	48	164
Administration and support staff	45	14	59	38	21	59
	208	79	287	206	80	286

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

Compensation and exit packages

2 staff (2014-15: 0) left under voluntary severance terms between 1st April 2015 and 31 March 2016. The total cost of lump sum payments to staff was £189,938.92 (2015:- £ Nil) and HIE paid £60,422 (2015: £ Nil) employers contribution and tax.

	2015-16 Number of departures agreed	2014-15 Number of departures agreed
Exit package cost band: < £10,000	-	-
£10,001 - £50,000	-	-
£50,001 - £100,000	1	-
£100,001 - £150,000	-	-
£150,001 - £200,000	1	-
£200,001 - £250,000	-	-
	2	-

Redundancy and other departure costs have been paid and approved by Scottish Ministers. Exit costs are accounted in full in the year of departure. Where HIE has agreed early retirements, the additional costs are met by HIE until the retirement date of the individual is reached.

Sickness absence

Highlands and Islands Enterprise Staff:

The attendance record for HIE employees for the year to 31 March 2016 was 1,349 (2015 1,956) days sick leave out of a total of 65,317 (2015 63,364) possible working days representing a lost time through sickness rate of 2.06% (2015 3.09%).

Staff Policies in respect of disabled persons

HIE is recognised by Jobcentre Plus under the disability two ticks scheme. This is a recognition given by Jobcentre Plus to employers based in Great Britain who have agreed to take action to meet five commitments regarding the employment, retention, training and career development of disabled employees. It is represented by the two ticks disability symbol that participating organisations are authorised to display.

Employers who use the symbol have agreed with Jobcentre Plus that they will take action on these five commitments:

- to interview all disabled applicants who meet the minimum criteria for a job vacancy and consider them on their abilities
- to ensure there is a mechanism in place to discuss, at any time, but at least once a year, with disabled employees what can be done to make sure they can develop and use their abilities
- to make every effort when employees become disabled to make sure they stay in employment
- to take action to ensure that all employees develop the appropriate level of disability awareness needed to make these commitments work
- each year to review the five commitments and what has been achieved, plan ways to improve on them and let employees and Jobcentre Plus know about progress and future plans.

Proactive disclosure of information

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

www.hie.co.uk/publicationscheme

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

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

Parliamentary Accountability Report and Audit Report

Parliamentary Accountability Report

The results for the year to 31 March 2016 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Sources of finance

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

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2016 (excluding non-cash costs) was as follows:

Sources of Finance 2015-2016

	Original Budget £000	Final Budget £000	Actual £000
Expenditure			
Operations	60,500	97,267	96,274
Management & Admin.	14,500	14,500	14,493
Total Expenditure	75,000	111,767	110,767
Income			
Grant in Aid	59,000	66,201	66,201
European Union	5,000	2,565	2,565
Business Receipts	11,000	43,001	43,001
Total Income	75,000	111,767	111,767
Support of Scottish Government initiatives			975
Net under spend	-	-	25
Cash Budget Outturn			
Revenue Expenditure		36,506	36,006
Capital Expenditure		29,695	29,195
Net spend		66,201	65,201
The group outturn against the elements of the budget allocation from the Scottish Government was as follows:			
Resource Budget Outturn			
Resource DEL		36,506	36,006
Capital DEL		29,695	29,195
Non-cash DEL cost including depreciation, provisions, property revaluation		12,197	2,020
Total Resource budget		78,398	67,221
Non-cash AME cost including pension, provisions, property revaluation		9,400	7,369
Total Funding Provision		87,798	74,590

Cash Financial Budgets

HIE drew down £65.2 million of grant in aid from the Scottish Government. During the year HIE received a request from the Scottish Government for support of other Scottish Government initiatives, HIE was able to provide £1.0 million without affecting its own operations. This support was provided by a reduction in our Grant in Aid draw down. At the year end HIE had a small underspend of £25k.

During the year HIE reduced its capital programme by £0.5 million following a request from Scottish Government. HIE invested £29.2 million in capital projects across the Highlands and Islands region which included £8.9 million on property construction and plant and equipment additions.

Non Cash Financial Budgets

The non-cash resource accounting and budget (RAB) spend was £2.0 million, £10.2 million under the provision set by the Scottish Government, which is due to a historically high provision being provided.

The Annually Managed Expenditure was £7.4 million against a budget of £9.4 million. The under spend of £2 million due to lower than expected impairment of property under construction and a lower corporation tax provision.

The Resource Budget for 2016/17 of £67.2 million awarded by the Scottish Government comprises Grant-in-Aid and 'non-cash' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

Contingent Liabilities

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

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

Losses and claims waived

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

	Group No of cases	£000	HIE No of Cases	£000
Financial Asset losses (losses arising from the sale of financial assets)	3	3,486	2	3,436
Claims waived (amounts written off)	26	115	26	72

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

In the year to 31 March 2016 there was 1 (2015 - nil) financial asset loss which exceeded £250,000.

2016
£000
3,400

Wind Towers (Scotland) Limited

In the year to 31 March 2016 there was nil (2015 - 1 case) claims waived which exceeded £250,000.

Highlands and Islands Enterprise continues to pursue all outstanding debts.

Fees and charges

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

A L Paterson
Highlands and Islands Enterprise

Date 23 August 2016

Independent Auditor's Report

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

I have audited the financial statements of Highlands and Islands Enterprise and its group for the year ended 31 March 2016 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, the Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

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

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of affairs of the body and its group as at 31 March 2016 and of their net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters

Brian Howarth ACMA CGMA
Assistant Director
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow G2 1BT

23 August 2016

Group Statement of Comprehensive Net Expenditure for the year ended 31 March 2016

		2016	2015
	Notes	£000	£000
Expenditure			
Operating expenditure	4	96,877	79,359
Net management expenditure on staff costs	5	10,647	11,060
Other management expenditure	5	6,176	7,221
Depreciation and amortisation	5	1,063	1,346
		<u>114,763</u>	<u>98,986</u>
Income			
Income from activities	3	(5,941)	(6,782)
Other income	3	(40,736)	(30,339)
		<u>(46,677)</u>	<u>(37,121)</u>
Net Operating Expenditure from activities		68,086	61,865
Discontinued operations	3,4&5	-	740
Net Operating Expenditure		68,086	62,605
Interest payable and similar charges	7	-	13
Share of (profits)/losses in equity accounted investees	10	27	(11)
Income from investments	6	-	(28)
Interest receivable	6	65	(177)
Other finance charges/(income)	6	1,091	1,099
Net Expenditure after interest		69,269	63,501
Taxation	8	51	14
Net expenditure after taxation		69,320	63,515
Minority interests		99	(35)
Net Expenditure		69,419	63,480
Other Comprehensive Expenditure/(Income)			
Items that will not be reclassified to Net Expenditure			
Net (gains)/losses on revaluation of property, plant and equipment		4	(289)
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		191	4
Actuarial (gains)/losses recognised in retirement benefit scheme		529	7,465
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		724	7,180
Total Comprehensive Net Expenditure/(Income) for the year		70,143	70,660

Group and Highlands and Islands Enterprise Statement of Financial Position as at 31 March 2016

	Notes	GROUP		HIE	
		2016 £000	2015 £000	2016 £000	2015 £000
Non-current assets					
Property, plant and equipment	9	43,988	47,290	43,957	47,206
Intangible Assets		-	-	-	-
Financial Assets	10	1,904	2,754	2,179	2,405
Investment in associate	10	352	570	-	-
Total non-current assets		46,244	50,614	46,136	49,611
Current Assets					
Trade and other receivables	12	9,225	9,970	9,786	9,816
Cash and cash equivalents	13	7,347	5,648	4,748	5,175
Assets classified as held for sale	14	2,197	1,294	2,197	1,294
Total current assets		18,769	16,912	16,731	16,285
Total Assets		65,013	67,526	62,867	65,896
Current Liabilities					
Trade payables and other current liabilities	15	(14,159)	(13,902)	(13,272)	(13,571)
Taxation	15	(507)	(288)	(263)	(288)
Total current Liabilities		(14,666)	(14,190)	(13,535)	(13,859)
Non-current assets plus net current assets less current liabilities		50,347	53,336	49,332	52,037
Non-current liabilities					
Trade payables and other liabilities	16	(1,375)	(1,315)	(1,375)	(1,316)
Retirement benefit obligation	17	(36,253)	(34,484)	(36,253)	(34,484)
Total Non-current liabilities		(37,628)	(35,799)	(37,628)	(35,800)
Assets less Liabilities		12,719	17,537	11,704	16,237
Tax Payers' Equity					
Revaluation reserve		402	406	402	406
Other reserve		6	197	3	3
Pension reserve		(36,253)	(34,484)	(36,253)	(34,484)
Minority Interests		384	285	-	-
General reserve		48,180	51,133	47,552	50,312
		12,719	17,537	11,704	16,237

A L Paterson
Highlands and Islands Enterprise

Date 23 August 2016

The Accountable Officer authorised these financial statements for issue on

Group Statement of Cash Flows for the year ended 31 March 2016

	Notes	2016 £000	2015 £000
Cash flow from operating activities			
Profit/(Loss) before Taxation	19	(69,444)	(62,923)
Share of Associates profit/(loss)	10	27	(11)
Depreciation	5	1,063	1,346
Surplus on disposal of assets	3	1,257	723
Amortisation of Intangibles		-	-
Dividend income	6	-	(28)
Interest income	6	65	(177)
Interest expense	7	-	13
		(67,032)	(61,057)
(Increase)/decrease in trade and other receivables		(476)	(2,296)
Provision for irrecoverable debts & losses		114	(213)
(Increase)/decrease in Inventories		-	-
Increase/(decrease) in trade and other payables		2,223	4,039
Movement in pension provision		149	55
Investments written off, net of provision		198	3,345
Loss/(profit) on sale of property, plant & equipment		(1,261)	(633)
Loss/(profit) on sale of assets classified as held for sale		(11)	(18)
Surplus of investments		(762)	(750)
Revaluation of assets property plant & equipment		6,947	6,478
Movement in deferred income		(17)	(5)
		(59,928)	(51,055)
Cash outflow from operating activities		(59,928)	(51,055)
Taxes paid		(8)	(673)
		(59,936)	(51,728)
Net cash outflow from operating activities		(59,936)	(51,728)
Net cash outflow from operating activities - Continuing operations		(59,936)	(51,728)
Net cash outflow from operating activities - Discontinued operations		-	-
Cash flows from investing activities			
Payments to acquire shares		(30)	(200)
Payments for the construction of property		(9,111)	(8,211)
Payments to acquire plant & equipment		(28)	(1,596)
Purchase of assets classified as held for sale		(560)	(53)
Proceeds from sale of plant, property and equipment		3,797	2,988
Proceeds from sale of assets classified as held for sale		724	235
Receipts from sale of shares		1,381	893
Loans advanced	10	(635)	(215)
Loans repaid	10	752	488
Interest received		119	70
Dividends received		-	128
		(3,591)	(5,473)
Net cash from investing activities		(3,591)	(5,473)
Net cash from investing activities - Continuing operations		(3,591)	(5,473)
Net cash from investing activities - Discontinued operations		-	-
Cash flows from financing activities			
Grant in aid		65,226	59,723
Debenture Loan repayments		-	-
Interest paid	7	-	(13)
		65,226	59,710
Net cash from financing activities		65,226	59,710
Net cash from financing activities - Continuing operations		65,226	59,710
Net cash from financing activities - Discontinued operations		-	-
Net increase/(decrease) in cash and cash equivalents	13	1,699	2,509
Cash and cash equivalents at beginning of period	13	5,648	3,139
Cash and cash equivalents at end of period	13	7,347	5,648
Cash and cash equivalents - Continuing operations		7,347	5,648
Cash and cash equivalents - Discontinued operations		-	-
		7,347	5,648

Group Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Revaluation reserve	Other reserve	Pension reserve	Minority Interest	General reserve	Total reserves
	£000	£000	£000		£000	£000
Balance at 31 March 2014	119	199	(25,865)	320	53,736	28,509
Adjustments	-	-	-	-	-	-
Balance at 31 March 2014	119	199	(25,865)	320	53,736	28,509
Changes in Taxpayers' equity for 2014-15						
Net gain/(loss) on revaluation of property, plant and equipment	287	2				289
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		(4)				(4)
Transfers between reserves			(1,154)		1,154	-
Actuarial Gain/(loss)			(7,465)			(7,465)
Retained Surplus/Deficit				(35)	(63,480)	(63,515)
Total recognised income and expense for 2014-15	287	(2)	(8,619)	(35)	(62,326)	(70,695)
Grant from Scottish Government					59,723	59,723
Balance at 31 March 2015	406	197	(34,484)	285	51,133	17,537
Changes in Taxpayers' equity for 2015-16						
Net gain/(loss) on revaluation of property, plant and equipment	(4)	-				(4)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					-	-
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees		(191)				(191)
Transfers between reserves			(1,240)		1,240	-
Actuarial Gain/(loss)			(529)			(529)
Retained Surplus/Deficit				99	(69,419)	(69,320)
Total recognised income and expense for 2015-16	(4)	(191)	(1,769)	99	(68,179)	(70,044)
Grant from Scottish Government					65,226	65,226
Balance at 31 March 2016	402	6	(36,253)	384	48,180	12,719

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 £3k (2015 £3K) and the share of equity accounted investee revaluation reserves £3K (2015 £194K).

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

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

Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

	Revaluation reserve	Other reserve	Pension reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000
Balance at 31 March 2014	119	1	(25,979)	51,580	25,721
Adjustments	-	-	-	-	-
Balance at 31 March 2014	119	1	(25,979)	51,580	25,721
Changes in Taxpayers' equity for 2014-15					
Net gain/(loss) on revaluation of property, plant and equipment	287	2			289
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			(8,505)	8,505	-
Actuarial Gain/(loss)			-		-
Retained Surplus/Deficit				(69,496)	(69,496)
Total recognised income and expense for 2014-15	287	2	(8,505)	(60,991)	(69,207)
Grant from Scottish Government				59,723	59,723
Balance at 31 March 2015	406	3	(34,484)	50,312	16,237
Changes in Taxpayers' equity for 2015-16					
Net gain/(loss) on revaluation of property, plant and equipment	(4)	-			(4)
Net gain/(loss) on revaluation of intangible assets					-
Net gain/(loss) on investments					-
Grants received in year					-
Release of reserves to the I&E					-
Equity accounted investees					-
Transfers between reserves			(1,240)	1,240	-
Actuarial Gain/(loss)			(529)		(529)
Retained Surplus/Deficit				(69,226)	(69,226)
Total recognised income and expense for 2015-16	(4)	-	(1,769)	(67,986)	(69,759)
Grant from Scottish Government				65,226	65,226
Balance at 31 March 2016	402	3	(36,253)	47,552	11,704

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

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

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

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

Notes to the Accounts

1. Accounting policies

Basis of preparation The financial statements have been prepared in accordance with the 2015-16 Government Financial Reporting Manual (FRoM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

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

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

property (note 9)
financial assets (note 10)
assets classified as held for sale (note 14)
financial commitments (note 20)

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

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

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

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

(a) Subsidiaries

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

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

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

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

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

The Group's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The Group accounts include the Group's share of the 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.

Critical accounting estimates and judgements

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

(a) Retirement benefit obligations

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations. The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 17.

(b) Fair value of financial instruments

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

(c) Held-to-maturity investments

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

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

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

Accounting for grant-in-aid

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

European Union funding and other grants

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

Income

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

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

Expenditure

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

Property, Plant & Equipment

HIE has 4 categories of property, plant and equipment:

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

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

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

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

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

Buildings – structure : 15-60 years
 Buildings – engineering : 15-45 years
 Buildings – specialist engineering : 15-45 years

Plant & Equipment : 3-40 years

Tenants' Improvements : 10 years

IT equipment : 4 years

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

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

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

Financial Assets - Equity	Equity instruments have been classified as Available for Sale financial assets and are shown at Fair Value in accordance with IFRS13. A review of the Share Agreements and Articles of Association of the Investee companies was carried out for all HIE's Investments to establish the correct classification of each. As there is no active market in most of HIE's investments, Fair Value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arm's length and Net Assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparable for HIE's equity. Decreases in the Fair Values have been charged to the Statement of Comprehensive Net Expenditure as these are considered to be impairment losses. A fair value hierarchy is used to categorise into three levels the inputs to valuation techniques used to measure fair value. All HIE's Available for Sale financial assets are categorised as Level 3 due to unobservable inputs.
- Loans and receivables	Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.
Intangible Assets	Goodwill Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight line basis over a period of 5 years.
Assets classified as held for sale	Assets classified as held for sale have been accounted for in accordance with International Financial Reporting Standard (IFRS) 5. These relate to properties and financial assets which have been approved for sale with a willing buyer and where the sale is expected to be completed during the next 12 months and are shown at Open Market Value with an allowance made for legal costs related to the sales.
Irrecoverable income	Irrecoverable debts are written off at the earliest opportunity. Provision is made for debts which are considered unlikely to be recovered.
Lease commitments	Highlands & Islands Enterprise has entered into commercial property leases as lessor on its property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the life of the lease.
Research expenditure	All research expenditure is charged against revenue in the year it occurs.
Insurance	In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their own liability for all risks except for statutory obligations.
Taxation	The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation

purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2011 have been agreed with the relevant tax authorities.

Employee Benefits

Retirement Benefits

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

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

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

Additional information is disclosed in note 17.

Short term employee benefits

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

Trade receivables and payables

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

Cash and cash equivalents

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

Provisions

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

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

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

Accounting standards issued but not yet adopted

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

Amendment to IAS 1 – Disclosure Initiative

This amendment will be adopted in the FReM with effect from 2016/17. The amendment to IAS 1 - Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. These amendments are not expected to have any significant impact on the consolidated accounts.

Amendment to IAS 7 – Disclosure Initiative

Subject to EU adoption and Exposure Draft process this amendment will be included in the FReM with effect from 2017/18. The objective of the amendment to IAS 7 - Statement of Cash Flows is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The impact on the consolidated accounts has not been determined.

IFRS 9 – Financial Instruments

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement and brings together all aspects of accounting for financial instruments. The impact on the consolidated accounts has not been determined.

IFRS 15 – Revenue from Contracts with Customers

Subject to EU adoption and Exposure Draft process this standard will be included in the FReM with effect from 2018/19. This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The new revenue standard will supersede all current revenue recognition requirements under IFRS. The impact on the consolidated accounts has not been determined.

IFRS 16 - Leases

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

2. Segmental Information

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

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2015 and 2016 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the group net operating cost before taxation.

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

	HIE	
	2016	2015
	£000	£000
Income		
Grant In Aid	66,201	59,723
European		
SDB Projects	2,565	3,317
	<u>2,565</u>	<u>3,317</u>
Capital		
Loan Repayments	760	1,388
Equity Sales	20	327
Property Sales	4,522	2,877
	<u>5,302</u>	<u>4,592</u>
Revenue		
Property Rental	4,292	4,335
Loan interest/Dividend	113	65
Other income	32,514	24,682
Other Receipts	580	237
	<u>37,499</u>	<u>29,319</u>
Other Income	45,366	37,228
Total Income	<u>111,567</u>	<u>96,951</u>
Expenditure		
Block A		
Regional Significant Investments	31,991	24,286
Business Support	5,080	4,099
Growth Investment	23,175	22,794
Broadband	31,454	23,265
Total Block A	<u>91,700</u>	<u>74,444</u>
SDB Projects	2,565	3,317
Other expenditure	1,809	4,667
Total Block A	<u>96,074</u>	<u>82,428</u>
Block B		
Management, staff & Admin cost	14,493	14,495
Total Block B	<u>14,493</u>	<u>14,495</u>
Total Expenditure	<u>110,567</u>	<u>96,923</u>
Support for government initiatives	975	
Financial Position (I&E)	<u>25</u>	<u>28</u>
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	25	28
Pension (IAS19)	(1,240)	(1,040)
Depreciation	(1,061)	(1,347)
Provisions & charges	(406)	(2,483)
Accruals & Prepayments	2,222	1,715
Property cost of sales	(3,539)	(2,582)
Capital revaluation and additions	3,420	3,578
Grant in aid	(60,951)	(59,673)
Taxation	(920)	(212)
Transfers from revaluation reserve	-	-
HIE Ventures Limited	176	185
Wave Energy Scotland	(6,711)	32
Discontinued operations		345
Associate companies	(27)	11
Consolidation adjustments	(257)	(2,058)
Group net operating cost before taxation	<u>(69,269)</u>	<u>(63,501)</u>

3. Income from operating activities

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

	GROUP	
	2016	2015
	£000	£000
Income from Activities		
Property Rentals	3,913	5,453
Gain/(loss) on financial assets at fair value	9	(202)
Surplus/(loss) on disposal of property	1,257	723
Surplus/(loss) on disposal of investments	762	808
	5,941	6,782
Other Income		
Other European contributions	2,835	2,767
Scottish Government receipts	35,761	24,968
Other external income	2,140	2,604
	40,736	30,339
Discontinued operations	-	672
	-	672

4. Expenditure on operating activities

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

	Regional significant Investments	Business Support	Growth Investment	Tourism Attraction Operator	Total	2015
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	55,712	12,949	21,732	-	90,393	78,004
Cairngorm Mountain Limited	-	-	-	-	-	794
Community Broadband	1,626	-	-	-	1,626	874
Wave Energy Scotland	4,858	-	-	-	4,858	481
HIE Ventures Limited	-	-	-	-	-	-
Group	62,196	12,949	21,732	-	96,877	80,153
2015	46,949	11,453	20,957	794	80,153	
2016						
Continuing operations	62,196	12,949	21,732	-	96,877	
Discontinuing operations	-	-	-	-	-	
	62,196	12,949	21,732	-	96,877	
2015						
Continuing operations	46,949	11,453	20,957	-	79,359	
Discontinuing operations	-	-	-	794	794	
	46,949	11,453	20,957	794	80,153	

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

Expenditure includes grants of **£28,196,860** (2015 - £27,796,988) of which **£947,615** (2015- £1,049,377) were made to the public sector and **£27,249,245** (2015 - £26,747,611) to the private sector.

Property revaluation and management costs of **£8,134,410** (2015 - £8,671,309) are included within Business Support expenditure above.

5a. Administration and management charges by organisation

	GROUP	
	2016	2015
	£000	£000
Highlands and Islands Enterprise	15,431	19,284
Cairngorm Mountain Ltd	-	65
Cairngorm 2000 Ltd	-	(12)
Wave Energy Scotland Limited	1,853	672
Former LECs	-	-
HIE Ventures Limited	602	236
	17,886	20,245
Continuing operations	17,886	19,627
Discontinuing operations	-	618
	17,886	20,245

5b. Administration and management charges

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Continuing operations				
Staff & board member salaries	10,498	11,119	10,192	10,955
IAS 19 adjustment in respect of service costs and curtailments	149	(59)	149	(59)
	10,647	11,060	10,341	10,896
Travel and subsistence - board members	75	30	22	24
Travel and subsistence - staff	711	698	711	698
Accommodation	1,000	1,241	983	985
Hospitality – board members	2	6	2	6
Hospitality – staff	18	39	18	39
Audit fees	139	130	130	130
Non-audit fees paid to auditors	17	-	-	-
Operating lease rentals – equipment	31	72	31	72
Equipment and furnishings	-	34	-	15
Provision for irrecoverable debts and losses	834	2,848	594	2,131
Investment Fair value adjustments	(339)	(299)	(339)	(298)
Other administration costs	3,688	2,422	1,684	1,776
	6,176	7,221	3,836	5,578
Depreciation of fixed assets	1,063	1,346	1,061	1,347
Amortisation of Intangible assets	-	-	-	-
Discontinued operations				
Staff & board member salaries (note 8)	-	-	-	-
Accommodation	-	-	-	-
Audit Fees	-	17	-	-
Non-audit fees paid to auditors	-	-	-	-
Operating lease rentals – equipment	-	-	-	-
Provision for irrecoverable debts and losses	-	321	-	-
Investment Fair value adjustments	-	-	-	-
Other administration costs	-	280	-	-
	-	618	-	-
Depreciation of fixed assets	-	-	-	-

Fees chargeable for audit services provided by Audit Scotland amounted to £129,500 (2015 - £129,500).

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

6. Investment Income and Other finance income / (charges)

	GROUP	
	2016 £000	2015 £000
Investment Income		
Dividends received	-	28
Interest Receivable		
Loan interest receivable	(83)	160
Bank interest receivable	18	17
Other Interest receivable	-	-
	(65)	177
Other finance income / (charges)		
Interest income on retirement benefit assets	3,215	3,820
Interest on retirement benefit scheme obligations	(4,306)	(4,919)
	(1,091)	(1,099)

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

7. Interest payable

	GROUP	
	2016	2015
	£000	£000
Other	0	13
	<u>0</u>	<u>13</u>

8. Taxation

Corporation tax is charged at 20 per cent (2015 21 per cent) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on the taxable income of its subsidiaries.

	GROUP	
	2016	2015
	£000	£000
Net expenditure after interest	69,269	63,366
Current tax at 20% (2015 21%)	15,932	14,574
Nontaxable income and disallowable expenditure	(15,932)	(14,574)
Tax under/(over) provided in previous years	24	51
Current tax charge	<u>24</u>	<u>51</u>
Current Tax		
Current tax on profits for the year	-	-
Adjustment in respect of prior years	(24)	(51)
Total current tax	<u>(24)</u>	<u>(51)</u>
Deferred Tax		
Current year	206	(48)
Adjustment in respect of previous periods	(78)	158
Effect of changes in Tax Rates	(53)	(45)
Total deferred tax	<u>75</u>	<u>65</u>
Tax per statement of comprehensive net expenditure	<u>51</u>	<u>14</u>

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

9. Property Plant & Equipment

At 31 March 2016, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, Chartered Surveyors.

GROUP

	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
Cost or valuation								
At 1 April 2014	33,433	1,086	7,526	42,045	1,455	301	6,870	50,671
Additions	1,815	-	7,050	8,865	-	-	1,597	10,462
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,203)	(1)	-	(2,204)	(228)	-	(262)	(2,694)
Reclassifications	5,666	(760)	(6,145)	(1,239)	-	-	-	(1,239)
Revaluations	(645)	-	-	(645)	-	-	-	(645)
Impairment	-	-	(5,501)	(5,501)	-	-	52	(5,449)
At 31 March 2015	38,066	325	2,930	41,321	1,227	301	8,257	51,106
Depreciation								
At 1 April 2014	(7)	-	-	(7)	1,145	300	1,743	3,181
Charged in year	427	4	-	431	80	1	834	1,346
Write Down	-	-	-	-	-	-	52	52
Disposals	-	-	-	-	(228)	-	(111)	(339)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(420)	(4)	-	(424)	-	-	-	(424)
At 31 March 2015	-	-	-	-	997	301	2,518	3,816
Net Book Value								
At 31 March 2015	38,066	325	2,930	41,321	230	-	5,739	47,290
At 1 April 2015	38,066	325	2,930	41,321	1,227	301	8,257	51,106
Additions	2,244	-	6,044	8,288	-	345	242	8,875
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,536)	-	-	(2,536)	-	-	(79)	(2,615)
Reclassifications	1,557	-	(1,291)	266	-	-	(2,800)	(2,534)
Revaluations	(2,702)	-	-	(2,702)	-	-	-	(2,702)
Impairment	-	-	(4,243)	(4,243)	-	-	(50)	(4,293)
At 31 March 2016	36,629	325	3,440	40,394	1,227	646	5,570	47,837
Depreciation								
At 1 April 2015	-	-	-	-	997	301	2,518	3,816
Charged in year	447	4	-	451	77	1	534	1,063
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(79)	(79)
Reclassifications	-	-	-	-	-	-	(500)	(500)
Revaluations	(447)	(4)	-	(451)	-	-	-	(451)
At 31 March 2016	-	-	-	-	1,074	302	2,473	3,849
Net Book Value								
At 31 March 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
At 31 March 2015	38,066	325	2,930	41,321	230	-	5,739	47,290
At 1 April 2014	33,440	1,086	7,526	42,052	310	1	5,127	47,490
Analysis of asset financing:								
	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
Owned	37,436	325	2,930	40,691	230	-	5,730	46,651
Finance Leased	630	-	-	630	-	-	9	639
Net Book Value								
At 31 March 2015	38,066	325	2,930	41,321	230	-	5,739	47,290
Owned	36,159	325	3,440	39,924	153	344	3,097	43,518
Finance Leased	470	-	-	470	-	-	-	470
Net Book Value								
At 31 March 2016	36,629	325	3,440	40,394	153	344	3,097	43,988
At 1 April 2015	38,066	325	2,930	41,321	230	-	5,739	47,290
At 1 April 2014	33,440	1,086	7,526	42,052	310	1	5,127	47,490

HIGHLANDS AND ISLANDS ENTERPRISE ACCOUNTS 2015/2016

HIE

	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
Cost or valuation								
At 1 April 2014	33,932	585	7,526	42,043	1,227	302	6,732	50,304
Additions	1,815	-	7,051	8,866	-	-	1,502	10,368
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,203)	-	-	(2,203)	-	-	(59)	(2,262)
Reclassifications	5,166	(260)	(6,145)	(1,239)	-	-	-	(1,239)
Revaluations	(646)	-	-	(646)	-	-	-	(646)
Impairment	-	-	(5,501)	(5,501)	-	-	-	(5,501)
At 31 March 2015	38,064	325	2,931	41,320	1,227	302	8,175	51,024
Depreciation								
At 1 April 2014	(7)	1	-	(6)	916	302	1,743	2,955
Charged in year	427	4	-	431	82	-	834	1,347
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(59)	(59)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(420)	(5)	-	(425)	-	-	-	(425)
At 31 March 2015	-	-	-	-	998	302	2,518	3,818
Net Book Value								
At 31 March 2015	38,064	325	2,931	41,320	229	-	5,657	47,206
At 1 April 2015	38,064	325	2,931	41,320	1,227	302	8,175	51,024
Additions	2,244	-	6,045	8,289	-	345	241	8,875
Write Down	-	-	-	-	-	-	-	-
Disposals	(2,536)	-	-	(2,536)	-	-	(79)	(2,615)
Reclassifications	1,557	-	(1,291)	266	-	-	(2,800)	(2,534)
Revaluations	(2,701)	-	-	(2,701)	-	-	-	(2,701)
Impairment	-	-	(4,243)	(4,243)	-	-	-	(4,243)
At 31 March 2016	36,628	325	3,442	40,395	1,227	647	5,537	47,806
Depreciation								
At 1 April 2015	-	-	-	-	998	302	2,518	3,818
Charged in year	447	4	-	451	77	-	533	1,061
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	(79)	(79)
Reclassifications	-	-	-	-	-	-	(500)	(500)
Revaluations	(447)	(4)	-	(451)	-	-	-	(451)
At 31 March 2016	-	-	-	-	1,075	302	2,472	3,849
Net Book Value								
At 31 March 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
At 1 April 2015	38,064	325	2,931	41,320	229	-	5,657	47,206
At 1 April 2014	33,939	584	7,526	42,049	311	-	4,989	47,349

Analysis of asset financing:

	Land & Buildings held for regeneration purposes £000	Land & Buildings held for own use £000	Assets under construction £000	Total Land & Buildings £000	Tenants Improvements £000	IT Equipment £000	Plant & Equipment £000	Total £000
Owned	37,434	325	2,931	40,690	229	-	5,648	46,567
Finance Leased	630	-	-	630	-	-	9	639
Net Book Value								
At 31 March 2015	38,064	325	2,931	41,320	229	-	5,657	47,206
Owned	36,158	325	3,442	39,925	152	345	3,065	43,487
Finance Leased	470	-	-	470	-	-	-	470
Net Book Value								
At 31 March 2016	36,628	325	3,442	40,395	152	345	3,065	43,957
At 1 April 2015	38,064	325	2,931	41,320	229	-	5,657	47,206
At 1 April 2014	33,939	584	7,526	42,049	311	-	4,989	47,349

Analysis of fund of asset additions:

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Government Grant	8,565	8,934	8,565	8,840
EU	310	1,528	310	1,528
Total	8,875	10,462	8,875	10,368

Reconciliation of profit on sales:

	GROUP	
	2016 £000	2015 £000
Sales value of disposals	4,516	2,884
Net book value of disposals	(3,260)	(2,160)
Profit on sales	1,256	724

10. Financial Assets

GROUP

Financial assets

	2016	2015
	£000	£000
Available for sale unlisted equity shares	253	245

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

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

Loans & Receivables

	Preference Shares £000	Loans & Receivables £000	Total £000	2015 £000
Amortised Cost				
At 1 April 2015	3,190	7,066	10,256	10,855
Additions	-	635	635	215
Repayments	-	(752)	(752)	(488)
Disposals	(55)	(593)	(648)	(58)
Fair Value Adjustment	(6)	356	350	298
Reclassification	-	-	-	(45)
Written off	-	(52)	(52)	(521)
At 31 March 2016	3,129	6,660	9,789	10,256
Diminution in value				
At 1 April 2015	3,165	3,758	6,923	4,135
Additions	-	567	567	3,354
Disposals	(50)	-	(50)	-
Released	(37)	-	(37)	-
Reclassification	-	-	-	(45)
Written off	-	(44)	(44)	(521)
At 31 March 2016	3,078	4,281	7,359	6,923
Net book value				
At 31 March 2016	51	2,379	2,430	3,333
At 1 April 2015	25	3,308	3,333	
Analysis of Loan & Receivables				
Due within 1 year	-	779	779	824
Due over 1 year	51	1,600	1,651	2,509

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

HIE
Financial assets

	2016	2015
	£000	£000
Available for sale unlisted equity shares	615	595

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

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

Loans & Receivables

	Preference Shares	Loans & Receivables	Total	2015
	£000	£000	£000	£000
Amortised Cost				
At 1 April 2015	3,085	6,624	9,709	10,942
Additions	-	635	635	215
Repayments	-	(1,034)	(1,034)	(1,187)
Disposals	-	-	-	-
Fair Value Adjustment	(6)	356	350	298
Reclassification	-	-	-	(39)
Written off	-	(8)	(8)	(520)
At 31 March 2016	3,079	6,573	9,652	9,709
Diminution in value				
At 1 April 2015	3,061	4,014	7,075	4,992
Additions	-	567	567	3,349
Disposals	-	-	-	-
Released	(33)	(300)	(333)	(700)
Reclassification	-	-	-	(45)
Written off	-	-	-	(521)
At 31 March 2016	3,028	4,281	7,309	7,075
Net book value				
At 31 March 2016	51	2,292	2,343	2,634
At 1 April 2015	24	2,610	2,634	
Analysis of Loan & Receivables				
Due within 1 year	-	779	779	824
Due over 1 year	51	1,513	1,564	1,810

Preference shares and loans are shown at amortised cost after allowing for any impairment. Impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows. HIE considers the above method of valuation provides a valuation which is equivalent to the fair value.

All non-current assets acquired were financed by government grant

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

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

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 2016.

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

All HIE's associated and jointly controlled undertakings are recognised in the accounts using the equity method unless indicated

Limited by guarantee

Name of company	Country of incorporation	Accounting period end	Percentage of Membership	Nature of business
Scottish Intellectual Asset Management Limited*	Scotland	31 March	50	Help build Scotland's competitiveness in modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets
Investors In People Scotland	Scotland	31 March	50	Assessment of organisations against the Investors in People (IIP) national standard

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

Limited by Shares

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

On 13th May 2015 HIE sold its investment in Rodel Hotels limited

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 April 2014	1,564	1,557	3,121	(920)	(1,413)	(2,333)	4,623	(4,631)	(8)
As at March 2015	842	721	1,563	(516)	(300)	(816)	1,483	(1,298)	185
As at March 2016	142	2,874	3,016	(2,126)	(19)	(2,145)	783	(7,311)	(6,528)

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 April 2014	5,441	1,687	7,128	(1,591)	(4,089)	(5,680)	2,083	(2,044)	39
As at March 2015	5,956	1,963	7,919	(2,587)	(4,053)	(6,640)	2,823	(2,892)	(69)
As at March 2016	5,087	1,577	6,664	(2,358)	(3,177)	(5,535)	2,575	(2,718)	(143)

Movements in carrying amount of investment in equity accounted investees

Carrying amount as at April 2014	£000
Share of surplus on revaluation	563
Share of net profit/(Loss)	(4)
Carrying amount as at 31 March 2015	<u>11</u>
	<u>570</u>
Carrying amount as at April 2015	570
Share of surplus on revaluation	(191)
Share of net profit/(Loss)	(27)
Carrying amount as at 31 March 2016	<u>352</u>

Details of undertaking which could be considered as associated and jointly controlled undertakings but are not recognised due to lack of significant influence

Limited by Shares

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business	Reason for loss of influence
Aquapharm Bio Discovery Limited	Scotland	30 April	21.7	Research and development of marine micro-organism based products	Administration

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

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

Significant holdings

Name of company - activity	% of voting rights	Holding as at 31 March 2016	Shares value paid £000	Original Loan Capital £000
Balcas Limited – production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000	-
Aquapharm	21.7%	433,161 ordinary shares	2,115	347
Inverness Airport Business Park Limited	25%	500 class 'C' ordinary shares	1	423
		24,997 class 'D' ordinary shares	25	-
		275,000 redeemable preference shares	550	-
HIE Ventures Limited	55%	110,000 Ordinary Shares	61	1,000
		40,000 class A ordinary shares	40	-
Accunostics	-	None	-	1,250
Baxters Food Group	-	None	-	1,500
Investments in 34 other businesses			1,100	4,122
			<u>5,892</u>	<u>8,642</u>

11 Fair Value and impairments

Revaluations to fair value and impairment charges for the year

Group				
	Statement of comprehensive net expenditure £000	Revaluation reserve £000	Total £000	2015 £000
Revaluations to fair value				
Property, plant and equipment	2,702	(4)	2,698	932
Financial assets	1	-	1	492
	2,703	(4)	2,699	1,424
Impairments				
Property, plant and equipment	4,294	-	4,294	5,449
Financial assets	(567)	-	(567)	(3,354)
	3,727	-	3,727	2,095
HIE				
	Statement of comprehensive net expenditure £000	Revaluation reserve £000	Total £000	2015 £000
Revaluations to fair value				
Property, plant and equipment	2,701	(4)	2,697	933
Financial assets	10	-	10	290
	2,711	(4)	2,707	1,223
Impairments				
Property, plant and equipment	4,243	-	4,243	5,501
Financial assets	(567)	-	(567)	(3,349)
	3,676	-	3,676	2,152

12. Trade and other receivables

	Note	GROUP		HIE	
		2016 £000	2015 £000	2016 £000	2015 £000
Trade receivables		3,264	7,826	3,162	7,716
Provision for bad debts		(685)	(571)	(675)	(561)
		2,579	7,255	2,487	7,155
Taxation recoverable		693	304	682	258
Accrued income and prepayments		5,174	1,587	5,127	1,547
Owed by subsidiary undertakings		-	-	711	32
Loans & other receivables	10	779	824	779	824
		9,225	9,970	9,786	9,816

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

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Balances with other central government bodies	695	304	684	258
Balances with local authorities	164	135	164	135
Balances with NHS bodies	-	-	-	-
Balances with similar public bodies	143	171	1,734	203
	1,002	610	2,582	596
Balances with bodies external to government	8,223	9,360	7,204	9,220
	9,225	9,970	9,786	9,816

13. Cash and cash equivalents

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Balance at 1 April	5,648	3,139	5,175	2,644
Net change in cash and cash equivalent balances	1,699	2,509	(427)	2,531
	7,347	5,648	4,748	5,175

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Group and HIE funds	2,599	473	-	-
Other scheme funds held	4,748	5,175	4,748	5,175
	7,347	5,648	4,748	5,175

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

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Community Broadband Scotland	4,748	5,008	4,748	5,008
Scottish Land Fund	-	167	-	167
	4,748	5,175	4,748	5,175

14. Assets Classified as Held for Resale**Assets Held for resale**

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

	Group			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2014	85	-	615	700
Transfers to assets Held for resale	1,226	-	-	1,226
Disposals of non current assets held for sale	(17)	-	(615)	(632)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2015	1,294	-	-	1,294

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

During the year it was decided 2 assets (2015 - 2) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

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

	HIE			Total
	Land and Buildings £000	Plant and equipment £000	Financial Assets	
As at 1 April 2014	85	-	615	700
Transfers to assets Held for resale	1,226	-	-	1,226
Disposals of non current assets held for sale	(17)	-	(615)	(632)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2015	1,294	-	-	1,294

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

During the year it was decided 2 assets (2015 - 2) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

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

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

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade payables	5,206	9,457	4,332	9,441
Accruals and Deferred Income	8,328	4,045	8,096	3,730
Prepaid rental income	625	400	625	400
Owed to subsidiary undertakings	-	-	219	-
	14,159	13,902	13,272	13,571
Taxation and social security	507	256	263	256
Corporation tax	-	32	-	32
	507	288	263	288

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

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Balances with other central government bodies	262	425	262	425
Balances with local authorities	34	416	34	416
Balances with similar public bodies	486	682	486	682
	782	1,523	782	1,523
Balances with bodies external to government	13,884	12,667	12,753	12,336
	14,666	14,190	13,535	13,859

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

	GROUP		HIE	
	2016	2015	2016	2015
	£000	£000	£000	£000
Deferred income – other schemes	377	394	377	394
Deferred Tax	998	921	998	922
	1,375	1,315	1,375	1,316

17. Retirement Benefit Obligation

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

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

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

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

Highlands and Islands Enterprise Superannuation Scheme

The April 2015 actuarial valuation of the superannuation scheme was delayed to 2016. The actuarial valuation at **5 April 2016**, Completed June 2016, indicated a potential deficit of **£31.7** million in the HIE pension fund. In December 2013 HIE, with agreement of the HIE Pension Fund Trustees and Scottish Government implemented a recovery plan to address the shortfall. The plan was updated in June 2016 to:

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

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

Pension disclosure under IAS 19

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

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2016** by a qualified independent actuary.

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

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

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

	31 March 16	31 March 15	31 March 14	31 March 13	31 March 12
	%	%	%	%	%
Rate of salary increases (% per annum)	3.15	3.50	3.90	3.90	3.80
Rate of pension increase (% per annum)	2.15	2.00	2.60	2.60	2.50
Discount rate (% per annum)	3.50	3.30	4.50	4.40	5.00
Inflation rate (% per annum)	3.15	3.00	3.40	3.40	2.50

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

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

	Value at 31 March 2016	Value at 31 March 2015	Value at 31 March 2014	Long-term rate of return expected at 31 March 2013	Value at 31 March 2013	Long-term rate of return expected at 31 March 2012	Value at 31 March 2012
	£000	£000	£000	%	£000	%	£000
Equities	47,886	50,613	46,365	4.40	42,698	5.30	38,902
Gilts	16,644	16,446	12,811	4.40	13,466	2.30	17,851
Bonds	8,235	8,255	7,298	4.40	7,101	3.80	6,270
Property	7,677	7,458	5,721	4.40	5,569		
Cash	1,117	1,243	1,164	4.40	1,048	0.00	960
Estimated employer assets	81,559	84,015	73,359		69,882		63,983
Present value of scheme liabilities	(113,401)	(112,085)	(94,674)		(92,589)		(74,867)
Deficit in the scheme	(31,842)	(28,070)	(21,315)		(22,707)		(10,884)
Related deferred tax asset/ (liability)	-	-	-		-		-
Net pension liability	(31,842)	(28,070)	(21,315)		(22,707)		(10,884)

The current values show an increase in the deficit from 31 March 2015 of £3.8m to £31.9m at 31 March 2016.

Local Government Pension Funds

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

Pension disclosure under IAS 19

The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees.

The local government pension fund is a defined benefit scheme. A full actuarial valuations at 31 March 2014 and updated to 31 March 2016 by a qualified independent actuary.

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

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

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

	31 March 16	31 March 15	31 March 14	31 March 13	31 March 12
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	4.20	4.33	5.13	5.03	4.80
Rate of pension increase (% per annum)	2.20	2.43	2.83	2.75	2.50
Discount rate (% per annum)	3.53	3.23	4.30	4.55	4.75
Inflation rate (% per annum)	3.20	3.40	3.40	3.55	2.50

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

	Value at 31 March 2016	Value at 31 March 2015	Value at 31 March 2014	Long-term rate of return expected at 31 March 2013	Value at 31 March 2013	Long-term rate of return expected at 31 March 2012	Value at 31 March 2012
	£000	£000	£000	%	£000	%	£000
Equities	9,932	9,921	8,762	6.11	8413	6.53	7,162
Gilts	420	576	485	3.3	471	3.3	408
Bonds	1803	1817	1,416	4.2	984	4.25	783
Property	1514	1210	810	4.5	737	4.63	700
Cash	491	180	300	3.4	182	3.38	225
Estimated employer assets	14,160	13,704	11,773		10,787		9,278
Present value of unfunded liabilities	(17,890)	(19,367)	(15,763)		(13,182)		(11,833)
Present value of unfunded liabilities	(681)	(751)	(674)		(622)		(582)
Deficit in the scheme	(4,411)	(6,414)	(4,664)		(3,017)		(3,137)
Related deferred tax liability	-	-	-		-		-
Net pension liability	(4,411)	(6,414)	(4,664)		(3,017)		(3,137)

The pension contributions with effect from 1 April 2016 for the local government pension funds are:

	2016	2015
Highland Council Pension Fund	20.7%	20.7%
Orkney Islands Council Pension Fund	19.8%	21.4%
Strathclyde Pension Fund	18.0%	18.0%

GROUP

	HIE	LGPF	CML	Total	HIE	LGPF	CML	Total
	2016	2016	2016	2016	2015	2015	2015	2015
	£000	£000	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE								
Current service cost	2,258	433	-	2,691	2,084	423	-	2,507
Past service cost	-	-	-	-	-	-	-	-
Admin expenses	442	-	-	442	348	-	-	348
Interest income on retirement benefit assets	(2,771)	(444)	-	(3,215)	(3,311)	(509)	-	(3,820)
Interest on retirement benefit scheme obligations	3,655	651	-	4,306	4,207	712	-	4,919
Net pension scheme expense	3,584	640	-	4,224	3,328	626	-	3,954
Analysis of the amount recognised in SOCEs								
Actual return less expected return on pension scheme assets	5,150	185	-	5,335	(7,221)	(1,255)	-	(8,476)
Experience gains and (losses) arising on the scheme liabilities	(1,808)	(208)	-	(2,016)	(141)	51	-	(90)
Changes in demographic assumptions underlying the present value of the scheme liabilities	2,281	-	-	2,281	-	201	-	201
Changes in financial assumptions underlying the present value of the scheme liabilities	(2,775)	(2,296)	-	(5,071)	13,395	2,435	-	15,830
Restriction on scheme surplus	-	-	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	2,848	(2,319)	-	529	6,033	1,432	-	7,465
Reconciliation of defined benefit obligation								
Opening defined benefit obligation	112,085	20,118	-	132,203	94,674	16,437	1,037	112,148
Recognised on acquisition	-	-	-	-	-	-	(1,037)	(1,037)
	112,085	20,118	-	132,203	94,674	16,437	-	111,111
Movement in year:								
Current Service costs	2,258	433	-	2,691	2,084	423	-	2,507
Contributions by members	337	96	-	433	253	98	-	351
Past service costs	-	-	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(30)	-	(30)	-	(30)	-	(30)
Estimated benefits paid	(2,632)	(193)	-	(2,825)	(2,387)	(209)	-	(2,596)
Interest cost	3,655	651	-	4,306	4,207	712	-	4,919
Actuarial losses/(gains)	(2,302)	(2,504)	-	(4,806)	13,254	2,687	-	15,941
Closing defined benefit obligation	113,401	18,571	-	131,972	112,085	20,118	-	132,203
Present value of funded liabilities	113,401	18,571	-	131,972	112,085	19,367	-	131,452
Present value of unfunded liabilities	-	-	-	-	-	751	-	751
Reconciliation of fair value of assets								
Opening fair value of assets	84,015	13,704	-	97,719	73,359	11,773	1,151	86,283
Prior year adjustment	-	-	-	-	-	-	(1,151)	(1,151)
Opening fair value of assets – as restated	84,015	13,704	-	97,719	73,359	11,773	-	85,132
Recognised on acquisition	-	-	-	-	-	-	-	-
Expected return on assets	2,771	444	-	3,215	3,311	509	-	3,820
Contributions by members	337	96	-	433	253	98	-	351
Contributions by employer	2,660	294	-	2,954	2,606	278	-	2,884
Contribution in respect of unfunded benefits	-	30	-	30	-	30	-	30
Admin expenses	(442)	-	-	(442)	(348)	-	-	(348)
Actuarial gains/(losses)	(5,150)	(185)	-	(5,335)	7,221	1,255	-	8,476
Estimated unfunded benefits paid	-	(30)	-	(30)	-	(30)	-	(30)
Estimated benefits paid	(2,632)	(193)	-	(2,825)	(2,387)	(209)	-	(2,596)
	81,559	14,160	-	95,719	84,015	13,704	-	97,719
Estimated employer contributions for the year ended 31 March 2017	2,744	299	-	3,043	2,679	297	-	2,976

HIE

	HIE	LGPF	Total	HIE	LGPF	Total
	2016	2016	2016	2015	2015	2015
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	2,258	433	2,691	2,084	423	2,507
Past service cost	-	-	-	-	-	-
Admin expenses	442	-	442	348	-	348
Interest income on retirement benefit assets	(2,771)	(444)	(3,215)	(3,311)	(509)	(3,820)
Interest on retirement benefit scheme obligations	3,655	651	4,306	4,207	712	4,919
Net pension scheme expense	3,584	640	4,224	3,328	626	3,954
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	5,150	185	5,335	(7,221)	(1,255)	(8,476)
Experience gains and (losses) arising on the scheme liabilities	(1,808)	(208)	(2,016)	(141)	51	(90)
Changes in demographic assumptions underlying the present value of the scheme liabilities	2,281	-	2,281	-	201	201
Changes in financial assumptions underlying the present value of the scheme liabilities	(2,775)	(2,296)	(5,071)	13,395	2,435	15,830
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Defined benefit income/(cost) recognised in SOCE	2,848	(2,319)	529	6,033	1,432	7,465
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	112,085	20,118	132,203	94,674	16,437	111,111
Recognised on acquisition	-	-	-	-	-	-
	112,085	20,118	132,203	94,674	16,437	111,111
Movement in year:						
Current Service costs	2,258	433	2,691	2,084	423	2,507
Contributions by members	337	96	433	253	98	351
Past service costs	-	-	-	-	-	-
Impact of settlements and curtailments	-	-	-	-	-	-
Estimated unfunded benefits paid	-	(30)	(30)	-	(30)	(30)
Estimated benefits paid	(2,632)	(193)	(2,825)	(2,387)	(209)	(2,596)
Interest cost	3,655	651	4,306	4,207	712	4,919
Actuarial losses/(gains)	(2,302)	(2,504)	(4,806)	13,254	2,687	15,941
Closing defined benefit obligation	113,401	18,571	131,972	112,085	20,118	132,203
Present value of funded liabilities	113,401	18,571	131,972	112,085	19,367	131,452
Present value of unfunded liabilities	-	-	-	-	751	751
Reconciliation of fair value of assets						
Opening fair value of assets	84,015	13,704	97,719	73,359	11,773	85,132
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	84,015	13,704	97,719	73,359	11,773	85,132
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,771	444	3,215	3,311	509	3,820
Contributions by members	337	96	433	253	98	351
Contributions by employer	2,660	294	2,954	2,606	278	2,884
Contribution in respect of unfunded benefits	-	30	30	-	30	30
Admin expenses	(442)	-	(442)	(348)	-	(348)
Actuarial gains/(losses)	(5,150)	(185)	(5,335)	7,221	1,255	8,476
Estimated unfunded benefits paid	-	(30)	(30)	-	(30)	(30)
Estimated benefits paid	(2,632)	(193)	(2,825)	(2,387)	(209)	(2,596)
	81,559	14,160	95,719	84,015	13,704	97,719
Estimated employer contributions for the year ended 31 March 2017	2,744	299	3,043	2,679	297	2,976

Expenditure recognised in the Statement of Comprehensive net expenditure

	2016	2015
	£000	£000
Net management expenditure on staff costs	149	(59)
Other finance charges/(income)	1,091	1,099

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £529k loss (2015 £7,465k loss).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £22,661k (2015 £22,132k loss).

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

	HIE					LGPF				
	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000	2016 £000	2015 £000	2014 £000	2013 £000	2012 £000
Experience gains and losses										
Difference between expected and actual return on scheme assets	(5,150)	7,221	801	3,917	2,071	(185)	1,255	249	737	814
Value of assets	81,559	84,015	73,359	75,781	63,983	14,160	13,704	11,773	12,296	9,278
Percentage of scheme assets	(6.3)%	8.6%	1.1%	5.2%	3.2%	(1.3)%	9.2%	2.1%	6.0%	8.8%
Experience gains and (losses) on scheme liabilities	1,808	141	127	2,822	2	208	(51)	(18)	(17)	150
Present value of liabilities	(113,401)	(112,085)	(94,674)	(92,589)	(74,867)	(18,571)	(20,118)	(16,437)	(13,804)	(12,415)
Percentage of scheme liabilities	(1.6)%	(0.1)%	(0.1)%	(3.0)%	(0.0)%	(1.1)%	0.3%	0.1%	0.1%	(1.2)%

Mortality

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

	HIE		LGPF	
	UK	UK*	UK	UK
	31/03/16	31/03/15	31/03/16	31/03/15
1. Male member aged 65 (current life expectancy)	24.5	27.8	22.5	22.5
2. Male member age 45 (life expectancy at 65)	27.0	29.8	24.9	24.9
3. Female member aged 65 (current life expectancy)	25.4	30.5	23.8	23.8
4. Female member aged 45 (life expectancy at 65)	28.3	32.5	26.7	26.7

*2015 HIE life expectancy is based on a retirement age of 60

Defined benefit obligation analysed by participant status

	HIE 2016		LGPF 2016		HIE 2015		LGPF 2015	
	%	£000	%	£000	%	£000	%	£000
Active members	33.0%	37,422	61.1%	10,934	35.4%	39,684	59.6%	11,543
Vested deferred members	22.0%	24,948	21.2%	3,784	26.3%	29,479	22.3%	4,328
Retired members	45.0%	51,030	17.7%	3,172	38.3%	42,922	18.1%	3,496
		<u>113,400</u>		<u>17,890</u>		<u>112,085</u>		<u>19,367</u>

Sensitivity Analysis

	HIE 2016		LGPF 2016		
	%	£000	%	£000	
0.5% decrease in real discount rate		9.9%	11,231	13.0%	2,421
1 Year increase in member life expectancy		3.0%	3,402	3.0%	558
0.5% increase in the salary increase rate		1.1%	1,207	4.7%	881
0.5% increase in pension increase rate		7.7%	8,729	8.0%	1,488

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

Risks

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

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

	HIE	LGPF
	Years	Years
Weighted average duration of defined benefit obligation	20.0	22.6

18. Net Cash Flow From Operating Activities

	Note	GROUP	
		2016 £000	2015 £000
Deficit on operating activities		68,086	61,865
Interest received	6	65	(177)
Dividends received	6	-	(28)
Share of related company results	10	27	(11)
Gain/loss on financial assets at fair value	3	9	(202)
Profit of sale of assets	3	1,257	723
Interest payable	7	-	13
Net cash outflow from operating activities		69,444	62,183
Discontinued operations	3,4&5	-	740
Net cash outflow from operating activities		69,444	62,923

19. Commitments

	GROUP		HIE	
	2016 £000	2015 £000	2016 £000	2015 £000
Commitments				
Property	12,729	12,622	12,729	12,622
Grants and loans	73,384	52,002	73,329	52,002

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

20. Financial Commitments

Highlands & Islands Enterprise has entered into commercial leases on certain properties and items of equipment. These leases have an average duration of between 3 and 20 years.

Future minimum payments due under non-cancellable operating leases:

GROUP

	Property £000	Equipment £000	Total £000	2015 £000
Obligations under Operating and similar leases:				
Within one year	1,040	2	1,042	1,123
Within two to five years	3,452	-	3,452	3,651
In over five years	1,689	-	1,689	2,533
	6,181	2	6,183	7,307

HIE

	Property £000	Equipment £000	Total £000	2015 £000
Obligations under Operating and similar leases:				
Within one year	1,040	2	1,042	1,123
Within two to five years	3,452	-	3,452	3,651
In over five years	1,689	-	1,689	2,533
	6,181	2	6,183	7,307

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 2016 is £3,777k (2015 £4,737k).

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

Future minimum rentals receivable under non-cancellable operating leases:

GROUP

	Property £000	Equipment £000	Total £000	2015 £000
Receivable under Operating and similar leases:				
Within one year	3,768	70	3,838	4,615
Within two to five years	12,351	280	12,631	14,605
In over five years	9,963	-	9,963	10,202
	26,082	350	26,432	29,422

HIE

	Property £000	Equipment £000	Total £000	2015 £000
Receivable under Operating and similar leases:				
Within one year	3,768	70	3,838	4,615
Within two to five years	12,351	280	12,631	14,605
In over five years	9,963	-	9,963	10,202
	26,082	350	26,432	29,422

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

Future minimum payments due under non-cancellable finance leases:

GROUP

	Property £000	Plant & Equipment £000	Total £000	2015 £000
Obligations under Finance and similar leases:				
Within one year	259	4	263	271
Within two to five years	1,037	-	1,037	1,041
In over five years	6,900	-	6,900	7,159
	8,196	4	8,200	8,471
Finance charges allocated to future periods	-	(1)	(1)-	(6)
	8,196	3	8,199	8,465
Present Value of minimum lease payments				
Within one year	259	3	262	269
Within two to five years	1,037	-	1,037	1,037
In over five years	6,900	-	6,900	7,159
	8,196	3	8,199	8,465

HIE

	Property £000	Plant & Equipment £000	Total £000	2015 £000
Obligations under Finance and similar leases:				
Within one year	259	4	263	271
Within two to five years	1,037	-	1,037	1,041
In over five years	6,900	-	6,900	7,159
	8,196	4	8,200	8,471
Finance charges allocated to future periods	-	(1)	(1)-	(6)
	8,196	3	8,199	8,465
Present Value of minimum lease payments				
Within one year	259	3	262	269
Within two to five years	1,037	-	1,037	1,037
In over five years	6,900	-	6,900	7,159
	8,196	3	8,199	8,465

21. Transactions involving Board members' registered interests

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

Transactions where a director had a financial interest

Business	Approvals brought forward (£)	Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Orkney Housing Association	13,157	(1,735)	11,422	Housing seminar costs	C Spence - Director
Aros (Isle of Skye) Ltd	125,899	4,458	19,301	Development grant and graduate placement grant	D MacDonald - Managing Director
MG Alba	-	231	231	Room hire	I MacTaggart
Harper Macleod	-	2,482	2,482	Legal fees with a framework agreement	L Crerar - Member
Commsworld Ltd	-	2,085	2,085	Call & Service charges	S Thompson - Non Executive director
Hebridean Sea Salt	27,543	-	-	Project grant	S Thomson - Board Member
Crerar Hotels	-	2,673	2,673	Accommodation and room hire	P Crerar - Chief Executive Officer

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

HIE Ventures Limited
Investors in People Scotland
Mac TV
Mull & Iona Community Enterprise
Orkney Islands Council
Sabhal Mor Ostaig
Scottish Aquaculture Innovation Centre
Social Investment Scotland
Staffin Community Trust
University of Highlands & Islands
Wave Energy Scotland Limited

22. Related party transactions

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

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

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

Transactions have taken place with:

Aberdeenshire Council
Argyll & Bute Council
Audit Scotland
British Library
City of Glasgow Council
Comhairle Nan Eilean Siar
Companies House
Creative Scotland
Forestry Commission
Her Majesty's Customs & Revenue
NHS Highland
North Ayrshire Council
Orkney Islands Council
Registers of Scotland
Scottish Natural Heritage
Scottish Enterprise
Scottish Water
Shetland Island Council
Skills Development Scotland
The Highland Council
The Moray Council
Visit Scotland
West Lothian Council

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

Compensation of key management personnel

Key management personnel are considered to be the non-executive board members and the executive directors. Detail of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £6K (2015: £7K) employers national insurance contributions and Nil (2015 Nil) employer pension contributions.

23. Financial instruments

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

Liquidity risk
 Credit risk
 Market risk

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

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

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

Liquidity risk

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

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

The table below details the contractual maturities of financial liabilities.

2016

Group

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

HIE

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

2015

Group

	Carrying Amount £000	Contractual Cashflows £000	Within one year £000	After more than one year £000
Financial Liabilities				
Trade and other payables	13,502	13,502	13,502	-
	13,502	13,502	13,502	-

HIE

	Carrying Amount £000	Contractual Cashflows £000	Within one year £000	After more than one year £000
Financial Liabilities				
Trade and other payables	13,171	13,171	13,171	-
	13,171	13,171	13,171	-

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2016 (2015: £nil).

Credit risk

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

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

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

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

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

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

Group	Carrying Amount	
	2016 £000	2015 £000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	253	245
Preference shares	51	25
Loans and other receivables	2,379	3,308
Financial assets		
Trade and other receivables	7,753	8,842
Cash and cash equivalents	7,347	5,648
	17,783	18,068

HIE	Carrying Amount	
	2016 £000	2015 £000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	615	595
Preference shares	51	24
Loans and other receivables	2,292	2,610
Financial assets		
Trade and other receivables	7,614	8,702
Cash and cash equivalents	4,748	5,175
	15,320	17,106

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

Group	2016		2015	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	7,490	-	8,257	-
Past due 0 to 30 days	177	(62)	324	(14)
Past due more than 31 days	771	(623)	832	(557)
	8,438	(685)	9,413	(571)

HIE	Gross	Impairment	Gross	Impairment
	2016	2016	2015	2015
	£000	£000	£000	£000
Not past due	6,322	-	8,107	-
Past due 0 to 30 days	278	(62)	324	(14)
Past due more than 31 days	1,689	(613)	832	(547)
	8,289	(675)	9,263	(561)

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

Market risk

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

Interest rate risk

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

Group	Carrying Amount	Carrying Amount
	2016	2015
	£000	£000
Fixed rate instruments		
Financial assets	2,430	3,333
Financial liabilities	-	-
	2,430	3,333
Variable rate instruments		
Cash and cash equivalents	7,347	5,648
	7,347	5,648
HIE	Carrying Amount	Carrying Amount
	2016	2015
	£000	£000
Fixed rate instruments		
Financial assets	2,343	2,634
Financial liabilities	-	-
	2,343	2,634
Variable rate instruments		
Cash and cash equivalents	4,748	5,175
	4,748	5,175

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

	Group	HIE
	100 basis points	100 basis points
	change	change
	£000	£000
Cash and cash equivalents		
31 March 2015	44	39
31 March 2016	65	50

Currency risk

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

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

Fair values

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

Group	Carrying Amount		Fair Value	
	2016	2016	2015	2015
	£000	£000	£000	£000
Available for sale unlisted equity shares	253	253	245	245
Preference shares	51	51	25	25
Loans and other receivables	2,379	2,379	3,308	3,308
Trade and other receivables	7,753	7,753	8,842	8,842
Cash and cash equivalents	7,347	7,347	5,648	5,648
Trade and other payables	(13,534)	(13,534)	(13,502)	(13,502)
Taxation recoverable	693	693	304	304
	4,942	4,942	4,870	4,870

HIE

	Carrying Amount		Fair Value	
	2016	2016	2015	2015
	£000	£000	£000	£000
Available for sale unlisted equity shares	615	615	595	595
Preference shares	51	51	24	24
Loans and other receivables	2,292	2,292	2,610	2,610
Trade and other receivables	7,614	7,614	8,702	8,702
Cash and cash equivalents	4,748	4,748	5,175	5,175
Trade and other payables	(12,647)	(12,647)	(13,171)	(13,171)
Taxation recoverable	682	682	258	258
	3,355	3,355	4,193	4,193

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

Non-Current assets

Valuation Process

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

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

Fair value hierarchy

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

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

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

Group

	2016	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					
Available for sale unlisted equity shares	253	-	-	253	762
Non-recurring Measurements					
Property classified as held-for-resale	301	-	301	-	-
Plant & Equipment classified as held-for-resale	1,896	-	1,896	-	-

HIE

	2016	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					
Available for sale unlisted equity shares	615	-	-	615	20
Non-recurring Measurements					
Property classified as held-for-resale	301	-	301	-	-
Plant & Equipment classified as held-for-resale	1,896	-	1,896	-	-

- 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, and the price agreed at 6/4/2016 for the sale of plant & equipment.
- Level 3 Equity shares are valued on a Net Assets Worth Basis.

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

	Group	HIE
	£000	£000
Opening Balance	245	594
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	39	30
Disposals	-22	-
Fair Value Adjustment	-9	-9
Total Gains or Losses for the period:	-	-
Included in other income and expenses	742	-
Included in other comprehensive income	20	20
Closing Balance	1015	635

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

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£22k	Net Asset Value (a)	n/a	n/a

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

There are no unobservable inputs available to provide a sensitivity analysis of the Fair Value Measurement.

Estimation of fair values

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

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

24. Discontinued operations

Discontinued operations relate to Highlands and Islands Enterprise subsidiary CairnGorm Mountain Limited and CairnGorm 2000+ Limited, a subsidiary of CairnGorm Mountain Limited.

CairnGorm Mountain Limited was sold on 11th June 2014.

CairnGorm 2000+ Limited was dissolved on 25th April 2014.

Accounts Direction by the Scottish Ministers

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

Signed by the authority of the Scottish Ministers



Head of Enterprise Policy Delivery Division
10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

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