

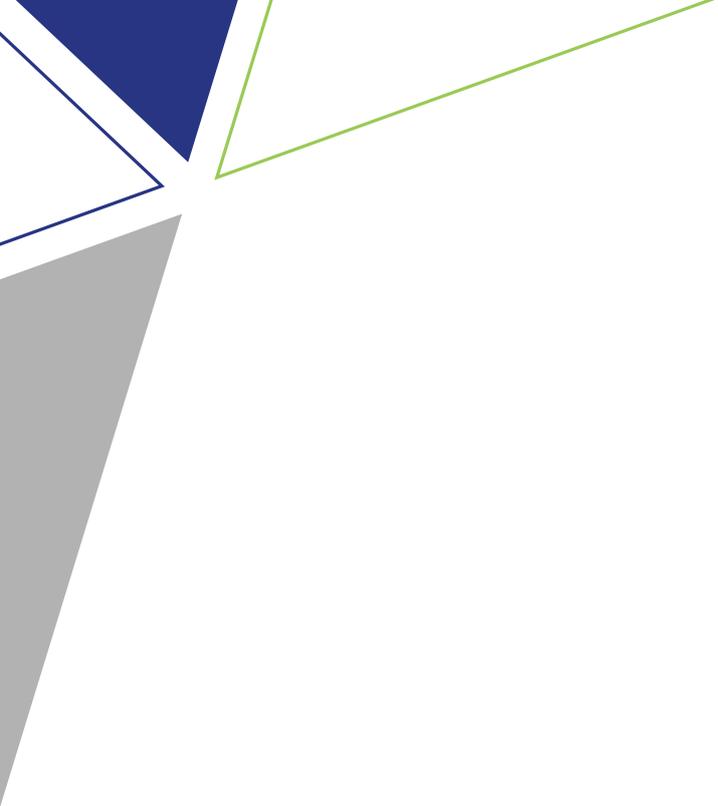


Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

HIGHLANDS AND ISLANDS ENTERPRISE

ANNUAL REPORT AND ACCOUNTS

2022/23



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 2023 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.



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FOREWORD

Across the Highlands and Islands, it looks likely that 2022-23 will be remembered as a year of contrasts, when businesses and communities were faced with great economic opportunities as well as severe challenges.

It has always been a key characteristic of Highlands and Islands Enterprise to balance our approach so that we are effective both in tackling the difficulties facing the region and seeking to maximise the benefits that can be generated from new and positive developments. In doing so, we aim not only to address the region's present circumstances, but also to lay the groundwork essential to deliver future prosperity. That was certainly true this year.

Regular engagement with businesses and communities underscored the impacts that many were feeling from economic challenges across our region, as well as other parts of the country. The cost of living crisis affected everyone, particularly the large increases experienced in energy and food costs throughout 2022/23. Skills and labour shortages were constraining business growth in many areas, and there were significant problems around the supply of housing and transport provision, including some vital ferry services.

All of these are issues that HIE is currently alert to, and working to address with partners in government and the public, private and third sectors.

It is also true that the Highlands and Islands stands to benefit immensely from a range of impressive opportunities that are emerging at present. New offshore wind developments, wider opportunities in the marine economy, the growth of the international space sector and the emphasis on just transition to net zero greenhouse gas emissions all present enormous potential benefits for our region.

At the same time, our tourism and food and drink sectors are continuing to contribute significantly to the national economy and showcasing Scotland on the international stage.

Against this background, it is good to be able to report a strong performance in 2022/23 by Highlands and Islands Enterprise and the hundreds of businesses and communities we support from Argyll to Shetland and from the Outer Hebrides to Moray. [See table on p11]

Working together, we succeeded in creating or retaining over 1,400 jobs, a figure well above target. Significantly, almost 160 of these were in fragile areas.

Business turnover by clients rose by more than £680m, more than treble the target figure, and international sales supported by HIE investment increased by almost £50m, comfortably within our target range.

There were positive outcomes too for the numbers of green jobs that we supported, capital asset investment and, significantly, green capital asset investment.

Only the out-turn for increase in turnover in the social economy fell slightly short, at 94% of the target figure, as communities focused on resilience. We will work to address this in the coming year.

As we look ahead, with a new, five-year strategy launched in 2023, we will continue to act with ambition and commitment to economic growth in all parts of our region, mindful of our responsibility to make the most of the opportunities we currently enjoy to build a prosperous, sustainable and dynamic wellbeing economy.

ALISTAIR DODDS CBE
Chair

STUART BLACK
Chief Executive



RO-RÀDH

Air feadh na Gàidhealtachd 's nan Eilean, tha e coltach gum bi 2022-23 air chuimhne mar bhliadhna de iomsgaraidhean, nuair a bha aig gnothachasan agus coimhearsnachdan dèiligeadh ri cothroman mòra eaconamach a thuilleadh air cruaidh dhùbhlain.

The e a-riamh air a bhith na phrìomh fheart de lomairt na Gàidhealtachd 's nan Eilean ar modh-obrach a chothromachadh gus am bi sinn èifeachdach san dà chuid ann an làimhseachadh nan duilgheadasan mu choinneamh na roinne agus coimhead ris na buannachdan as àirde a ghabhas a ghinteadh bho leasachaidhean ùra agus deimhinneach. Ann an dèanamh sin, tha sinn ag amas air chan e a-mhàin dèiligeadh ri suidheachadh làithreach na roinne ach cuideachd an obair bhunaiteach a ghrunnachadh a tha deatamach do libhrigeadh air soirbheachas san àm ri teachd. Bha sin dha-rìribh fìor am-bliadhna.

Bha conaltradh cunbhalach le gnothachasan agus coimhearsnachdan a' dearbhadh na buaidh a bha mòran a' faireachdainn bho dhùbhlain eaconamach air feadh na roinne, a thuilleadh air pàirtean eile den dùthaich. Bha a' chùis-èiginn a thaobh bith-beò a' toirt buaidh air gach neach, gu h-àraid na meudachaidhean mòra a dh'fhuilingeadh ann an cosgaisean cumhachd agus bidh, tron bhliadhna 2022/23 air fad. Bha gainnead sgilean is saothrach a' cuingalachadh fàs ann an gnothachas ann am mòran sgìrean, agus bha duilgheadasan cudromach mu thimcheall solar taigheadais is còmh-dhail, a' gabhail a-steach cuid de sheirbheisean deatamach aiseig.

Tha iad sin uile nan cùisean do bheil HIE mothachail aig an àm seo, agus tha sinn ag obair gus dèiligeadh riutha le com-pàirtichean san riaghaltas agus sna roinnean poblach, prìobhaideach is treasamh.

Tha e fìor gu bheil a' Ghàidhealtachd 's na h-Eileanan gu bhith a' faotainn buannachd fìor mhòr bho raon de chothroman iongantach a tha a' tighinn am bàrr gu làithreach. Tha leasachaidhean ùr gaoithe far-thìreach fàs anns an roinn fànais eadar-nàiseanta agus an cuideam air eadar-ghluasad cothromach gu neoini ann an sgaoididhean gas taigh-glainne, uile a' toirt am follais comas air buannachdan a ghleidheadh don roinn againn.

Aig an aon àm, tha na roinnean turasachd agus bidhe is dibhe againn a' leantainn air adhart a' cur gu mòr ris an eaconamaidh nàiseanta agus a' taisbeanadh Alba air an àrd-ùrlar eadar-nàiseanta.

An aghaidh a' chùl-fhiosrachaidh seo, tha e math a bhith comasach air gnìomhadh làidir aithris ann an 2022/23 le lomairt na Gàidhealtachd 's nan Eilean agus na ceudan de gnothachasan is coimhearsnachdan ris a bheil sinn a' cur taic bho Earra-Ghàidheal gu Sealtainn agus bho Innse Gall gu Moireibh [faic an clàr air d11].

Ag obair còmhla, shoirbhich sinn ann an cruthachadh agus gleidheadh air còrr air 1,400 obair, figear a bha gu mòr os cionn targaid. Gu cudromach, bha faisg air 160 dhiubh bho sgìrean cugallach.

Dh'èirich tionndadh-airgid le luchd-dèiligidh còrr agus £680m, barrachd na trì tursan an fhigeir a bhathar a' sùileachadh, agus mheudaich reic eadar-nàiseanta le taic tasgaidh bho HIE faisg air £50m, gu cofhurtail taobh a-staigh an raoin chuimsichte.

Bha builean deimhinneach ann cuideachd do na h-àireamhan de dh'obraichean uaine a bha a' faotainn taic bhuanne, inbheisteadh so-mhaoin calpa, agus gu h-àraid, inbheisteadh so-mhaoin calpa uaine.

B' e dìreach an toradh airson meudachadh ann an tionndadh-airgid san eaconamaidh shòisealta a bha beagan goirid, aig 94% den fhigear chuimsichte, agus coimhearsnachdan a' cuimseachadh air ath-leumachd. Bidh sinn ag obair gus dèiligeadh ri seo sa bhliadhna a tha romhainn.

Mar a bhios sinn a' coimhead air adhart ri ro-innleachd ùr còig-bliadhna ann an 2023, leanaidh sinn air adhart le àrd-amas agus dealas a thaobh fàs eaconamach anns gach pàirt de ar roinn, mothachail do ar dleastanas a thaobh an fheum as fheàrr a thoirt às na cothroman a th' againn an-dràsta gus eaconamaidh soirbheas soirbheachail, seasmach agus daidhneamaig a thogail.

ALASDAIR DODDS CBE
Cathraiche

STIÙBHART MACILLEDHUIBH
Àrd-Oifigear



Members of the HIE Board and Leadership Team visiting Shetland.

PERFORMANCE OVERVIEW

This section of our annual report aims to provide a clear and concise overview, encompassing HIE's history, vision, purpose, business model and values as an organisation.

It also highlights principal risks and uncertainties, and how these are being addressed. A short performance summary on p9 is followed by more detailed analysis from p10 to 19.

About HIE

HISTORY AND STATUTORY BACKGROUND

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

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

OUR VISION AND PURPOSE

Our five-year strategy, published in August 2023, sets out our long-term vision and ambitions for the Highlands and Islands and the outcomes we will strive to achieve.

- **Our vision:** The Highlands and Islands is a leading net zero region with a dynamic wellbeing economy, which benefits its growing population and makes a valued contribution to Scotland.
- **Our purpose:** Build and sustain a greener, fairer and more resilient region that benefits everyone.

Full details are in our strategy at www.hie.co.uk/strategy

BUSINESS MODEL AND ENVIRONMENT

The HIE Board oversees the work of the organisation, reporting to the Cabinet Secretary for Wellbeing Economy, Fair Work and Energy. We work collaboratively with the Scottish Government and partner organisations to align strategies and resources in ways that will optimise effective delivery of the *National Strategy for Economic Transformation*, published in March 2022.

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

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

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

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

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

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

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

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

NATIONAL INITIATIVES

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

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

OUR VALUES

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

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

COLLABORATION

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

By working together, we aim to ensure that important issues affecting economic and community development in the Highlands and Islands – including some that fall outwith HIE's direct remit, such as housing, skills and transport, can be considered and tackled holistically.

We seek to build and sustain productive partnership working with a broad range of organisations across the public, private and third sectors, both through formal and informal arrangements. Examples include area-focused community planning and growth deal partnerships, Focus North, the Regional Economic Partnership, the Convention of the Highlands and Islands, and the Inverness and Cromarty Firth Green Freeport.

Key partners for HIE in the public sector include the Scottish Government, development agencies Scottish Enterprise and South of Scotland Enterprise, Skills Development Scotland, the Scottish Funding Council, VisitScotland, local authorities and Business Gateway.

PRINCIPAL RISKS AND UNCERTAINTIES

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

All internal and external risks in the corporate risk register are actively managed at the appropriate level in the organisation. During 2022/23, examples of principal risks that we identified and addressed included:

■ Economic and strategic context

Business recovery, particularly in the sectors of hospitality and food and drink, is being impacted negatively by acute **labour shortages and skills gaps**. We monitored this issue through client engagement, regular Business Panel surveys and liaison with Scottish Government and industry leaders. Actions that we took included promoting fair work practices to clients, and attaching fair work conditionality to funding support, as a way to attract and retain talent. We also helped clients review business models and provided support for innovation. Plans were developed to introduce a new graduate support programme in 2023/24.

Rising **inflation and energy costs** threatened to restrain growth or lead to recession. We collaborated with the Scottish Government and partners, notably through the Business Support Partnership, to share information and promote business support services. With coordination through HIE's Investment Committee, our staff captured insights from clients to enable us to analyse impacts and risks across the region.

■ New strategic opportunities

The **Inverness and Cromarty Firth Green Freeport** presents a significant economic opportunity for the Highlands and Islands. As a member of the steering group, HIE is working with consortium members and the UK and Scottish Governments to understand fully the role we can play to help shape the outline and full business cases for the Freeport. This includes addressing the key risks of potential displacement and overheating of the Inner Moray Firth economy, to the detriment of other areas. Working closely with partners will enable the successful delivery of the green freeport benefits for the region and minimise these risks.

■ Regional infrastructure

There is a risk that regional infrastructure challenges, including **housing, transport and digital connectivity**, could negatively impact sustainable economic development and exacerbate depopulation, particularly in islands and fragile mainland areas. Our actions have included supporting community-led housing activity and liaising with partner organisations and key stakeholders on these issues, including the Convention of the Highlands and Islands, the Regional Economic Partnership and Transport Scotland. We are planning a Digital Strategy review (mid-2023) to ensure that regional requirements are met and that HIE's learning experience is used for regional advantage as the Scottish Government rolls out R100 broadband coverage.

■ Financial and budgetary environment

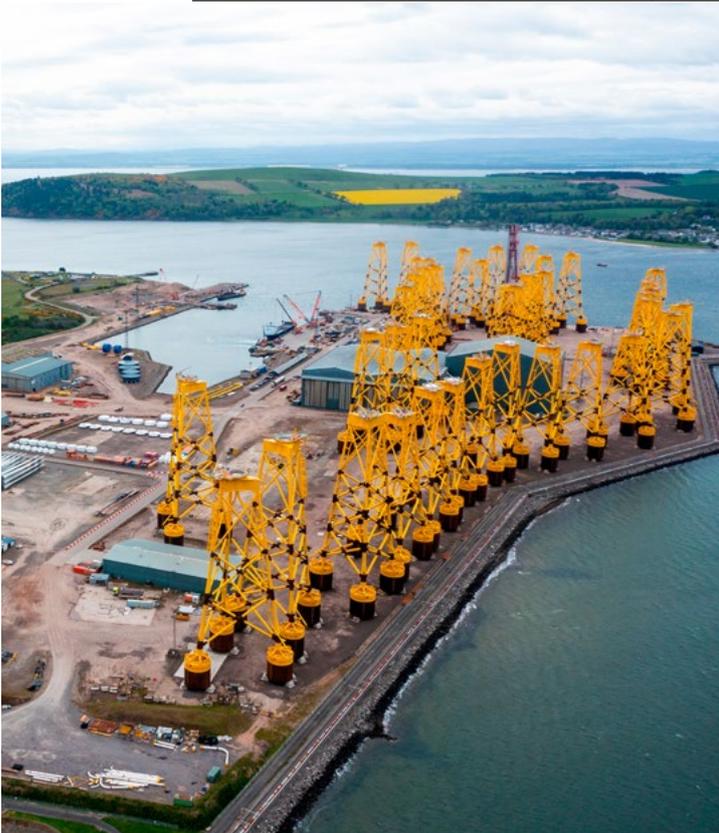
Budget pressures arising from **national financial challenges** could affect HIE's ability to support businesses and communities in our region. During 2022/23, we engaged with Scottish Government to understand fully the implications of resource and capital spending reviews, and continued to demonstrate the benefits of investing in the regional economy. We ensure that our Board and Leadership Team are continually advised of HIE's financial performance and management to inform effective decision-making and resource allocation.

■ Organisational delivery and transformation approach

HIE needs to plan and develop its **workforce** to deliver its strategy effectively. Main risks that have been identified include an ageing workforce, future skills, succession planning and flexible and agile working. In response, we prepared a new people strategy and established a workforce development forum, which meets regularly. Each team also now receives a quarterly review by the Chief Executive. We actively recruited more graduates and modern apprentices, supported by training and development, introduced a policy on hybrid working and focused on succession planning in priority areas of the organisation.

There is a risk that HIE **business transformation** may not support the changes required to optimise the organisational delivery environment. We have put measures in place to embed a culture that supports risk appetite, resource prioritisation and appropriate intervention, including new strategic assessment and appraisal processes, an Investment Committee, Process Change Group and Digital Change Group. We are implementing a benefits realisation plan for our customer relationship management system, MyHIE, continuing to pursue best value, and ensuring lessons learned are effectively shared and adopted across the organisation.

The Inverness and Cromarty Firth Green Freeport presents a significant economic opportunity for the region. Picture Credit Global Energy Group



■ Delivery and benefits realisation of key projects

Risks associated with reinstatement of the Cairngorm funicular railway were addressed through robust internal and external governance and project management. We also recognised the need to ensure long-term economic benefit will be achieved through delivery of the Cairngorm Masterplan. Measures taken included a sub-group of the HIE Board to consider and advise on key issues, close working with the funicular contractor and monitoring of operating company, and HIE subsidiary, Cairngorm Mountain (Scotland) Ltd. We also continued to inform and seek input from the Cairngorm Advisory Group, comprising business, community and public sector organisations as well as those with interests in the natural environment, sport and outdoor recreation.

We aim to ensure that the region benefits fully from economic opportunities generated by satellite launch site Sutherland Spaceport (formerly Space Hub Sutherland). We have controls in place to manage delivery timescales, project costs and other risks that may arise. The risk profile of this ambitious and complex project reduced significantly in 2022/23, with the funding package confirmed and Moray-based launch vehicle manufacturer Orbex taking on responsibility for construction and operations. Careful monitoring will continue and actions taken to address key risks that remain.

■ Information governance and systems

Any failure in systems controls and governance, cyber security requirements or statutory compliance obligations would result in operational, regulatory and /or reputational impact for HIE. Our controls include a suite of policies and guidance, a governance framework with our IS supplier and internal groups focusing on digital change and information security, fraud and governance, both of which meet regularly.

■ Legal and regulatory environment

We aim to ensure that new subsidy control legislative requirements are implemented effectively by HIE or for regional partnership projects that HIE is involved in supporting. Actions taken include engagement with the Scottish Government Subsidy Control team, developing guidance and training for HIE staff, HIE Subsidy team providing advice to colleagues and supporting high risk projects, and networking with public sector partners.



Stornoway

PERFORMANCE SUMMARY

HIE was able to demonstrate significant out-turns against key measures in 2022/23, despite challenging macro-economic conditions.

All but one of our eleven outcome targets were met or exceeded. The exception was the target for Increase in turnover in the social economy, although the out-turn was very close to the target range (94%, or £8.5m). This reflected difficulties faced by social enterprises and communities in taking forward growth investment as costs escalated and their focus turned towards retention and resilience.

Our aims to support more remote and fragile parts of the region and to achieve progress toward net zero greenhouse gas emissions are evident in the pattern of investment and output. Over the year, HIE supported the creation or retention of 159 full-time equivalent (FTE) jobs in fragile areas and a large proportion of the out-turns for several other performance measures accrued from projects in these locations.

Out-turns relating to green measures exceeded targets, reflecting their growing importance. Forty-five percent of all jobs supported in the year were green jobs (639 FTEs), 87% of which were in the technology and advanced engineering sector. Well over half (56%) of the total capital asset out-turn was green capital asset (£65.7m) and 43% of the total external investment secured out-turn was external green investment (£15.1m). While £11.2m of this was from our funding award to Ross-shire Engineering Limited, HIE also supported 20 other clients to secure external green investment.

Impacts arising from Brexit continued to affect business capability to access international markets. However, with HIE's support, many companies were successful in increasing overseas trade, and £8.8m of the overall £48.8m increase in international sales is attributable to clients accessing new markets.



Broadford, Skye: artist's impression of new small business units.

PERFORMANCE ANALYSIS

This section highlights key areas of focus and activity for HIE during 2022/23, describes out-turns against targets set for the year and shows how and where investment was allocated, both by HIE and third parties that we supported

Context

At the start of 2022/23, the economic outlook for the UK remained subject to the unprecedented turbulence caused by the Coronavirus pandemic, the UK's exit from the EU and the crisis in Ukraine. Effects included inflation rising, wages failing to keep pace and increases in global energy prices, which provoked a cost-of-living crisis.

Parts of the Highlands and Islands economy proved especially susceptible to the pandemic lockdowns, with the region experiencing the greatest fall in GDP between 2019 and 2020 of all Scottish regions¹.

Businesses and communities in the region needed to overcome issues of remoteness, peripherality and distance to markets, access to labour and housing, as well as higher energy costs, and a reliance on more expensive fuel sources. Improved transport infrastructure is an important enabler for investment in the region, but challenges with the reliability and resilience of services, particularly ferry links, impacted business confidence.

¹ Gross Domestic Product (GDP) chained volume measures (CVM) in 2019 money value, www.ons.gov.uk/economy/grossdomesticproductgdp/datasets/regionalgrossdomesticproductallnutslevelregions

Virtually all (99%) of our businesses were impacted by rising costs² and responded by absorbing costs, increasing prices, postponing plans or seeking efficiencies. Two thirds of employers cited ability to attract new talent as a risk³, with food and drink and tourism and hospitality businesses citing lack of staff accommodation and temporary or seasonal staff as key issues.

Many businesses adopted additional measures to address both cost increases and workforce challenges, such as increasing innovation, seeking new markets, upskilling existing staff and using apprenticeships, increasing wage rates, investing in technology and new working practices, and increasing collaboration. Although a majority of businesses were confident in their viability, these challenges reduced their investment appetite.

Whilst economic conditions will remain challenging and require a focus on resilience and adaptability, there were good foundations on which to build a sustained, green economic recovery. The region is well placed to benefit from major transformational opportunities and well-positioned to take advantage of lifestyle changes as people increasingly prioritise quality of life, access to outdoor space and remote working.

² www.hie.co.uk/media/13219/hie-business-panel-october-2022-report.pdf

³ www.hie.co.uk/media/12880/hie-business-panel-june_july-2022-report.pdf

Key measures and out-turns

PRIMARY OUTCOME MEASURE	TARGET RANGE 2022-23	FORECAST OUT-TURN 2022-23	% OF LOWER BOUND ACHIEVED	FORECAST OUT-TURN 2021-22
Increase in business turnover (£)	200m - 220m	682.7m	341%	623.9M
Increase in international sales (£)	45m - 55m	48.8m	108%	284.1M
Increase in turnover in the social economy (£)	9m - 11m	8.5m	94%	9.2M
No. of jobs supported (FTEs)	1,000 - 1,200	1,424 (1,109 created, 315 retained)	142%	1,487 (1,327 created, 160 retained)
No. of jobs supported in fragile areas (FTEs)	150 - 200	159 (120 created, 39 retained)	106%	138 (131 created, 7 retained)
No. of green jobs supported (FTEs)	150 - 180	639 (581 created, 58 retained)	426%	82 (76 created, 6 retained)
No. of green jobs supported in fragile areas (FTEs)	n/a	30 (all created)		11 (all created)
Average wage of jobs supported (£/FTE)*	29,000	35,581	123%	26,160
Capital asset investment (£)	80m - 90m	116.8m	146%	76.9M
Green capital asset investment (£)	12m - 14m	65.7m	548%	3.2M
External investment secured (£)	35m - 45m	35m	100%	32M
External green investment secured (£)	5m - 6.5m	15.1m	302%	0.7M

* Excludes jobs created by inward investment for which wage information was not available. This applies to all descriptions of wages supported by HIE in this document.
Note: The investment with Ross-shire Engineering Ltd in the modular water treatment filtration project has contributed significantly to out-turns for Green Capital Asset Investment (£13m), Green Investment Secured (£11m), Increase in Turnover over three years (£440m) and Green Jobs Supported (FTE) (500). Turnover and jobs out-turns are based on forecasts at the end of year 3.

- The challenging economic climate throughout the year had a significant bearing on business confidence and investment appetite. Increasing costs were a major factor constraining growth and inhibiting the extent of funding opportunities available for HIE to achieve its outcome targets.
- Despite these challenging macro-economic conditions, HIE achieved significant out-turns against key measures in projects with businesses, social enterprises, communities and in advance provision of property infrastructure, through financial and non-financial assistance. All but one of the eleven outcome targets were met this year, and several exceeded.
- The target for Increase in Turnover in the Social Economy was not met, reflecting difficulties faced by social enterprises and communities in taking forward growth investment as costs escalated and their focus turned towards retention and resilience. Despite these challenges, the out-turn was close to the lower bound of the target range (94% / £8.5m).
- HIE's focus on supporting the more remote and fragile parts of the region and on promoting progress toward net zero can be seen in the pattern of investment and output this year.
- Over the year, HIE supported the creation or retention of 159 FTE jobs across fragile areas. In addition, a large proportion of the out-turn for several other measures accrued from projects in fragile locations, including: 52% of the increase in turnover in the social economy, 67% of the green capital asset and 51% of the capital asset out-turn. The Sutherland Spaceport investment contributed significantly to the capital asset and green capital asset out-turn in fragile areas.
- Out-turns in relation to green measures exceeded targets, reflecting their growing importance and the effort put into achieving these. The out-turns this year were:
 - **Green jobs** - 45% of all jobs supported in the year were green jobs (639 FTEs), 87% of which were in the technology and advanced engineering sector.
 - **Green capital asset** - 56% of the total capital asset out-turn was green capital asset (£65.7m). The out-turn was many times higher than in 2021/22 (£3.2m).
 - **External green investment secured** - 43% of the total external investment secured out-turn was external green investment (£15.1m). Although most of this was from Ross-shire Engineering Limited (£11.2m), HIE supported 20 other clients to secure external green investment. The out-turn was considerably greater than 2021/22 (£0.7m).



Ross-shire Engineering

- HIE’s focus on the development of assets to support sustainable growth enabled capital investment and the securing of additional external finance. Projects contributing to these measures were often centred around the development of income-generating community assets, building resilience and capacity or product/process development.

- Support relating to research and development (R&D) and innovation contributed significantly to employment, turnover and international sales growth among businesses, demonstrating the impact of HIE’s focus on these factors as drivers of growth. Among social enterprises, whilst revenue growth was extremely challenging, it had been achieved through infrastructure / asset development and measures to improve resilience.

Over and above the outcome targets, performance against HIE’s deliverables, as described in our operating plan, is summarised as follows:

ENABLE STRONG, CAPABLE AND RESOURCEFUL COMMUNITIES



Resilience and capacity

- 67 social enterprises and 30 community anchor organisations supported
- 51 social enterprise anchor organisations receiving delivery resource

Community assets

- 35 Scottish Land Fund acquisition projects, 17 in the HIE region
- 24 organisations supported with new or improved income generating community assets

Net zero transition and green recovery

- 39 social enterprises and anchor organisations profiled on the net zero ladder
- “Exploring solutions to reduce household energy costs by better utilising locally generated energy”
Regional need identified

BUILD SUCCESSFUL, PRODUCTIVE AND RESILIENT ENTERPRISES



Capacity and growth

- 25 businesses building capacity and resilience
- 20 organisations adopting/embedding fair work practices
- 28 clients received Young Business Capital Investment grants
- 40 start-ups led by young entrepreneurs supported by IMPACT30
- 49 clients developing management and leadership
- 20 graduate placements supported, 3 in social enterprises
- 124 clients were profiled on the business values ladder

Productivity

- 56 organisations supported to access investment
- 40 clients supported to expand activity in international markets
- 2 inward investors supported to locate in the Highlands and Islands for the first time.
- 4 existing inward investors supported to expand

Innovation

- 75 clients developing new products or services
- 81 clients profiled on the innovation ladder
- 205 businesses became innovation active.

Net zero transition and green recovery

- 128 clients profiled on the net zero ladder

CREATE THE CONDITIONS FOR GROWTH AND A GREEN RECOVERY



- Green freeport status for Inverness and Cromarty Firth
- Sutherland Spaceport approved by Board
- Breasclate and small business unit developments at Broadford and Wick approved
- Cairngorm Mountain Estate strengthening works and funicular
- Life Sciences Innovation Centre (LSIC) completed and opened

Population attraction and retention

- 186 enquiries handled by settlement officers
- 11 successful relocations in Uist
- Housing delivery enabled in Tiree
- £2.54m of research income and job support enabled in UHI’s School of Health following five year investment

Developing the evidence base and supporting policy development

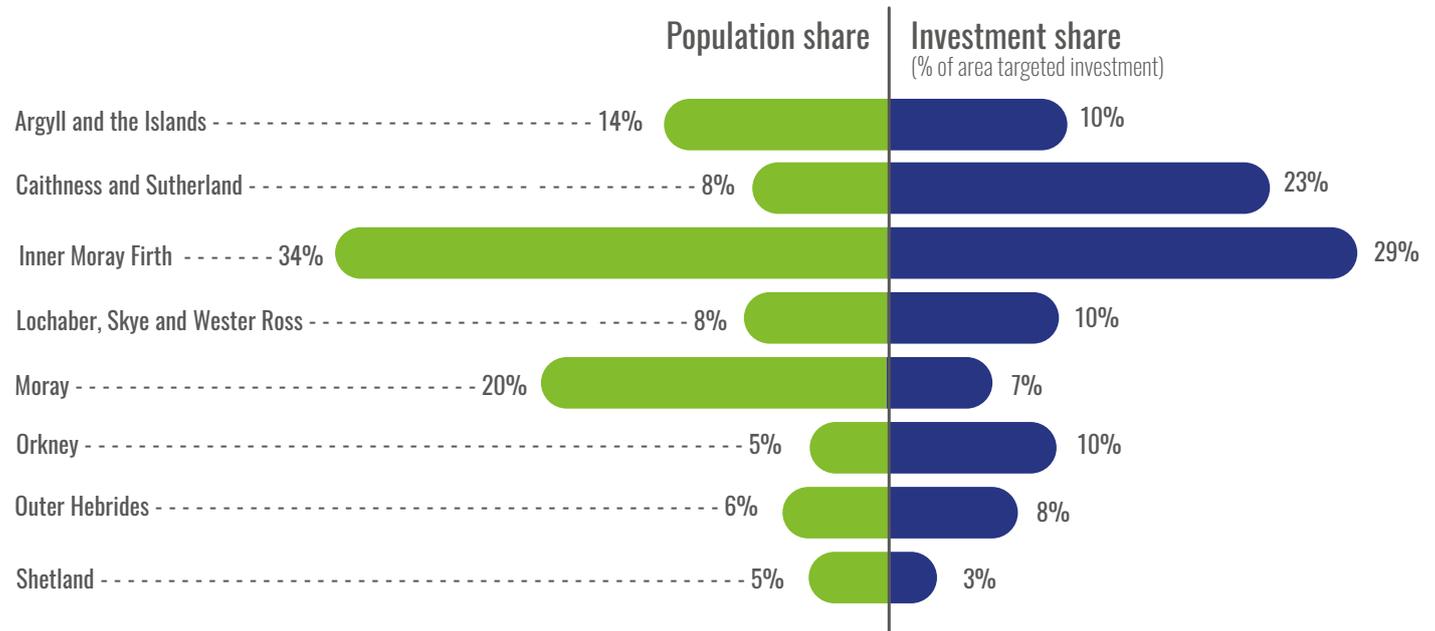
Evaluations delivered for HIE’s leadership programme, innovation support, digital enablement grant scheme and Communities Leading Tourism, and HIE studied energy price rise impacts on Highlands and Islands businesses.

INVESTMENT

- £63.2m (£57.5m GIA) was approved for 489 projects with 313 clients in 2022-23, with a total project cost of £140.5m.
- 90% of the financial investment made by HIE in 2022-23 was in businesses, communities and infrastructure (both third-party and own-hand investment) with a specific geographic focus. The remaining 10% related to region-wide initiatives, including programme administration, sectoral initiatives, research and evaluation.
- 58% of the GIA approved related to 19 approvals that were greater than £0.5m.
- Several larger projects related to HIE-led property development. Recognising the need for infrastructure to promote business growth and productivity, around £18.5m was approved for property construction, including small business units in Balivanich, Wick, Forres and Broadford, as well as further development on Inverness Campus.

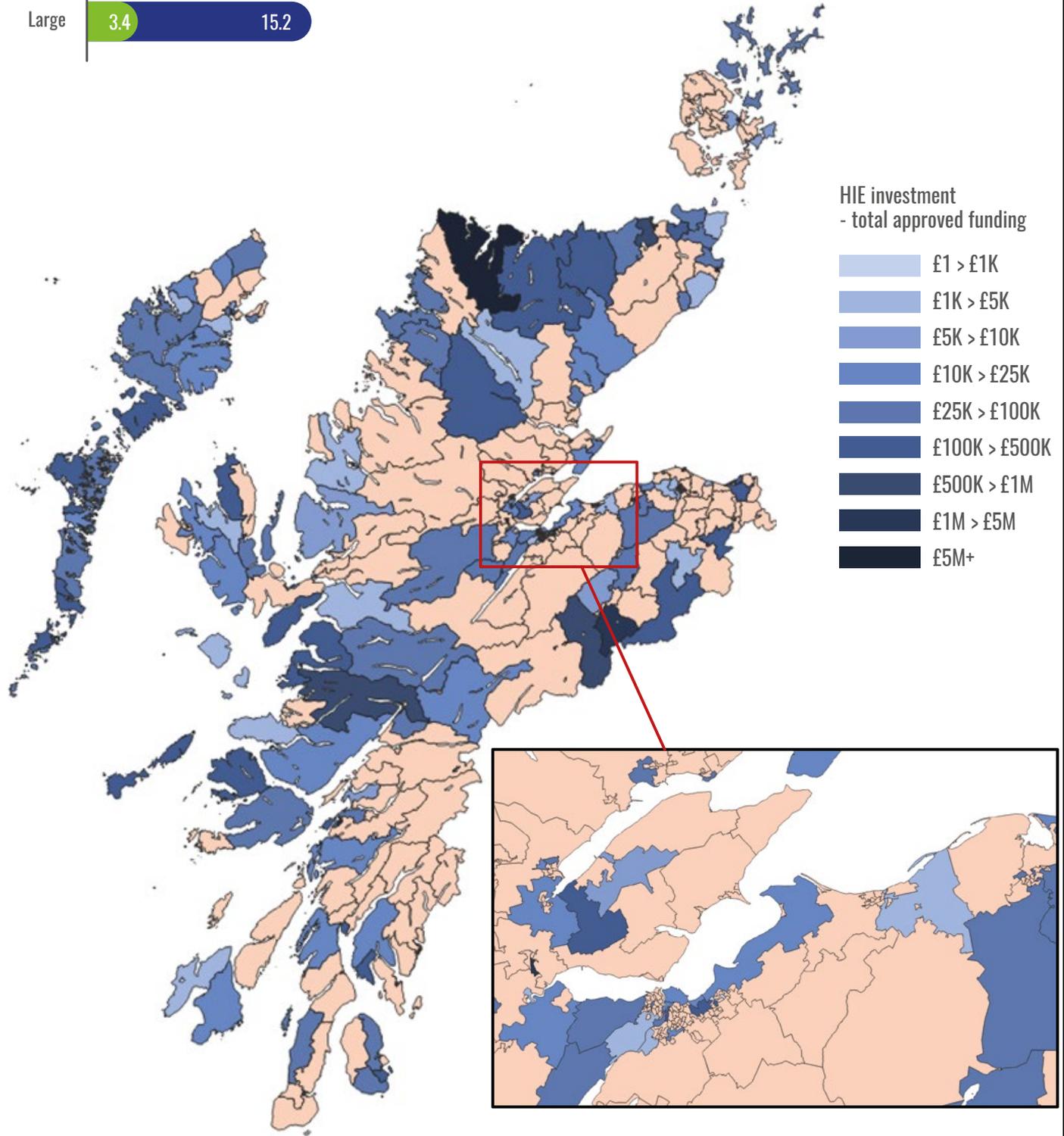
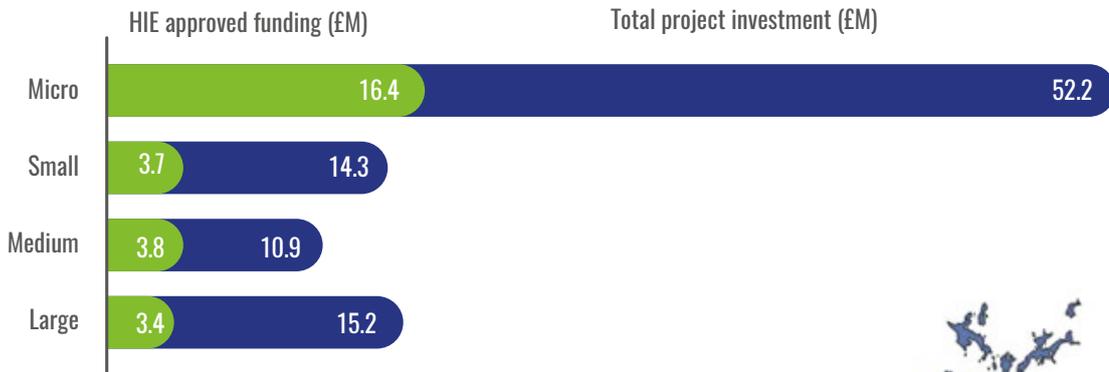
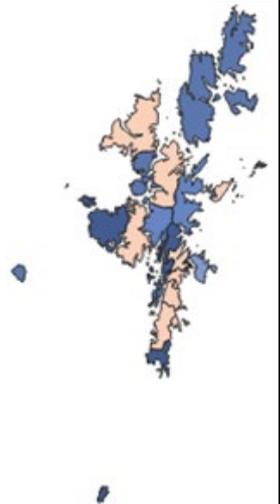
GEOGRAPHIC SPREAD OF INVESTMENT

In relation to population share, the pattern of HIE's investment in 2022-23 was proportionately a little lower in the Inner Moray Firth (29% v 34% population), a lot lower in Moray (7% v 20% population), higher in Orkney (10% v 5% population) and the Outer Hebrides (8% v 6% population) and a lot higher in Caithness and Sutherland (23% v 8%), mainly due to the Sutherland Spaceport project.



- A relatively large proportion of investment was directed at more remote and fragile areas; around double the proportion of the share of population in fragile areas at 24% of GIA.

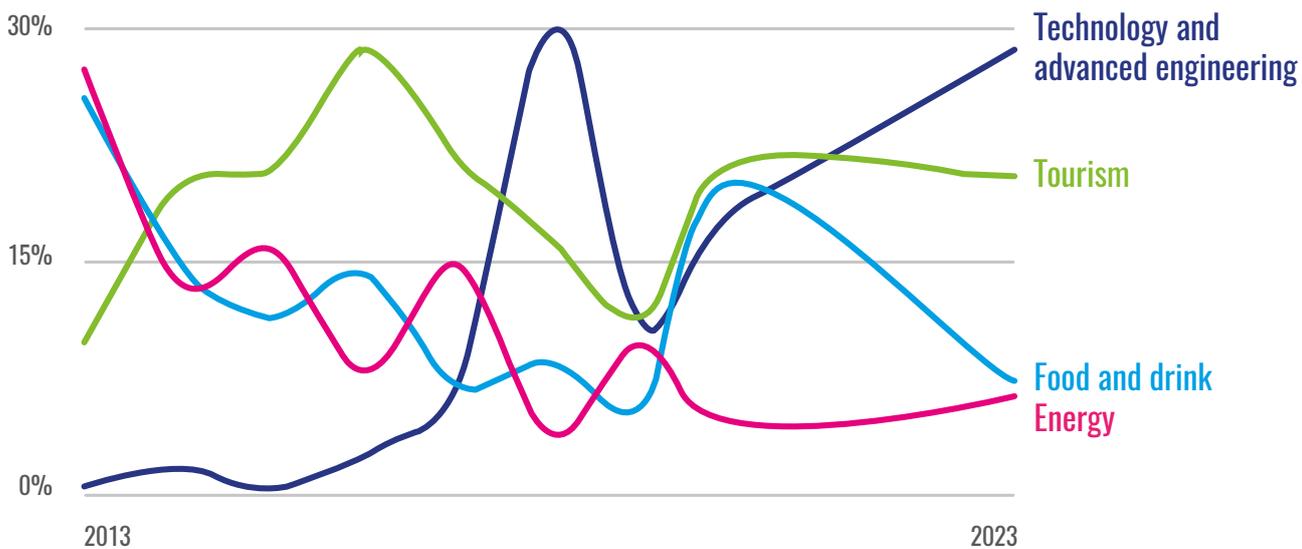
Third party investment – geographic distribution 2022/23



INVESTMENT BY SECTOR

- Third party investment in the technology and advanced engineering sector was the highest in ten years and there is a general upward trend in investment in the sector. This is evidence of the drive for enhanced productivity, competitive advantage and transition to net zero among HIE-supported businesses. Conversely, the proportion of investment in the food and drink and energy sectors show a downward trend (although some investment in technology and advanced engineering will relate to energy or the energy sector supply chain).
- The chart below illustrates the pattern in the proportion of third-party investment in four key sectors over the past ten years, removing larger HIE investments (greater than £3m) so that underlying trends can be observed more clearly.

PROPORTION OF THIRD-PARTY INVESTMENT, 2013-23*

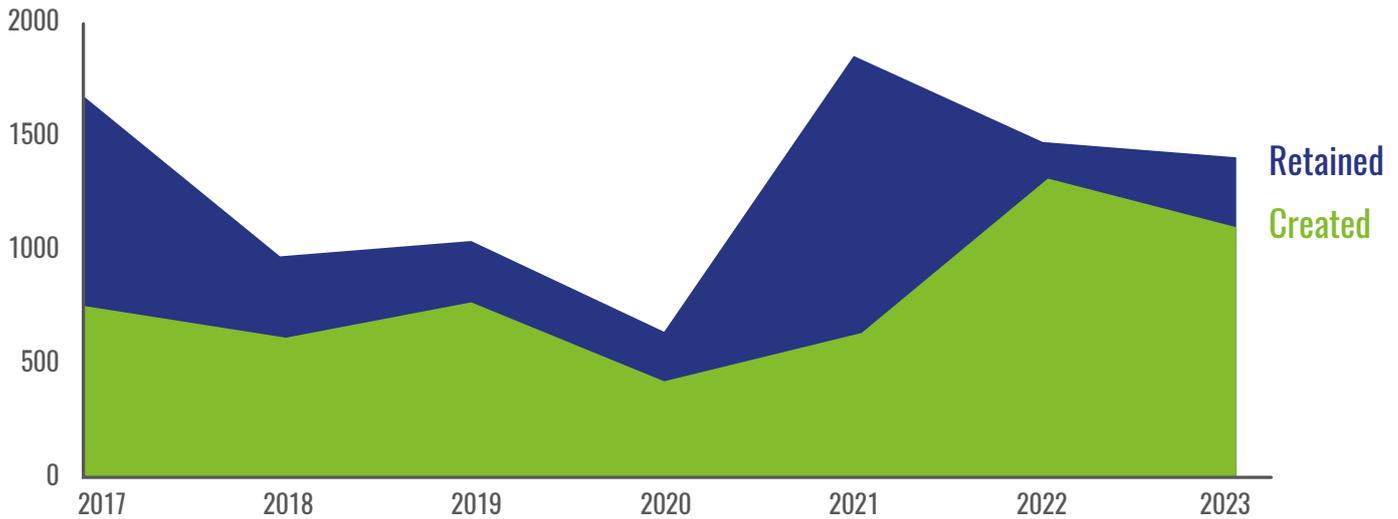


*Excludes 2020/21 and 2021/22 which show an atypical pattern of sectoral support skewed by the Covid pandemic. Excludes outliers > £3m HIE investment.

EMPLOYMENT OUTPUT

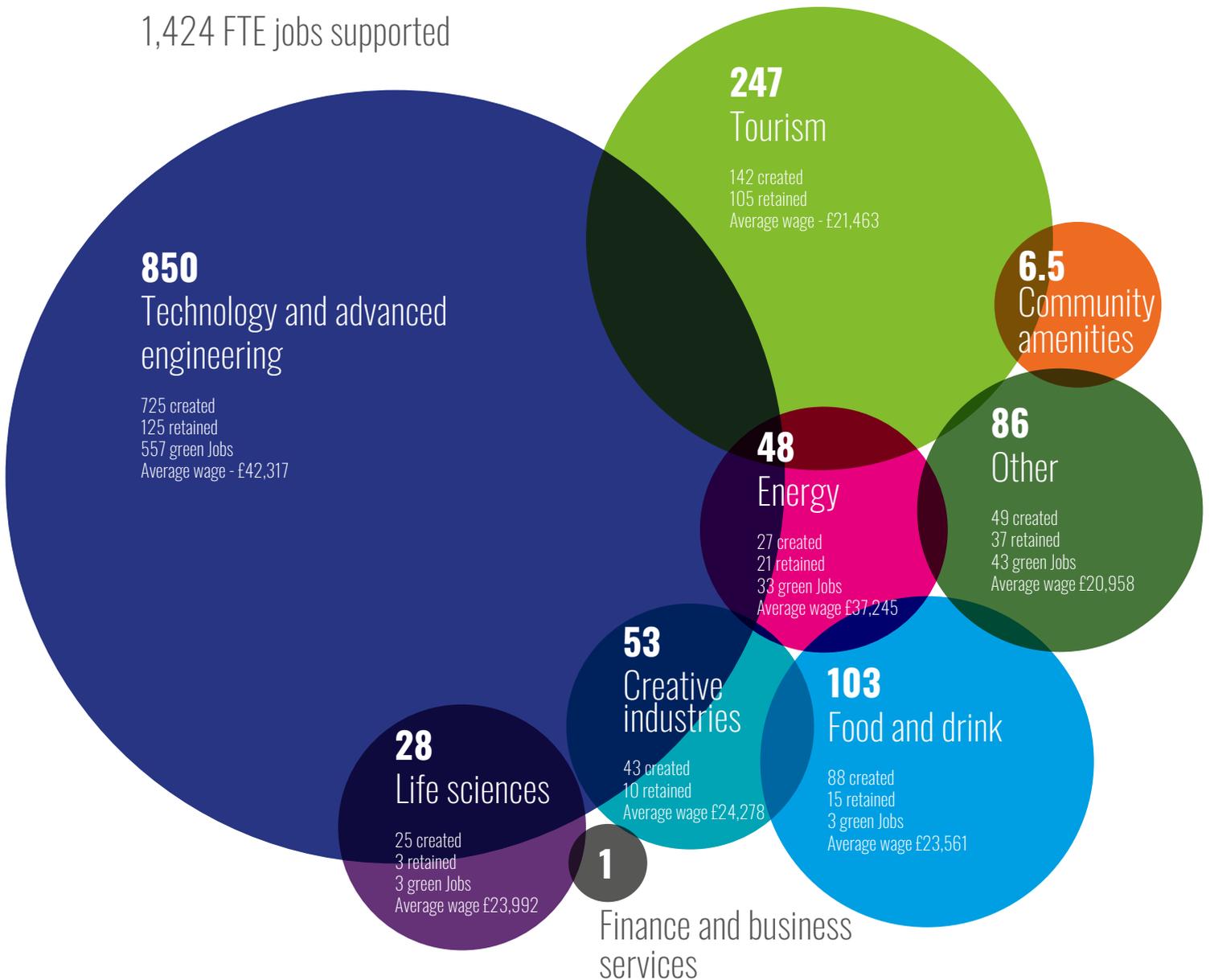
- Over the last three years, the number of jobs supported by HIE has been significantly higher than in the preceding three years. Support peaked in 2020-21 during the Covid pandemic, due to the strong focus on job retention which outstripped job creation by double. However, in the last two years, job creation has dominated over job retention again and is higher than pre-pandemic levels with just 11% retained in 2021/22 and 22% retained in 2022/23 during which higher levels of retained jobs were noted in the energy (44%) and tourism (42%) sectors.
- Tourism, which accounts for five times as many jobs as energy, continues to be one of the sectors most severely affected by rising costs and recruitment challenges, with the result that HIE's support is necessarily focused more on job retention.

Number of FTE jobs supported – 2017-23



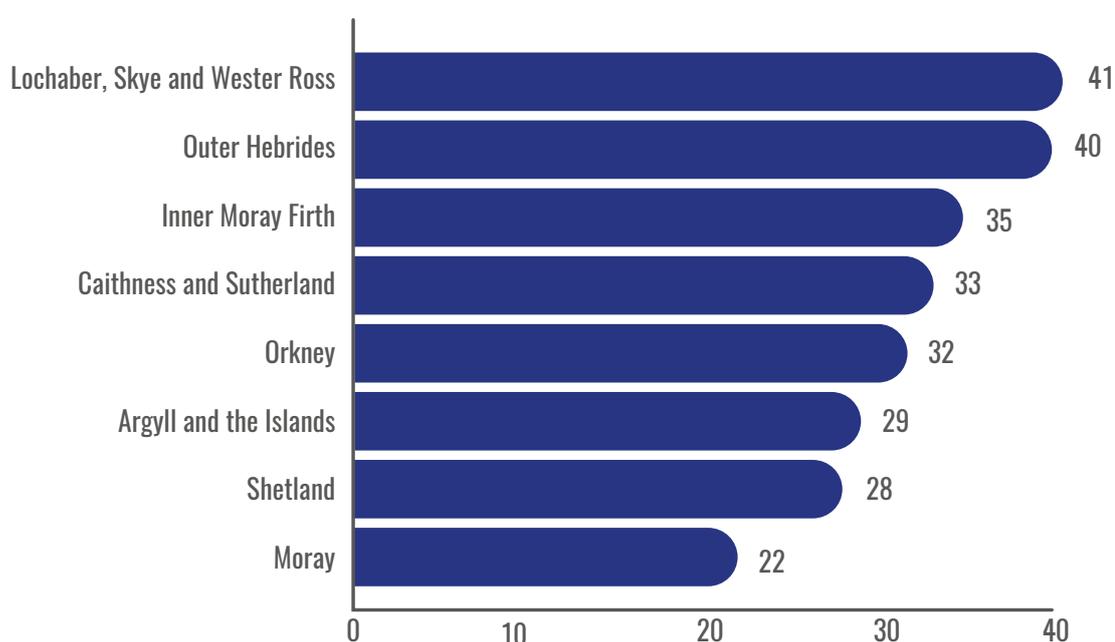
■ The chart below breaks down the total number of jobs supported by HIE in 2022-23 by sector and shows the forecast average annual wage of jobs supported

1,424 FTE jobs supported



- Projects in technology and advanced engineering contributed most to employment measures (60%, 850.5 FTE jobs) mainly as a result of the support awarded to Ross-shire Engineering Limited (RSE). However, even with the exclusion of RSE, the sector still had the highest contribution (350.5 FTE jobs), with the largest impact coming from Russwood Ltd (59 FTE jobs) and The Apprentice Store Ltd (41 FTE jobs).
- Average wage forecasts for all FTE jobs supported was £35,581, the highest achieved by HIE to date. The average forecast last year for jobs created was £38,491 and £25,490 for jobs retained. 2022-23 was the first year of HIE applying full fair work conditionality on all financial assistance which would have impacted on average wages, alongside supporting higher wage jobs due to the nature of the investments.
- Jobs supported in the technology and advanced engineering sector had the highest average wage at £42,317, mainly driven by Orbex subsidiary Forres Newco Ltd (development of Sutherland Spaceport) and Ross-shire Engineering Limited, while jobs supported in the tourism sector had the lowest (£21,463).
- In terms of the geographic spread of employment support, the chart below shows the number of jobs supported per head of working age population since 2016-17. This shows that, whilst less rural areas gained more in terms of volume of jobs supported, areas to the west of the region and those that are more economically fragile received proportionately greater support.

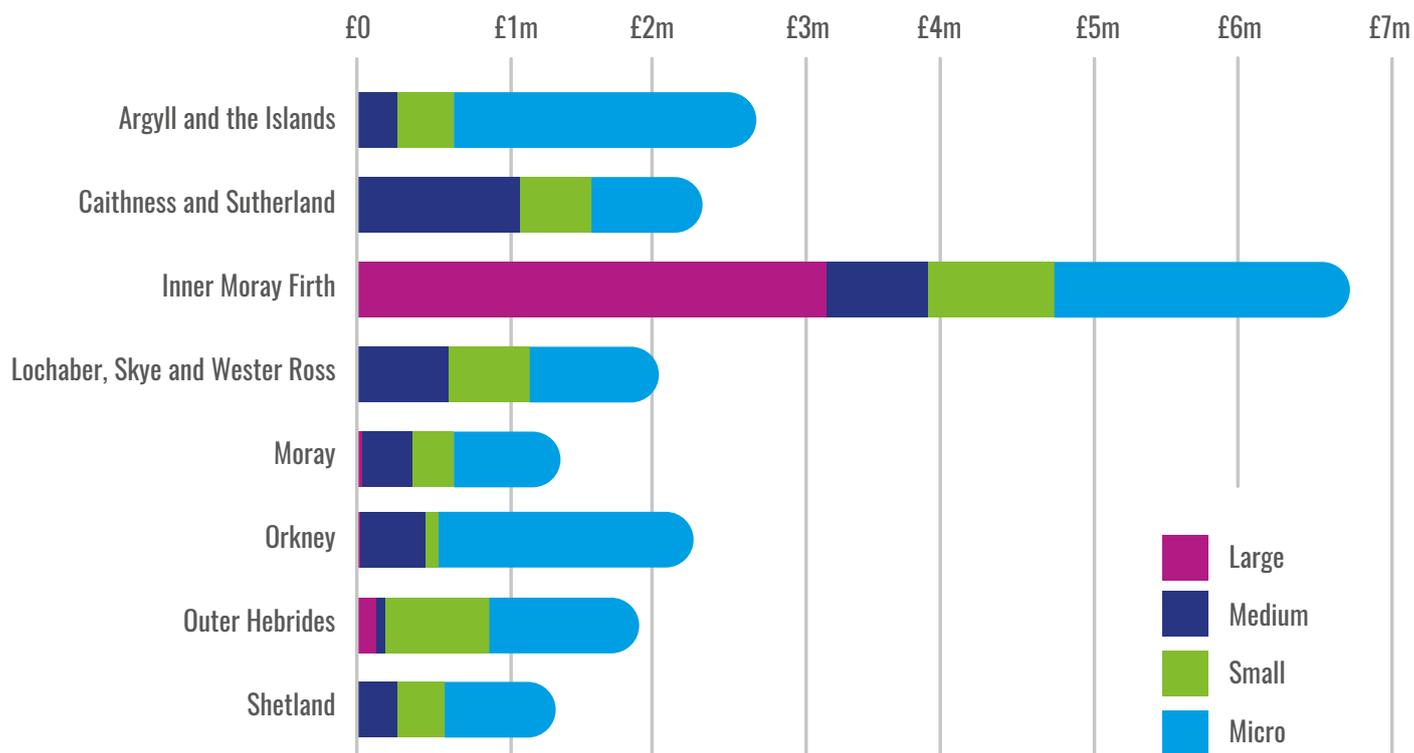
Jobs supported per 1,000 of working age population (2017-23)



INTERVENTION RATES

- Following a rise during 2020-21, the average intervention rate with both businesses and social enterprises fell last year back in line with the ten-year average. Average rates for projects with clients in life sciences came down from 51% to 43% while tourism fell for a second year running, from 68% to 51%. Although intervention rates are falling back, performance against target measures remained high.

Approval amount by organisation size and area*



* Excludes outliers > £3m HIE investment.

- Whilst the intervention with Ross-Shire Engineering in the Inner Moray Firth was the dominant approval among large organisations assisted, 218 interventions were made in projects with organisations in the micro size band with an average approval amount of £45k.
- The area with the highest average financial intervention in micro organisations was Lochaber, Skye and Wester Ross (£51k / 27 interventions). Inner Moray Firth made the highest number of investments in large (4) and medium (9) organisations, whilst the highest number of investments in small (£35.5k / 20 interventions) and micro organisations (£20k / 50 interventions) were made in the Outer Hebrides



ENABLE STRONG, CAPABLE AND RESOURCEFUL COMMUNITIES

Our work with communities across the Highlands and Islands focused on three key themes: resilience and capacity; community assets, and net zero transition and green recovery.

SOCIAL ENTERPRISES

We provided support to 67 social enterprises, making 79 financial approvals worth a total £3.2m. We also made 12 non-financial interventions under the Support for Communities framework, with a cost to HIE of £98,805.

Four significant social enterprises awarded HIE funding over £200,000 were:

- Tobermory Harbour Association: Aros Park Development - £240k
- Elsie Normington Foundation: The Haven Centre, Inverness - £250k
- South Islay Development: Port Ellen Playing Fields community hub and motorhome site - £354k
- Tìree Community Enterprise Limited: new business units - £395k

We also supported the creation of four new social enterprises:

- Cnoc Soilleir Ltd, South Uist
- Garrabost Gniomhach: Active Garrabost, Isle of Lewis
- Scottish Community Tourism Network Limited (SCOTO)
- The Old Forge CBS Ltd, Knoydart

COMMUNITY ANCHOR ORGANISATIONS

Currently HIE is providing delivery resource to 51 social enterprise anchor organisations, helping local people design and deliver their own projects.

In 2022/23, we approved funding for 30 such organisations, with 41 financial approvals totalling just under £2m. We also made six non-financial interventions under the *Support for Communities* framework 2022-2026, with a cost to HIE of £38,381.

Three significant projects with HIE funding over £150,000 were:

- Isle of Kerrera Development Trust: Kerrera School Community Hub - £154k
- Portgordon Community Trust Limited: Portgordon Community Hub - £178k
- Mull and Iona Community Trust: Ulva Ferry Waterfront Shore Facilities and Community Hub - £250k

NEW BUSINESS MODELS

HIE and Co-operative Development Scotland jointly hosted a *Selling your Business* masterclass in September 2022 to highlight and explore succession options. The workshop was attended by eight organisations from the region and well received.

We will continue to work with partners to promote the benefits of employee ownership and alternative business models.

SCOTTISH LAND FUND

The Scottish Land Fund, administered by HIE and the National Lottery Community Fund, awarded a total of £5.6m to support 35 acquisition projects across Scotland. In addition, £365k was approved to support pre-purchase feasibility and investigation.

£2.4m of this funding supported 17 projects in the Highlands and Islands, including:

- £305k to Coigach Community Development Company to acquire the former hydroponicum site in Achiltibuie for affordable housing.
- £440k to Leancoil Community Trust to purchase a former hospital in Forres for a health and wellbeing centre, with an onward sale of land to a local housing association.
- £116k to Staffin Community Trust to acquire a slipway and land to improve harbour facilities for commercial and leisure users.

COMMUNITY RIGHT TO BUY

We launched the *Community Right to Buy* fund in October 2022 and were engaging with three communities at the end of 2022/23. Further promotional activity is planned for 2023/24.

The fund is designed to provide financial support for communities to use existing right to buy legislation in what has become a buoyant and fast-paced property market.

INCOME-GENERATING COMMUNITY ASSETS

We supported 24 organisations with funding awards totalling £2.2m to develop new or improved income-generating community assets.

Significant projects with funding over £150,000 included:

- Isle of Kerrera Development Trust: Kerrera School Community Hub - £154k
- Portgordon Community Trust Limited: Portgordon Community Hub - £178k
- Mull and Iona Community Trust: Ulva Ferry Waterfront Shore Facilities and Community Hub - £250k
- South Islay Development: Port Ellen Playing Fields Community Hub and Motorhome Site - £354k
- Tìree Community Enterprise Limited: Provision of business units - £395k
- The Old Forge, Knoydart - £200k

CUPIDO: INVESTING IN CULTURE AND HERITAGE

The Interreg North Sea Region programme CUPIDO ran from 2019 to 2022, involved 14 partners from seven countries and focused on the commercialisation of the cultural sector.

In partnership with the University of St Andrews, HIE worked with museums, communities and heritage organisations across the Highlands and Islands to enable transnational learning and enhance engagement with heritage through digital technologies, adoption and skills.

Across the region, 11 cultural organisations were supported to foster innovation opportunities through the development of new products and services. A total of 21 digital skills workshops attracted over 400 attendees from cultural and heritage organisations. An evaluation of the project is underway.

Cnoc Soilleir, South Uist: social enterprise promoting Gaelic language, culture and heritage.





Isle of Skye Candles

BUILD SUCCESSFUL, PRODUCTIVE AND RESILIENT ENTERPRISES

In line with the ambitions of Scotland's National Strategy for Economic Transformation (NSET), we focused on working with businesses in all parts of our region to strengthen resilience, improve productivity, adopt innovation, practise fair work and transition to net zero.

We supported 52 social enterprises and 25 businesses to build capacity and resilience, and helped 20 organisations to adopt or embed fair work practices, an area of our work that we will expand upon.

New enterprises were an area of focus, with 28 HIE clients successfully applying to our Young Business Capital Investment Grants scheme and 40 start-ups led by young entrepreneurs gaining support from the IMPACT30 programme, which HIE operates region-wide as part of the Northern Innovation Hub with support from the Inverness and Highland City-Region Deal.

Recognising the importance of excellent leadership and management, we supported 49 clients to develop capacity through initiatives including our Emerging Leaders and Strategic Leaders programmes, the Rural Leadership programme, Pathfinder and IMPACT30. The SuNSE programme, backed by Interreg North West Europe, supported a total of 28 new start social enterprises between 2018 and 2022.

Almost 840 enterprises in Scotland's creative industries took part in XpoNorth events to support collaboration, networking and new market opportunities, including more than 350 from the Highlands and Islands.

ACCESS TO INVESTMENT

Access to investment is particularly important in the current economic climate. HIE support included signposting clients to other potential sources of funding, to one-to-one advice, funding option events and follow-up. Businesses receiving support ranged from childcare facilities to new services using electric aeroplanes, and from seaweed farming to the development of virtual reality (VR) tools.

We helped organisations in every part of our region access investment from external sources to cover issues ranging from strategic planning to marketing, grants for capital asset purchase and loans for working capital. We also helped facilitate links to potential investors and provided access to advice on pitching to lenders and investors.

Although we formally recorded support for 11 organisation to improve their financial readiness in 2022/23, we believe the actual number was greater and aim to improve our reporting.

INTERNATIONAL TRADE

HIE provided direct support to 40 clients to expand activity in international markets. This is expected to generate an increase in turnover of £48.8m.

Scottish Development International (SDI) trade support to businesses in our region is expected to generate overseas sales of approximately £98m, with 36 new markets entered and 119 international trade opportunities delivered by SDI in-market specialists. This is an encouraging sign of a return to export markets following the pandemic.

INWARD INVESTMENT

We were successful in securing six Inward Investment projects during the year, creating or safeguarding a total of 143 FTE jobs across the region.

Two of these were new inward investors, generating 84 FTEs. Rain in the Outer Hebrides recorded 9 FTEs) while Cabot Highland in Inner Moray Firth accounted for 75.

The remaining four projects were from existing inward investors, creating or safeguarding a total of 59 FTEs. These were OrbeX in Moray (16 FTEs), AMTE Power in Caithness (20), and in Argyll and the Islands: Cuantec (3 FTEs) and Saputo (20).

INNOVATION

Through our Innovation service and Northern Innovation Hub (part of the Inverness and Highland City-Region Deal) we enabled 244 businesses to become active in innovation and funded 77 clients to develop new products and services.

Five new research and development initiatives were awarded almost £3m, leveraging more than £11m in private investment.

Our Co-innovate programme completed in September 2022, having met its targets across all five strands of delivery. Forecast out-turns for 2025 from collaborative projects predict a £9m increase in turnover and 39 jobs supported. A total of 225 SMEs received innovation advice and around £825k grant funding was awarded to 11 HIE client businesses.

In June 2022, the HIE Board approved a new, £3.5m innovation programme, that aims to support 500 enterprises over three years.

GRADUATE PLACEMENTS

We supported 20 graduate placements, including three with social enterprises. Located in Shetland, Moray, Outer Hebrides, Inner Moray Firth and Argyll and the Isles, the placements provide graduates with opportunities to work and build a successful career in the region, and enable enterprises to benefit from additional resource to focus on new areas of activity.

The Northern Innovation Hub Technology Graduate Programme delivered recruitment of a further eight graduates and one summer placement. Five of those who took part in the programme transitioned into permanent jobs with their employer.





CREATE THE CONDITIONS FOR GROWTH AND A GREEN RECOVERY

An effective development agency needs to take the long view, investing not only in projects that will deliver immediate benefits, but also those that will mature over many years.

INFRASTRUCTURE

Life sciences company BASF Callanish, on the Isle of Lewis, began construction of a new warehouse in August 2022, supported by £1.8m investment from HIE. This will provide much needed storage space at the site and enable future growth of the facility, which currently employs around 80 people.

We also achieved good progress with construction of small business units at Broadford on Skye and Wick in Caithness, both of which are due to complete in 2024.

At Inverness Campus, the new £9m Life Sciences Innovation Centre, a partnership project led by HIE and the University of the Highlands and Islands (UHI) was completed in March 2023. The premises were officially opened the following month by UHI Chancellor, HRH Princess Anne, and will be home to research teams as well as growing businesses. The first occupiers were already in place before the official opening and discussions are continuing with other interested businesses.

Work also began to develop Plot 14 at Inverness Campus as a suitable location for several small businesses, with a focus on the life sciences sector.

POPULATION

HIE jointly funded three settlement officer posts with local authorities in Argyll and the Islands, Outer Hebrides and North West Highland to provide advice and support to people considering locating to these areas. During the year, the officers dealt with a total of 186 enquiries.

The pilot programme has been judged successful, particularly in Uist, where 11 successful relocations were supported, and a further nine pending at the end of the financial year. HIE is now engaged with the Scottish Government's Rural and Islands Team to discuss ongoing funding and looking at the potential to extend coverage to other areas.

HOUSING

Although housing provision does not fall directly within HIE's remit as a regional development agency, the availability of good quality, affordable accommodation is vital to ensure the sustainability of businesses and communities across our region.

During 2022/23, we engaged with the Scottish Government to influence the *Remote Rural and Island Housing Action Plan* and worked with Highlands and Islands Regional Economic Partnership colleagues to establish a sub-group to address serious blockages in the housing system. We also re-established an internal housing forum and are exploring and progressing around 60 initiatives across the region.

These include:

- Support through the Green Jobs Fund for a new modular building construction facility for Morlich Homes on Elgin Business Park. The project will create 14 FTEs, increase efficiencies in the build process and minimise waste and energy output;
- Enabling works for a proposed community-led housing development within the Lochboisdale Repopulation Zone
- Support for Tìree Community Development Trust to enable more housing on the island, with a focus on innovative modular construction, land availability and financial mechanisms.

EDUCATION AND SKILLS

2022/23 saw completion of the five-year, £4m HIE investment in the University of the Highlands and Islands' School of Health. This supported 16 academic research posts, 13 of which were made permanent, and 25 PhD studentships. With HIE's support, UHI attracted over £2.5m of research income and completed 63 commercial projects.

We supported Scotland's Rural College (SRUC) by part-funding the post of business development director with its new Rural and Veterinary Innovation Centre (RAVIC) at Inverness Campus. The director will form a bridge between SRUC and industry to grow existing companies, support new research and development activity and attract investment to the region.

HIE also input to the Scottish Government Skills Landscape Review, due to report in 2023. Working with Skills Development Scotland, UHI, Crown Estate Scotland and Energy Skills Partnership, we established new groups looking at skills needed in the energy and space sectors. Each will focus on future requirements and communication across the region. Working with NatureScot and LANTRA, HIE is also seeking to understand the scale of the opportunity and skill requirements for nature-based jobs.

DEVELOPING THE BLUE ECONOMY

In February 2023, we published our *Blue Economy in the Highlands and Islands* report. Carried out by ekosgen, it explored the wide range of marine-related industries and activities, from aquaculture to tourism, highlighting the natural advantages of the Highlands and Islands.

The report recognised the region's existing competitive advantage in wind, wave and tidal energy and highlighted the importance of the blue economy both as a source of commercial opportunities linked to net zero and a means of strengthening the resilience of coastal communities. Its findings informed development of the new HIE Strategy, published in August 2023.

WAVE ENERGY SCOTLAND

The Wave Energy Scotland (WES) programme delivered success in the development of two wave energy technologies from Scottish developers Mocean and AWS Ocean Energy.

Research and development funded by WES, a subsidiary of HIE funded by the Scottish Government, will see these two technologies developed from proof of concept stage through medium scale demonstration (250kW), and on to the development of multi-megawatt devices which can be deployed in large numbers contributing to Scotland's net zero goals.

WES also commissioned a study to examine the case for co-location of wave energy technology with floating offshore wind. The results show significant savings for wind and wave developers and the next step will be to work with them to establish a credible technology and business model.

SCIENCE SKILLS ACADEMY

Project funding for the Inverness and Highland City-Region Deal Science Skills Academy (SSA) had been due to end on 31 March, however additional support from the Highland Council and HIE has enabled the project to be extended until the end of December 2023.

More than 20,000 engagements with young people have taken place across four fixed Newton Rooms and one pop-up facility, reaching all 199 schools in Highland region.

During 2023, HIE is seeking industry donations to secure the long-term sustainability and growth of SSA, which has played an important role in introducing young people to science, technology, engineering and mathematics in fun and exciting ways.



STRATEGIC PROJECTS

Strategic projects generate benefits to the national economy as well as their own local area. During 2022/23, these included our ambitious plans for Sutherland Spaceport, Cairngorm, Arnish Business Park, the European Marine Science Park and Growth Deals across the region.

SUTHERLAND SPACEPORT

The full business case for Sutherland Spaceport (formerly Space Hub Sutherland) was approved by the HIE Board on 20 March 2023. The start of construction, being led by Moray company Orbex, which will also operate the spaceport, was marked by a ground-breaking event in May 2023.

The £14.6m public investment package comprises just over £9m from HIE and the Scottish Government, £2.55m UK Space Agency funding and £3m from the Nuclear Decommissioning Authority. HIE's funding includes a grant of £6.5m to Orbex for spaceport development.

Located on the A' Mhoine peninsula, the 10-acre launch site will be used to send communications satellites into low Earth orbit, using innovative biofuel rockets manufactured by Orbex in Forres. Over time, activity is expected to build to a maximum of 12 launches per year.

HIE expects that development of the spaceport will generate around 250 jobs, including manufacturing, supply chain and research opportunities as well as approximately 25 directly employed on site.

CAIRNGORM

A unique visitor attraction, the Cairngorm funicular railway came back into service after a four-year absence in January 2023. Used by snowsports enthusiasts in winter and a broad range of visitors throughout the year, the railway had been out of service since October 2018, following safety concerns.

HIE led a £25m project to strengthen the 1.7km viaduct and reinstate the service, with contractor Balfour Beatty starting work on-site in November 2020.

In August 2023, snagging inspections identified a need to increase tension on 'scarf joint assemblies' that link piers at the top of beams on the funicular viaduct and the service was temporarily suspended to enable this issue to be addressed.

Progress was made on all ten key strategies in the [Cairngorm Masterplan](#), published in June 2021, including operator Cairngorm Mountain (Scotland) Ltd introducing family-friendly mountain biking trails that opened in July 2023.

Legacy legal cases that HIE had been pursuing against the funicular's original designer and contractor, as well as the previous operating company and its main shareholder, were settled out of court in June 2023, with HIE receiving a total of £11m.

INVERNESS AND CROMARTY FIRTH GREEN FREEPORT

HIE supported bids from both Orkney and Opportunity Cromarty Firth for green freeport status, with the latter proving successful.

We are now working with the partners in Inverness and Cromarty Firth Green Freeport to develop a robust business case that will aim to maximise benefits for the region, with a particular focus on the floating offshore wind opportunity.

EUROPEAN MARINE SCIENCE PARK

We appointed a contractor to fit out the first floor of Malin House, a flagship centre for life sciences companies in Argyll. This was expected to complete in summer 2023 and followed ground-floor fit-out which was carried out in 2021/22.

Design for a Phase 2 building in the science park was progressed and submitted for building warrant.

GROWTH DEALS

Growth deals, with funding from UK and Scottish Governments, local authorities and HIE, are now in place for all areas of the Highlands and Islands.

Progress in 2022/23 included the commissioning of design work for phase 2 of the Orkney Research and Innovation Campus, the ongoing transformation of Inverness Castle as a cultural centre and visitor attraction, and development of a full business case for a new manufacturing and innovation centre in Moray.

ARNISH / STORNOWAY

At our enterprise park at Arnish, Stornoway, we continued to work with tenants Harland and Wolff, Hebridean Seaweed Company and the Scottish Salmon Company. Work to prepare an updated masterplan for the site got under way and will continue during 2023/24 and we engaged with energy supplier SSE over their plans to locate a new islands interconnector on the estate.

Development of Arnish will complement the £49m investment led by Stornoway Port Authority to create deep water harbour facilities as a key element of the port masterplan. This will enable Stornoway Port to expand capacity for renewable energy, tourism and aquaculture, and deliver a major boost to the wider Outer Hebrides economy. Construction began in spring 2022 and continued throughout the year.

MACHRIHANISH

We engaged as a creditor with the administrators of CS Wind UK, the Korean-owned wind tower manufacturer which ceased trading in 2021, having formerly occupied premises at Machrihanish on the Kintyre peninsula.

At the same time, we promoted the range of opportunities presented by this large industrial site with a view to attracting new investment and continued to work with landlord Machrihanish Airbase Company Ltd (MACC).

Machrihanish is one of the potential sites for UK satellite launch and, in June 2022, again hosted a student competition to design and build a launch vehicle. This was won by a team from the University of Strathclyde.

European Marine Science Park





DELIVERY

Meeting the needs of our customers as efficiently and effectively as possible is a prime area of focus for HIE.

We continued to implement a wide-ranging programme of business improvement to ensure our products and services can be accessed and adapted in ways that suit both our external clients and staff, and to ensure our delivery is fully aligned with strategic objectives.

PROCESS IMPROVEMENTS

Throughout 2022/23, we developed and implemented simplified and streamlined processes to support efficiencies, decision making and accessibility, leading to successful outcomes.

Examples included our innovative, online portal and customer relationship management system, MyHIE, which is now being used by 964 clients. We also designed new offer letters and terms and conditions that enable the use of electronic signatures for low value, low risk grants.

More than 60 HIE staff members took part in training relating to financial due diligence and HM Treasury-compliant business cases. We undertook significant work to align HIE's activity and processes with the new UK subsidy environment, including guidance, and training for all business units, and continued to embed a proportionate and risk-based approach to our processes, under the guidance of a new process change group.

COLLABORATION

Through HIE's active participation in the national Business Support Partnership (BSP) we are influencing a significant shift in the public sector business support landscape across Scotland. The BSP has developed a five-year strategic plan that includes a new contact model approach, a products and services environment that allows for data-driven solutions, and a common technical architecture.

HIE is leading on the BSP data and analytics work strand, which presents an opportunity to transform the data and analytics and business support environment. A proof of concept master customer record has been produced and £195k additional funding secured from the Scottish Government CivTech initiative to progress this.

The Highlands and Islands Regional Economic Partnership has worked on regional responses to consultations, aligning skills needs with opportunities, the impact of energy prices, and housing and transport issues. Members agreed to develop a shared vision and action plan to deliver NSET ambitions for the region. Baseline and mapping work undertaken by HIE supported discussions and a workshop. HIE is leading the work on NSET for the REP and hosting the secretariat.

TRANSFORMING DELIVERY

We have developed a 'Transforming Delivery' plan for a single strategic approach to continuous improvement activity across HIE. This aims to ensure that, internally and externally, HIE is regarded as an organisation that delivers best value and value for money, inspires innovation and achieves successful outcomes. A balanced scorecard approach is being developed

As a modern development agency, it is important that we continue to make the best possible use of digital technology and data to optimise delivery. In addition to our focus on developing MyHIE and contributing to the Business Support Partnership, we operate an internal digital change group and have put in place a data and analytics continuous improvement programme.

NET ZERO

Our senior management team have taken part in climate literacy training course and an in-house training aligned with carbon literacy project requirements has been developed for delivery to staff in 2023/24.

In addition, 128 clients had been profiled on our net zero ladder by 31 March 2023 and we have commissioned work to understand our regional carbon footprint. This will inform our strategic relationship with partners over the coming years.

FINANCIAL MANAGEMENT COMMENTARY

This section provides commentary to support the Financial Statements and our performance during financial year 2022/23 plus a brief section on future financial outlook. The Financial Statements are set out from page 64. Note 4 to the Financial Statements on page 78 details the net operating costs for each of the segments below and notes 5 to 10 on pages 80 to 83 set out the expenditure and income in detail. Below are the largest movements in spend, comparing 2022/23 to 2021/22.

DISCRETIONARY SPEND £19.5M (£3.0M INCREASE)

Generally, this is expenditure that is controlled and directed by HIE's area teams (which cover eight geographical areas within the region) and sector teams (which cover region-wide sector activity). The key reason for the increase in discretionary spend compared with 2021/22 was that a significant portion of the discretionary spend in 2021/22 was related to Covid interventions and therefore shown against Covid support (a separate category).

PRIORITY INVESTMENTS £36.6M (£0.8M INCREASE)

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

Underlying top sliced spend was c£5.5m lower in 2022/23 due in part to fewer top sliced projects and the repayment of a £0.9m repayable grant from Stornoway Port Authority which netted down top sliced spend. There was also £1.6m of graduate placement spend in 2021/22 funded by the additional Covid Consequential budget which was not repeated in 2022/23. However, this was offset by £1.2m higher spend on the Cairngorm funicular reinstatement and other capital works at Cairngorm in 2022/23 and £0.8m higher Financial Transactions (FTs) spend in 2022/23 compared to 2021/22. In addition, there was £4.3m of spend on capitalising the lease under IFRS 16 at Melness, Sutherland for Sutherland Spaceport which was matched by additional budget from the Scottish Government. Overall, top sliced spend was £0.8m higher in 2022/23.

BUSINESS SUPPORT £6.7m (£0.4m DECREASE)

Business support relates to internal expenditure which directly supports the frontline activities of the organisation, for example, irrecoverable VAT and property factoring costs. The lower spend in 2022/23 was primarily due to lower spend on MyHIE and data analytics developments compared to the previous year.

CAIRNGORM MOUNTAIN (SCOTLAND) LTD (CMSL) AND CAIRNGORM PROJECT COSTS £1.8m (NO CHANGE)

CMSL is a subsidiary of HIE that operates on the mountain. Its funding differs from most of HIE's funding in that its net operating position is not covered by a budget but shows as an authorised overspend. This process has been agreed by the Scottish Government and is due to the fact that its income and costs are too uncertain (since they rely on the winter weather patterns on the mountain) to enable a budget to be set in accordance with the parliamentary timetable. Note that the arrangements have changed for 2023/24, in which HIE has been given a fixed budget for CMSL and Cairngorm project costs from the Scottish Government and must manage any pressures within that.

WAVE ENERGY SCOTLAND (WES) £4.2m (£1.8m DECREASE)

WES is a subsidiary of HIE whose purpose is to research and develop wave energy technology that can survive in real world conditions. It receives specific funding via HIE from the Scottish Government and does not draw upon HIE's core funding. The opening WES budget and expenditure in 2022/23 was £1.8m lower than in 2021/22. This reflects the profile of the WES programme.

COVID SUPPORT £1.7m (£5.6m DECREASE)

HIE did not receive any specific funding for Covid support in 2022/23 but continued to support Covid-related projects from its baseline funding, albeit at a significantly lower level than in 2021/22. The 2022/23 spend was made up of £0.9m for the destination management organisations (DMO) programme and legacy spend on Covid support approvals from previous financial years.

OTHER INCOME LESS OTHER EXPENDITURE (EXCLUDING COVID SUPPORT) £0.5m (£2.4m INCREASE)

This comprises income and expenditure which is funded via City-Region Deal, Scottish Land Fund and other similar income and expenditure streams, as well as Expected Credit Losses (ECLs). ECLs are an allowance for expected losses from loans, which can show a credit balance if an ECL is released due to a loan being brought back on track. The variance relates to ECLs, which showed a credit of £1.9m in 2021/22 and a positive balance of £0.5m in 2022/23.

INCOME FROM EUROPEAN FUNDS £1.3M (£0.7M DECREASE)

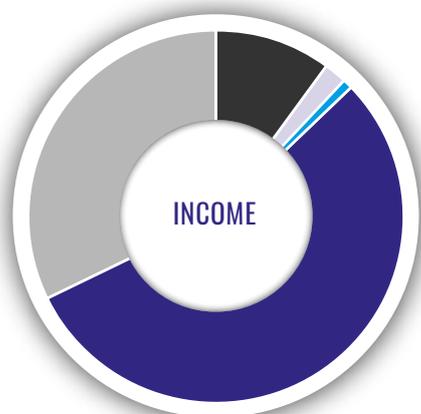
European income decreased in 2022/23 due to reduced spend on projects that attract European funding such as Port of Cromarty Firth which had £0.3m spend in 2021/22 but zero in 2022/23.

MANAGEMENT, STAFF AND ADMINISTRATION COSTS £15.3M (£0.4M DECREASE)

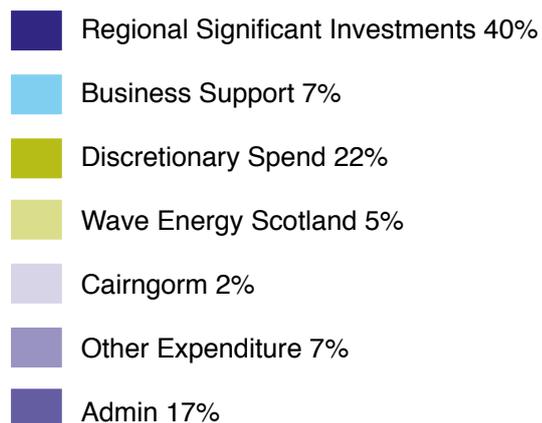
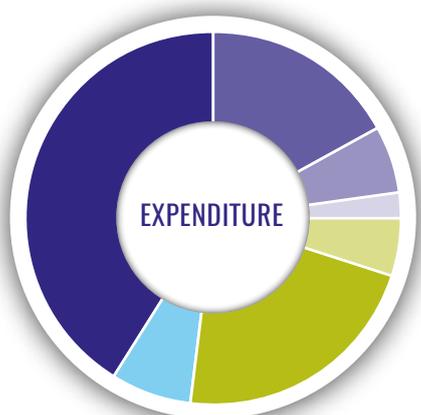
Salary costs were £0.9m higher in 2022/23 due to the level of pay award. However, spend in 2021/22 included a pension recovery plan payment of £0.6m while in 2022/23 this payment was charged against Business Support.

Premises spend was reduced by £0.3m in 2022/23 for IFRS 16 which requires lease payments to be transferred to the Statement of Financial Position. In addition, underlying premises spend was £0.2m lower due in part to increased recoveries from sub-tenants in HIE properties and reduced rental costs due to the purchase of HIE's Benbecula office in March 2022.

HIE income and expenditure 2022/23



Total Income £88.077m



Total Expenditure £90.373m

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

FINANCIAL OUT-TURN 2022/23	OPENING BUDGET ALLOCATION	AUTUMN BUDGET REVISION	SPRING BUDGET REVISION	FINAL BUDGET ALLOCATION	SPEND	(OVER) / UNDERSPEND
	£000	£000	£000	£000	£000	£000
Resource Budget	29,645	(553)	(683)	28,409	30,201	(1,792)
Capital Budget	30,000	14,868	3,462	48,330	48,036	294
Financial Transactions Expenditure	2,600		(1,600)	1,000	1,330	(330)
	62,245	14,315	1,179	77,739	79,567	(1,828)
Ringfenced Resources - Expected Credit Losses	-	-	-	-	468	(468)
Non-cash costs including depreciation	2,000	738	-	2,738	2,480	258
Total	64,245	15,053	1,179	80,477	82,515	(2,038)
Annually Managed Expenditure	-	-	7,500	7,500	13,071	(5,571)
Total Budget/Spend	64,245	15,053	8,679	87,977	95,586	(7,609)

All overspends in the table above have been agreed and authorised by the Scottish Government.

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

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

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

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

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

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

Further details of HIE's financial outturn against the budget allocated by the Scottish Government for 2022/23 are included within the Parliamentary Accountability and Audit Report section of the Accountability Report.

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

Overall the Statement of Financial Position shows a movement from net current liabilities in 2021/22 (£12.9m net liability) to a net asset position at the end of 2022/23 (£2.6m net assets)

Property, plant and equipment of £43.3m is £7.6m higher than prior year. The increase mainly relates to adoption of International Financial Reporting Standard (IFRS) 16, which requires the 'right of use' of leased land and buildings to be reflected in property, plant and equipment.

Finance lease receivables has increased by £4.2m following the adoption of IFRS 16. These assets relate to land and building where the leased land and building has been sublet to a third party where the third party also received the risks and rewards of the right of use.

Intangible assets increased by £0.2m in the year to £2.2m following further development of a core Microsoft environment to support our engagement with customers (functionality includes customer relationship management (CRM), customer portal, data warehouse and business application solutions).

Financial Assets increased by £0.3m due to new loan additions outstripping loan repayments in the year.

Investments in associates fell by £0.3m as a result of This is Remarkable being placed in administration. HIE do not expect to receive a distribution from the administration.

Trade and other receivables of £12.1m are £1.6m lower than 2021/22. The decrease primarily relates to a reduction in European Union (EU) funding debtor and trade debtors for reimbursement of construction activities.

The decrease in cash and cash equivalents of £0.8m to £9.3m at the year-end relates to the cash held in the Wave Energy Scotland subsidiary for the EuropeWave project starting to be distributed to project partners.

Trade payables and other current liabilities £9.1m (£1.3m decrease) are amounts owed by group and HIE to third parties.

Current year provisions relate to amounts set aside for liabilities where the exact value or timing is uncertain. The provision has reduced to Nil following the reinstatement of the Cairngorm funicular railway.

Non-current trade payables and other liabilities decreased by £1.8m reflecting the movement of part of EuropeWave project funding moving to current liabilities.

Non-Current provisions of £0.7m are amounts recognised under IFRS16 for dilapidations on leased properties.

Non-current lease liabilities have increased by £14.6m following the adoption of IFRS 16. This adjustment offsets against an IFRS 16 increase in our Non-Current Assets.

Retirement benefit obligation £40.1m is £6.7m lower than the prior year. The main reason for this is an increase in corporate bond yields combined with the continued payment of the deficit reduction contributions. The obligation is split between the HIE pension scheme (£40.1m) and the four local government pension schemes (LGPSs) (£6.0m asset not recognised in the accounts) of which HIE is a member. The liability for the HIE scheme will take decades to crystallise and therefore does not represent an immediate risk to HIE's cashflow. In addition, the Scottish Government has provided a legally binding guarantee of its willingness to 'stand behind' the HIE pension scheme. HIE has a pension recovery plan in place in relation to the HIE pension scheme, which was agreed with the HIE pension trustees in 2021.

Liabilities under the LGPSs will crystallise more quickly due to the fact that they are closed to new members. However, there are guarantees in place from the Scottish Government that underwrite this risk and the schemes have been consolidated onto a single LGPS to aid management of any deficit or surplus.. HIE also makes additional contributions to the local government pension scheme in order to reduce funding deficits over time.

FUTURE OUTLOOK

HIE's 2023/24 opening capital budget allocation is in line with expectations based on the five-year indicative capital budget released by the Scottish Government in January 2021. HIE's opening allocation is £25.6m, supplemented by an additional £1.4m for Cairngorm funicular reinstatement and £1.4m for Green Jobs Fund.

HIE also anticipates receiving an additional £5m capital budget from the Scottish Government to contribute to the establishment of a subsea cable manufacturing facility within the region, subject to agreement with the private sector.

HIE's 2023/24 opening resource budget allocation of £26.6m represents a £3.1m (10.4%) reduction on the previous year. This reflects the very challenging budgetary position facing the Scottish Government. This baseline reduction was mitigated by an additional budget of £3.3m to cover CMSL operating costs, internal Cairngorm revenue costs and Expected Credit Losses. Cairngorm costs had previously been treated as an authorised overspend by the Scottish Government.

HIE has been allocated a £1.9m Financial Transactions (FT) budget in 2023/24 (compared with £2.6m in 2022/23). Previous years had seen significant underspends against the FT budget and this reduction reflects that position.

HIE faces the following principal financial risks in 2023/24:

- Potential operating losses with Cairngorm Mountain (Scotland) Limited
- Costs associated with the Machrihanish site near Campbeltown
- Reduction in EU income and potential for previously anticipated income to be written off in 2023/24
- Potential loan write-offs in view of challenging trading conditions

The financial outlook beyond 2023/24 is likely to be exceptionally challenging, particularly in respect of resource. In May 2023, the Scottish Government published a revised Medium Term Financial Strategy. This set out the continuing challenges in the fiscal environment, following on from the previous Strategy. The Strategy does not present figures at a sufficiently detailed

level to draw conclusions specifically for HIE. In discussion with the Scottish Government, HIE has continued to use the figures communicated in 2022 for its financial modelling – see below. HIE believes it is well placed to contribute to delivering a fair, green and growing economy and will continue to engage with the Scottish Government throughout the budget-setting process for 2024/25 and onwards.

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

The Scottish Government also published a Resource Review in May 2022, but this was also only at Ministerial Portfolio level. More specific figures were communicated to HIE in June 2022, which showed indicative reductions in each year between 2023/24 and 2025/26 before increasing in 2026/27. HIE will continue to engage with the Scottish Government on the detail and implications of this.

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION

After the year-end, HIE reached an out of court settlement with the parties involved in legal cases relating to the original design and construction of the Cairngorm funicular railway in the 1990s and early 2000s and guarantees in place with the previous operator. Under the terms of the settlement, it was agreed that HIE would receive a total sum of £11m.

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	
	2022/23	2021/22
In line with government policy, HIE aim to pay all invoices promptly - target 10 days Note: excludes items under dispute or where other terms are agreed with a supplier	65%	75%

The reduction in payment performance during the year results from more accurate payment data recording, a plan is in place to improve performance going forward.



Our people are HIE’s most valuable resource, so it is critical that our people themes, ambitions and priority actions support our vision and are recognised as a key contributor of success in delivering HIE’s strategic priorities.

2022/23 saw further development and implementation of Our People Strategy which defines HIE’s ambition for its workforce through eight strategic people themes with corresponding actions and performance indicators for each one.

The Workforce Plan focuses on the key strategic theme of attracting, retaining and developing a workforce with the required skills, of the right size, shape, age profile cost and agility, and is supported by the Workforce Planning Forum, chaired by the Deputy Chief Executive.

Over the year, under the leadership of our new Chief Executive, HIE focused on embedding organisational change and new ways of working across all teams. To support and embed these changes there has been an ongoing focus on:

- effective staff communication and engagement;
- identification of skills gaps and development needs;
- realignment of resources;
- health and wellbeing;
- succession planning, and
- line management development.

We rolled out an internal development programme to equip line managers with the necessary skills, tools and resources to help manage, support and encourage their staff to deliver for the organisation. Aligned to this, there has been a consistent top-down emphasis on using HR data and metrics to inform and support decision-making and performance management across all business units.

We have raised awareness of intergenerational working, changing expectations, succession planning and the implications this has for our workplace. Our work with Age Positive Scotland has focused on supporting employees to take advantage of flexible opportunities to extend working life beyond traditional retirement ages as well as developing the young workforce through recruiting graduates and modern apprentices.

Set against the context of tight financial constraints, our Workforce Planning Forum meets regularly to scrutinise decisions, realign resources and drive efficiencies within our staffing budget. Over the last year, this has seen a clear focus on youth development and succession planning to align resources with client delivery and business requirements, and challenging like-for-like replacements.

Our staff forum, with representation from across the organisation, met regularly throughout the year, and we held frequent online HR clinics, ensuring employees are not only kept informed of staffing matters, but have the opportunity to raise issues and influence decision making. Our annual all-staff conference in September 2022 succeeded in combining in-person workshop meetings in all our premises with virtual sessions focusing on strategy development, customer relationships and effective and efficient delivery.

HIE has a strong focus on health and wellbeing as a key driver for fair work, employee engagement and performance. Employee wellbeing underpins our organisational culture of delivery and success. It has been vital to prioritise mental wellbeing and keep this high on our agenda over the last year. We offer a comprehensive employee assistance program (EAP), independent counselling services, mental health support and resources for work-life balance as well as an in-house mental health first aider programme and an externally-provided occupational health service. This demonstrates a commitment to employee wellbeing and helps individual employees navigate personal challenges.





We have continued to work hard to ensure the best possible work experience for our employees. HIE has a suite of family friendly and flexible working policies that help set the context and tone for our approach. This is backed up by practical support, tools, facilities and resources to help employees balance the demands of work and home, whether that's for periods of maternity, paternity and adoption leave, childcare, foster care, eldercare, young people, pre-retirement, or as community volunteers making a social impact. The majority of our staff welcome greater flexibility in both how and where they work and choose to work a blend of home and office working. Current practices, performance and feedback demonstrate that hybrid working is proving effective.

We have revised our recruitment practices to reflect Scottish Credit and Qualifications Framework (SCQF) inclusive recruitment levels to offer clarity around skills and experience required for the role, rather than looking for a specific academic qualification. We use the strapline, 'Happy to Talk Flexible Working' to show we are keen to have an open discussion about flexible working at the recruitment stage.

The development and embedding of fair work principles and a flexible approach to family friendly working have made a positive impact in attracting a wider range of diverse talent, retaining staff, improving business reputation and creating a happier, more engaged workforce that supports the specific needs of employees with caring responsibilities, which for many staff can be unpredictable.

Supporting career progression and in-work training is crucial to promote development, retain talent, and foster a diverse and inclusive workforce. We have adopted the use of a range of career development initiatives, including networking, mentoring and coaching. Pairing new and returning employees with mentors or coaches who can guide and support them in their career progression has been particularly beneficial.

Employees also benefit from centrally provided or funded learning and development opportunities including induction, line management training, team development, mental health awareness and a range of further education / professional development opportunities. Individual / specialist or technical development opportunities have been sourced to meet identified needs, as well as widening provision to open access online learning.

HIE's Leadership Team has re-emphasised the importance of the performance review and development planning process in managing, developing and supporting employees. Several corporate objectives have been introduced to HIE's online process including living the values, consequence management and dignity at work.

HIE has been accredited as a Real Living Wage employer since 2016 and supports national initiatives including commitment to the Social Impact Pledge, the Armed Forces Covenant, the Young Person's Guarantee and Investors in People / Investors in Young People accreditation.

We are also progressing applications to achieve the next level in both Carer Positive Employer and Disability Confident standards as well as being recognised by the Scottish Credit and Qualifications Framework (SCQF) as an Inclusive Recruiter. We are working to ensure that the organisation remains an employer of choice which is key to effective recruitment and employee retention.



PUBLIC INTEREST REPORTING

Information request processing

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

In 2022/23, HIE received 80 requests for information. These comprised 79 requests under FOISA, one EIR.

INFORMATION REQUEST HANDLING PERFORMANCE

	2022/23	2021/22
Average time to respond fully and close a request for information	12 days	14 days
Percentage of requests requiring a response that received one within statutory timescales	91%	93%
Percentage of requests that received a late response	9%	7%
Percentage of requests requiring a response that were fully or partially disclosed	100%	100%
Percentage of requests that were vexatious	0%	0%
Percentage of requests withdrawn	0%	0%
Percentage of requests for which HIE did not hold information	22%	13%

FOISA EXEMPTIONS AND EIRS EXCEPTIONS APPLIED TO REQUESTS

The tables below show the number of occasions when FOISA exemptions or EIR exceptions were applied by HIE when responding to information requests during 2022/23.

SECTION OF ACT (FOISA)	DESCRIPTION OF EXEMPTION	2022/23	2021/22
30 (b) or (c)	Prejudice effective conduct of public affairs / Free or frank exchange of advice	13	5
33 (1) (b)	Commercial interests and the economy	18	8
38 (1) (b)	Breach of data protection principles / third party personal data	13	6
36 (2)	Confidentiality of communications	1	4
27	Information intended for future publication	1	0
25	Information otherwise accessible	1	4
17	Information not held	17	8

REGULATION (EIR)	DESCRIPTION OF EXCEPTION	2022/23	2021/22
10 (4) (d)	Material still in the course of completion	0	1
10 (4) (e)	Internal communications	0	1
10 (5) (a)	Public safety	0	1
10 (5) (f)	Third party interests	0	1
11 (2)	Personal data	1	3

SUSTAINABILITY

We are committed to reducing greenhouse gas emissions and support the Scottish Government’s ambition to end the country’s contribution to climate change and achieve net zero no later than 2045.

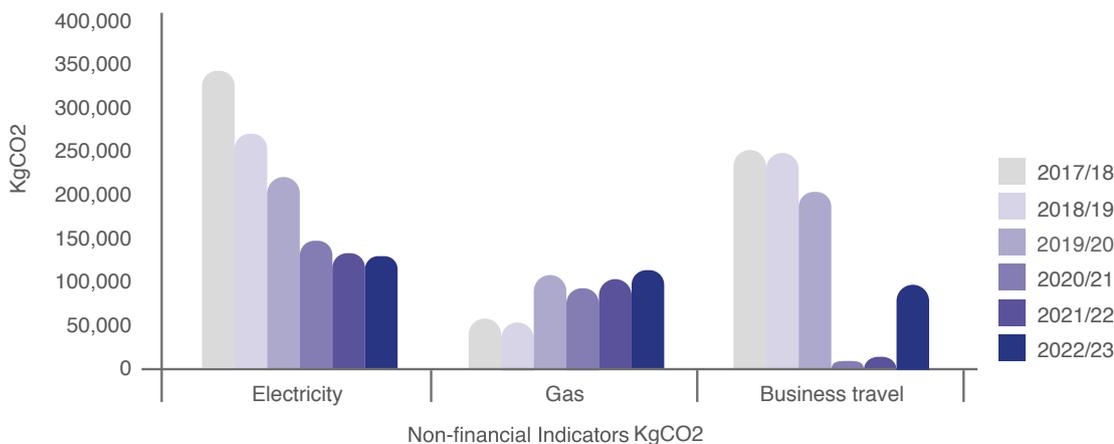
This priority is embedded in HIE’s operating plan which is reviewed regularly by our Board and senior management team. HIE monitors and measures its operational carbon footprint annually under the Public Bodies Climate Change Duties and uses this process to identify key areas of focus to continue cutting emissions.

In 2022, we established a Net Zero Transition Group with overall responsibility for developing our Net Zero Action Plan, which will be finalised in 2023/24.

In 2023/24, we are undertaking a property audit to assess net zero readiness of our operational and investment portfolio and recommend how to improve performance. All staff are receiving Climate Literacy training in 2023/24 and 2024/25 to understand how our behaviours can reduce HIE’s corporate carbon footprint.

UTILITIES AND BUSINESS TRAVEL		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Non-financial indicators (KgCO ₂)	Electricity	337,080	267,803	218,258	144,612	130,840	128,106
	Gas	54,269	50,267	104,560	89,839	102,033	109,796
	Business travel	248,049	245,274	200,239	6,675	11,883	94,834
Related energy consumption (KWh)	Electricity	966,262	953,442	860,708	625,919	622,571	625,029
	Gas	277,008	234,684	488,163	419,434	476,365	512,615
Financial indicators (£)	Electricity	120,675	107,546	102,628	81,904	91,357	118,599
	Gas	14,459	14,563	22,288	17,853	18,246	40,404
	Business travel	694,228	672,018	600,977	23,403	58,551	388,632

Greenhouse gas emissions from buildings and business travel



Office and home hybrid working has meant that electricity consumption levels in our offices were only slightly higher than in 2021/22. Our carbon emitted figure decreased by 2% due to the updated DEFRA conversion factor being applied to this year’s data. The reduction in the carbon footprint of electricity was achieved through the shift nationally towards cleaner electricity via renewables such as wind and solar, and the removal of some fossil fuel generation from the overall energy mix.

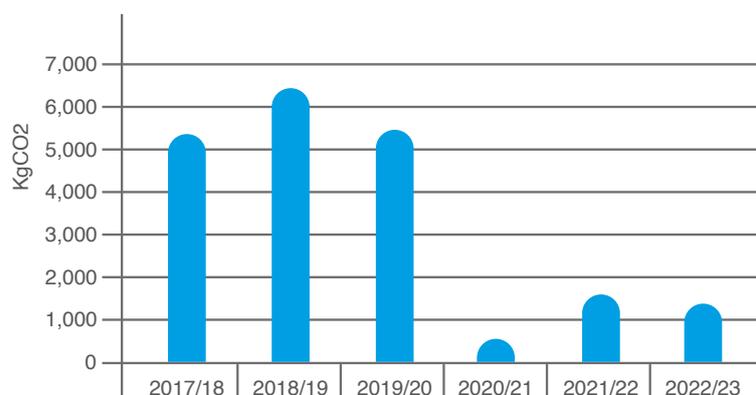
Gas usage in our occupied Inverness, Lochgilphead and Forres premises increased by 8% as staff returned to offices and there was a requirement to increase heating. The increase in gas expenditure was because of the rise in price of the cost per unit.

Business travel saw a sizeable increase when compared to the 2021/22 carbon emitted figure. As Covid restrictions eased, staff were again able to travel to meet clients and attend conferences and training. The carbon consumption figure also increased as we now capture a broader range of data, which will aid decision-making related to travel and subsistence. Despite the rise, carbon emissions were 53% lower than 2019/20 as staff now have meetings virtually and attend training courses online where possible.

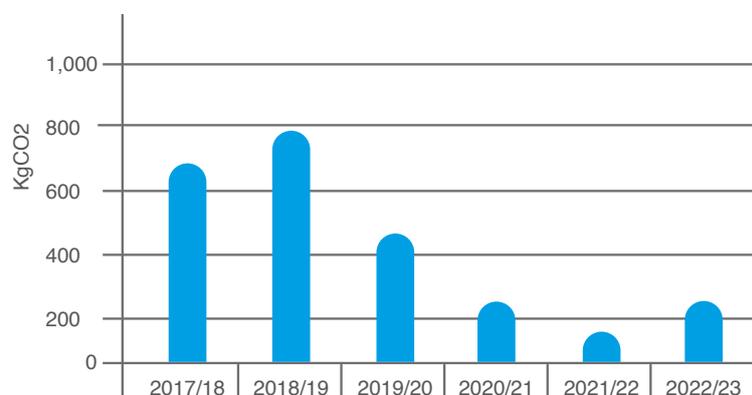
The budget for staff business travel has been held at the 2022/23 level (£300k) for 2023/24. Although the figures for 2022/23 show spend of £389k, only £259k related to travel by permanent staff, so this part of the travel budget was underspent by £41k. We aim to achieve this again in 2023/24 by monitoring area and core teams' travel practices and reporting monthly to leadership team. Targets for 2023/24 will continue to challenge HIE to seek new initiatives as we move towards meeting the Scottish Government's net zero target for 2045.

WASTE AND WATER		2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Non-financial indicators (KgCO2e)	Total greenhouse emissions from general waste	5,183	6,344	5,326	224	1,460	1,238
	Measurable greenhouse emissions from water	666	782	460	259	103	253*
Non-financial indicators	General waste (kg)	8,801	10,817	9,081	489	3,125	2,379
	Recycled waste (kg)	16,520	18,167	14,997	2,651	2,677	5,253
	Measurable consumption (m3)	1,937	2,272	1,337	752	691	1,430
Financial indicators (£)	Disposal cost	47,266	27,705	14,969	8,015	12,957	17,650
	Measurable water cost	18,156	15,814	13,059	17,346	22,111	23,920

Greenhouse gas emissions from waste



Greenhouse gas emissions from water



* While financial indicators relating to water show actual costs over the full financial year, at publication time, data for non-financial indicators was only available for the first 10 months. This will be updated in next year's annual report and accounts.

J. Smith

DR J S BLACK

Chief Executive and Accountable Officer
Highlands and Islands Enterprise

DIRECTORS' REPORT

BOARD

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

BOARD MEMBERSHIP

- Mr A Dodds CBE (Chair)
- Prof D MacRae OBE (Deputy Chair)
- Dr J S Black (Chief Executive)
- Ms A Bryan
- Mr A Campbell
- Mr P Crerar CBE
- Ms F Newton MBE
- Ms A B Oldfield
- Mr C Ross
- Dr K Nicholson (Appointed 13 June 2022)
- Ms A Raeburn (Appointed 13 June 2022)
- Ms A Salgado (Appointed 13 June 2022)
- Mr S Cotton (Appointed 1 April 2023)
- Mr D Wilson (Appointed 1 May 2023)

LEADERSHIP TEAM

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

LEADERSHIP TEAM MEMBERSHIP

- Dr J S Black (Chief Executive)
- Mr N B Kenton (Director of Finance and Corporate Services)
- Ms C Buxton MBE (Deputy Chief Executive)
- Mr D Cowan (Director of Communities and Place)
- Mr D J Oxley (Director of Strategic Projects)
- Ms S Dunbar (Director of Business Improvement and Internal Audit)
- Ms K Moncrieff (Director of Human Resources)
- Mr M Johnson (Director of Strategy and Regional Economy)
- Ms R Hunter (Director of Enterprise Support)

REGISTER OF BOARD MEMBERS' INTERESTS

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

PERFORMANCE REPORT

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

These matters are:

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

FUNDING

Highlands and Islands Enterprise's primary source of funding is grant-in-aid (GIA) from the Scottish Government. The budget allocation for 2023/24 is £60.2m 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, is deemed adequate for HIE to continue for the foreseeable future.

FINANCIAL INSTRUMENTS

Highlands 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 28 to the annual accounts.

RETIREMENT BENEFITS

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme, unless they opt out. Further details are provided in the Remuneration and Staff Report and in notes 1 and 22 to the accounts.

DATA LOSS

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

APPOINTMENT OF AUDITORS

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland. The appointed auditor for the year ended 31 March 2023 was Pauline Gillen, Audit Director, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £188,180 (2022 £144,110). There were no fees payable to Audit Scotland for non-audit work during the year (2022 nil).

SEVERANCE PAYMENTS

Detail of severance payments are included within the exit packages section of the Remuneration and Staff Report.

STATEMENT OF ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

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

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

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

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

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

SCOPE OF RESPONSIBILITY

As Chief Executive and Accountable Officer, 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.

I have specific responsibility in relation to:

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

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

An element of the Accountable Officer's responsibility is to ensure HIE's internal control systems comply with the requirements of the SPFM, including any written authorities provided. No written authorities were provided to the Accountable Officer in 2022-23.

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

GOVERNANCE FRAMEWORK

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

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

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

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

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

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

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

Economic challenges continued to impact on HIE's activities and that of our clients. We continued to respond to these challenges, ensuring our internal control and governance arrangements remained fit for purpose and supported agile and proportionate decision-making, enabling us to meet the needs of our communities and businesses in a time-critical manner.

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

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

NATIONAL STRATEGY FOR ECONOMIC TRANSFORMATION (NSET)

Following the publication of NSET in March 2022, new governance was established to develop, delivery and monitor progress of the new strategy and its associated programmes.

HIE is a member of several new groupings, including the overarching Portfolio Board, and sits on the delivery boards for the New Market Opportunities and Productive Businesses and Regions programmes (and from May 2023 the Entrepreneurial People and Culture programme) as well as participating in the policy network for the new Centre of Expertise in Equality and Human Rights and supporting individual project workstrands, e.g. natural capital investment and social enterprise development.

The Portfolio Board will monitor progress, collaboration and resolve issues relating to delivery of the policy programmes.

The *Culture of Delivery* programme notes the importance of building on the work of the Business Support Partnership (BSP).

The BSP is a public sector partnership with a key objective to improve the business support environment. It includes Scottish Enterprise, HIE, South of Scotland Enterprise, Skills Development Scotland, Local Government via SLAED, COSLA and the Business Gateway National Unit, Creative Scotland, VisitScotland and the Scottish Government. The BSP has developed a prioritised plan which includes focused activity relating to the products and services and data environment in place to support clients.

OPERATION OF THE HIE BOARD AND SUB-COMMITTEES

As at 31 March 2023, the Board of Highlands and Islands Enterprise comprised the Chair, ten non-executive members and the Chief Executive. This total includes two non-executive members whose terms ended on 31 March 2023. An additional two new members commenced their terms in April and May 2023.

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 Code of Conduct was updated in year.

The Board met in full as planned six times in year. It met a further two times to consider specific, time-critical matters. Three separate strategy sessions were also held in year.

In addition, eight local area-focused Board engagement sessions were held in year, three in person and five using digital technology.

As part of their ongoing development, the Board also took part training delivered by the Standards Commission on the Model Code of Conduct.

The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

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

RISK AND ASSURANCE COMMITTEE

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

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

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

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

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

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

REMUNERATION COMMITTEE

The Remuneration Committee reviews and agrees the reward arrangements of HIE's Chief Executive and the HIE executive directors, in line with Scottish Government pay policy. The committee met twice in year. The minutes of the first meeting were presented to the full Board, and a verbal update of the second meeting was provided due to timing.

The members of the Remuneration Committee during the year were:

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

OTHER BOARD SUB-GROUPS

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

The Cairngorm sub-group met twice during 2022/23 to consider and provide advice on matters relating to Cairngorm Mountain.

The Arnish sub-group meet once in year to focus on key strategic issues related to Arnish.

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

OPERATION OF GOVERNANCE COMMITTEES

Health and Safety Committee

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

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

Information Security and Fraud Governance Group

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

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

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

STRATEGIC AND OPERATIONAL FRAMEWORK

Strategy and planning

Highlands and Islands Enterprise's 2019-2022 strategy set out our ambition to develop sustainable and inclusive growth in every part of the region.

We embarked on the development of a new strategy for 2023-2028 during the year, undertaking extensive work to baseline our region, map against NSET priorities, and develop a new draft framework on which we consulted with key stakeholders through informal sessions, a Regional Economic Partnership meeting and a survey.

The 2022-23 Operating Plan outlined the conclusions of the evidence base for the new strategy, indicating the direction HIE would take, whilst recognising the socio-economic conditions, particularly the pressures brought about by inflationary forces, continuing high energy prices, Brexit and the sustained cost-of-living crisis. It set out actions, deliverables and targets and the out-turns are provided in our performance summary (p 9).

Business improvement

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

A significant element of this is a business transformation programme which is focused on transforming our delivery approach ensuring this meets the needs of our customers, partners and colleagues.

A programme of continuous improvement is ongoing for our new digital environment MyHIE to ensure that it remains responsive to changes in our operating environment, continues to bring an improved customer experience and enables HIE staff to make greater use of data and analytics to target support and confirm impact.

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

Best value

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

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

- We hold Board engagement sessions, engaging with and listening to local communities and businesses.
- Our Business Panel surveys inform us of the challenges and opportunities facing businesses, community groups and social enterprises across the Highlands and Islands and during this year, whilst we continued to track the impact of Covid and Brexit, the focus was increasingly on understanding the impact of, and response to, cost increases and labour supply challenges.
- Our research informs our own and partnership interventions.

We develop a clearer understanding of how we can address inequalities and inclusive growth using the framework of the Public Sector Equality duties, including the Fairer Scotland Duty, and through the ongoing development of our inclusive growth model to better understand our region and our impact.

We have a rich history of partnership working, routinely sharing ideas and working collaboratively. We are a very active member of the Convention of the Highlands and Islands, and the Regional Economic Partnership (for which we host the secretariat) and contribute to community planning partnerships across the region.

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

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

Evaluation work continued with completion of reports on the Leadership Programme; Digital Enablement Grant Scheme; Communities Leading Tourism; and the longer-term gains from HIE investment in key infrastructure. Evaluation evidence was used extensively to support the development of the new strategy and help shape future programme design.

Continuing to support inclusive and sustainable growth in a changing economic environment requires us to be alert to emerging challenges, including the implications of Covid-19, Brexit and increased costs. During 2022-23, HIE delivered the Energy Cost Impacts and [My Life in the Highlands and Islands](#) research to understand conditions in the region and explore the views and experiences of individuals living, working and studying in communities across the Highlands and Islands to support our direction and regional partnership working and advocacy.

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

BEST VALUE

POLICY DEVELOPMENT, APPRAISAL, RESOURCE ALLOCATION AND IMPLEMENTATION

- clear employee roles and behaviours
- client relationship and development
- support local needs and opportunities
- address inequalities
- investment strategy

REVIEW, EVALUATION AND BENEFITS REALISATION

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

LEADERSHIP, ACCOUNTABILITY AND GOVERNANCE

- regional strategy aligned to NSET
- integrate economic and community development
- deliver national strategic initiatives
- publish approvals

RESPONSIVENESS, CONSULTATION AND JOINT WORKING

- engage with stakeholders
- build evidence through research
- collaborate in economic partnerships
- collaborate with government and other public bodies
- support community empowerment

OVERARCHING STRATEGIC DIRECTION
Scotland's National Strategy for Economic Transformation | National Performance Framework Programme for Government | National Innovation Strategy

Performance management

HIE's corporate reporting framework considers organisational performance throughout the year. This was considered and discussed at each Board meeting.

Corporate governance

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

Decision-making

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

Risk management arrangements

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

HIE has a robust risk management strategy which empowers staff to be dynamic and innovative and take intelligent risks.

The strategy identifies responsibilities of the Board, the Risk and Assurance Committee and executive staff. It also details the process of risk categorisation and approval and review process for the risk register by the Risk and Assurance Committee and the Board.

Implementation of the strategy includes:

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

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

Significant risks

Principal risks and uncertainties identified at the end of 2022/23 are described in the Performance summary (pages 7/8).

These concern:

- Economic and strategic context – opportunities and challenges
- New strategic opportunities
- Regional infrastructure
- Financial and budgetary environment
- Organisational delivery and transformation approach
- Delivery and benefits realisation of key projects
- Information governance and systems
- Legal and regulatory environment

NON-DORMANT GROUP COMPANIES

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

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

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

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

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

This is Remarkable Ltd is an associate limited by guarantee which supports organisations to achieve their business aims and objectives through management consultancy and accreditation services. The company entered liquidation in-year.

ASSURANCE ACTIVITY

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

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

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

For 2022/23, each business unit and non-dormant group company completed a review which is used to identify any control issues, and to allow completion of an organisational internal control checklist and certificate of assurance for HIE. We also received assurance from the Head of Information Governance and EIS Chief Information Officer for IT services that they were not aware of any significant control issues.

DATA SECURITY AND INFORMATION SECURITY ASSURANCE

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. In 2022/23, two instances of suspected data breaches were reported to HIE. These were investigated, and no breach was found to have occurred. No report to the Information Commissioner's Office (ICO) was required and no further action needed.

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

During 2022/23, the Business Improvement and Internal Audit team liaised with Scottish Enterprise and Skills Development Scotland in ensuring appropriate assurance reviews related to IT services provision in the period were undertaken for the Partners. The results of these reviews are reported to the EIS Partnership Board, which is chaired by the HIE Director of Finance and Corporate Services.

An assurance mapping exercise was undertaken, and an agreed programme of systems assurance work developed with our partners and for HIE specific activity. Reviews undertaken this year included EIS governance review, and HIE specific reviews to follow up on HIE cyber maturity recommendations and review information governance. The EIS governance review and HIE Information governance review are still to conclude. Prioritised action plans have been developed for areas where opportunities for improvement were identified.

Internal audit

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

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed. The annual assurance plan was based on this analysis and was endorsed by the Risk and Assurance Committee.
- Provided me with regular reports on internal audit activity and an annual report which included the Director's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. The overall opinion was that the systems of overall internal control in year were generally satisfactory.
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings
- Supported HIE in developing appropriate and fit for purpose governance arrangements for key investments and complex projects
- Supported HIE in consideration of risk and development and design of tailored internal controls
- Collated and disseminated lessons learned

As part of HIE's internal audit programme of assurance reviews, improvement opportunities have been noted and will be taken forward in 2023/24. These include:

- Best value, effectiveness and efficiency
- Access to, benefiting from and compliance with requirements of, other funding opportunities
- Subsidy regime
- Project appraisal, management and delivery environment

External audit

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland identified no significant control issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2023 and on the regularity of transactions reflected in the accounts.

REVIEW OF EFFECTIVENESS AND CONCLUSION

As Chief Executive and Accountable Officer, I can confirm 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 these systems were in place for the year ended 31 March 2023 and to the date of signature of the accounts and there were no significant control weaknesses or identified lapses in data security reported.

REMUNERATION AND STAFF REPORT

Remuneration report

Section 1 – General information

Highlands and Islands Enterprise's sponsoring body, the Scottish Government, approves changes to Highlands and Islands Enterprise's staff terms and conditions, including pay. Highlands and Islands Enterprise's pay structure covers all employees of HIE and aims to address organisational challenges such as recruitment and retention and organisational change. This structure aims to provide pay progression based on inflation rate changes, plus an element of performance-related progression linked to Highlands and Islands Enterprise's performance management system.

REMUNERATION COMMITTEE

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

COMMITTEE MEMBERSHIP

Mr Patrick Crerar CBE (Chair) to 31 March 2023

Ms Freda Newton MBE (Chair) from 1 April 2023

Mr Alistair Dodds CBE

Ms Anna Salgado from 1 April 2023

Prof Donald MacRae OBE to 31 March 2023

Section 2 - The information contained in the following section of this report has been subject to audit

REMUNERATION OF BOARD MEMBERS

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a fixed period of three years. Under certain circumstances Board members may be eligible for reappointment for a second term. Their remuneration is set by the Scottish Government and is not pensionable.

The remuneration of HIE Board members for the year ended 31 March 2023 was as follows:

	2023	2022	APPOINTMENT EXPIRES
	£	£	
Mr Alistair Dodds CBE (Chair)	45,174	45,174	30 April 2026
Ms Amanda Bryan	10,065	10,065	31 March 2024
Mr Angus Campbell	10,065	10,065	31 August 2024
Mr Patrick Crerar CBE	10,065	10,065	Ended 31 March 2023
Prof Donald MacRae OBE (Deputy Chair)	10,065	10,065	Ended 31 March 2023
Ms Freda Newton MBE	10,065	10,065	31 August 2024
Ms Anne B Oldfield	10,065	10,065	31 March 2024
Mr Calum Ross	10,065	10,065	31 August 2024
Ms Anna Salgado*	8,045	nil	12 June 2025
Ms Ailsa Raeburn*	8,045	nil	12 June 2025
Dr Keith Nicholson*	8,045	nil	12 June 2025

* appointed 13 June 2022 Full year equivalent £10,065

It is considered appropriate to disclose board members remuneration in £ rather than bandings for transparency.

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

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairs and Board members of the Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2023, £54,571 (2022 - £56,380) was paid to these former members.

EXECUTIVE LEADERSHIP TEAM REMUNERATION

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

The contracts of members of the Executive Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highland and Islands Enterprise Superannuation scheme, except for Douglas Cowan who is a member of the Highland Council Pension Scheme (LGPS) (transferred in from Strathclyde Local Government Pension Scheme on 1 November 2022).

Active members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 27.9% of the employees' pensionable salary throughout the year. Douglas Cowan contributed 9.6% of pensionable salary to the Strathclyde LGPS from 1 April to 31 October 2022 with HIE Contributing 26%. From 1 November, he contributed 9.6% of pensionable salary to Highland Council LGPS with HIE contributing 35.3%.

All HIE and LGPS members are in a Career Average Revalued Earning (CARE) scheme. Further information about the pension funds can be found in the Notes to the Accounts (note 22).

Remuneration of the Executive Leadership Team who served during the year ended 31 March 2023 was as follows:

	NOTE	2022/23			2021/22		
		SALARY	PENSION BENEFITS	TOTAL	SALARY	PENSION BENEFITS	TOTAL
		£000	£000	£000	£000	£000	£000
Dr J Stuart Black Chief Executive from 1 January 2022	1	115-120	24	140-145	60-65	4	60-65
Carroll Buxton, Deputy Chief Executive	2	65-70	6	70-75	100-105	38	140-145
Douglas Cowan, Director Communities and Place		100-105	31	130-135	95-100	33	130-135
David J Oxley, Director Strategic Projects		95-100	23	120-125	90-95	23	115-120
Nicholas Kenton, Director Finance and Corporate Services		95-100	25	120-125	90-95	21	110-115
Sandra Dunbar, Director Business Improvement and Internal Audit		80-85	17	100-105	75-80	24	100-105
Karen Moncrieff, Director Human Resources		80-85	33	115-120	60-65	39	100-105
Rachel Hunter, Director Service Delivery		80-85	31	110-115	70-75	32	105-110
Martin Johnson, Director Strategy and Regional Economy		90-95	37	125-130	85-90	33	115-120

(1) Dr J Stuart Black has been on the Executive Leadership Team since 2 August 2021, firstly as Lead Area Manager from 2 August 2021 to 31 December 21 then as Chief Executive from 1 January 2022. The 2021/22 full-time equivalent salary for his role as Lead Area Manager was in the band £75-£80k and for his role as Chief Executive was in the band £110-£115k.

(2) Carroll Buxton MBE has been on the Executive Leadership Team as Deputy Chief Executive from 1 April to 31 July 2021 then as acting Chief Executive from 1 August 2021 to 31 December 2021, returning to her role as Deputy Chief Executive from 1 January 2022. The 2021/22 full-time equivalent salary for her role as Deputy Chief Executive was in the band £90-£95k and for her role as acting Chief Executive was in the band £115-£120k. The 2022/23 full-time equivalent salary for her role as Deputy Chief Executive was in the band £95-£100k.

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

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

There were no performance-related pay payments in 2022/23 or 2021/22 and no member of the Executive Leadership Team received any benefits in kind in either year.

No employee received remuneration in excess of the highest paid director in 2022/23 or 2021/22.

RETIREMENT BENEFITS OF MEMBERS OF HIE LEADERSHIP TEAM:

	CASH-EQUIVALENT TRANSFER VALUE				
	ACCRUED PENSION AT NORMAL RETIREMENT DATE AS AT 31 MARCH 2023 AND RELATED LUMP SUM	REAL INCREASE IN PENSION AND RELATED LUMP SUM AT PENSION AGE	AT 31 MARCH 2023	AT 31 MARCH 2022	INCREASE/ (DECREASE) IN TRANSFER VALUE DURING YEAR (NET OF MEMBER CONTRIBUTIONS)
	£000	£000	£000	£000	£000
Dr J Stuart Black	0 - 5 Lump sum 10 - 15	0 - 2.5 Lump sum 2.5 - 5	54	43	2
Carroll Buxton	30 - 35 Lump sum 100 - 105	0 - 2.5 Lump sum 2.5 - 5	656	886	(262)
Douglas Cowan	45 - 50 Lump sum 55 - 60	2.5 - 5 Lump sum 0 - 2.5	833	790	9
Sandra Dunbar	35 - 40 Lump sum 105 - 110	0 - 2.5 Lump sum 5 - 7.5	665	903	(270)
Rachel Hunter	20 - 25 Lump sum 70 - 75	0 - 2.5 Lump sum 5 - 7.5	364	524	(181)
Martin Johnson	20 - 25 Lump sum 70 - 75	2.5 - 5 Lump sum 7.5 - 10	382	531	(171)
Nicholas Kenton	5 - 10 Lump sum 20 - 25	0 - 2.5 Lump sum 2.5 - 5	102	116	(23)
Karen Moncrieff	30 - 35 Lump sum 100 - 105	2.5 - 5 Lump sum 7.5 - 10	659	847	(220)
David J Oxley	20 - 25 Lump sum 65 - 70	0 - 2.5 Lump sum 5 - 7.5	417	547	(153)

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

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

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

The LGPS is also a defined benefit scheme based on CARE, a pension of 1/49 of pensionable salary for each year of service accrued. Prior to 1 April 2015 this was based on final pensionable salary.

RETIREMENT BENEFITS - CASH EQUIVALENT TRANSFER VALUES

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

REAL INCREASE IN CETV

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

FAIR PAY DISCLOSURE

PERCENTAGE CHANGE IN REMUNERATION OF HIGHEST PAID DIRECTOR

	2022/23	2021/22
Salary of highest paid director *	£117,500	£117,500
Movement from previous year	0%	4%

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

PERCENTAGE CHANGE IN REMUNERATION OF ALL OTHER EMPLOYEES

	2022/23	2021/22
Average remuneration	£46,108	£44,545
Movement	4%	1%

PAY RATIO INFORMATION

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

	2022/23	2021/22
25th percentile pay ratio	3.4:1	3.5:1
Median pay ratio	2.6:1	2.7:1
75th percentile pay ratio	2.5:1	2.6:1

The median remuneration of HIE's employees is based on the annualised full-time equivalent salary of employees at 31 March 2023.

The full-time equivalent remuneration paid to HIE staff ranged from £21.6k to £116.3k (2022 £21.5k to £102.9k). No employee received remuneration in excess of the highest paid director in either year.

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

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

	2022/23	2021/22	2020/21
25th percentile	£34,564	£34,003	£33,336
50th percentile	£45,221	£43,068	£42,642
75th percentile	£47,482	£45,221	£44,773

There were no performance-related pay payments or benefits in kind payable to any employee in 2022/23 or 2021/22.

STAFF REPORT

STAFF NUMBERS AND COST - GROUP						
	GROUP			GROUP		
	2023			2022		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	9,617	3,315	12,932	8,954	3,001	11,955
Social security costs	1,218	338	1,556	1,061	307	1,368
Other pension costs	3,800	652	4,452	3,248	671	3,919
Contract/temporary staff	-	117	117	-	212	212
	14,635	4,422	19,057	13,263	4,191	17,454
Board members' remuneration	369	-	369	367	-	367
	15,004	4,422	19,426	13,630	4,191	17,821

The average number of employees was as follows:						
	GROUP			GROUP		
	2023			2022		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
Senior management	50	22	72	52	20	72
Operational staff	103	60	163	99	33	132
Administration and support staff	55	40	96	56	74	131
	208	122	330	207	127	334

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

STAFF NUMBERS AND COST - HIE

	HIE			HIE		
	2023			2022		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,663	2,143	10,806	8,100	2,255	10,355
Social security costs	1,098	240	1,338	962	240	1,202
Other pension costs	3,590	598	4,188	3,172	622	3,794
Contract/temporary staff	-	117	117	-	117	117
	13,351	3,098	16,449	12,234	3,234	15,468
Board members' remuneration	369	-	369	367	-	367
	13,720	3,098	16,818	12,601	3,234	15,835

The average number of employees was as follows:

	HIE			HIE		
	2023			2022		
	Permanent	Other	Total	Permanent	Other	Total
	Staff	Staff	Staff	Staff	Staff	Staff
Senior management	50	15	65	52	13	65
Operational staff	103	33	136	99	6	105
Administration and support staff	55	6	62	56	39	96
	208	54	263	207	58	266

COMPENSATION AND EXIT PACKAGES

No staff left under voluntary severance terms between 1 April 2022 and 31 March 2023 (2021/22 nil).

STAFF TURNOVER

HIE had a staff turnover rate of 11.2% in 2022/23 (11.4% 2021/22).

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

EMPLOYEES BY SEX

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

Highlands and Islands Enterprise staff:

	MALE	FEMALE	TOTAL
Board*	6	5	11
Leadership Team*	5	4	9
Other employees	97	172	269

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

Off-payroll appointments

At 31 March 2023 there was 1 highly paid off-payroll worker engagement earning £245 per day or greater. This engagement had existed for between one and two years at the time of reporting.

During the year there were 3 temporary off-payroll workers engaged, earning £245 per day or greater. None was subject to off-payroll legislation.

Sickness absence

Highlands and Islands Enterprise staff:

The attendance record for HIE employees for the year to 31 March 2022 was 1,340 (2022 1,409) days sick leave out of a total of 58,140 (2022 59,154) possible working days, representing a lost time through sickness rate of 2.30% (2022 2.38%).

Trade union facility time

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

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

There was 1 staff member who was a trade union official during 2022/23.

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

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

Disability, equality and inclusion

Highlands and Islands Enterprise (HIE) is proud to be an inclusive workplace. There are a variety of initiatives that are led by HR to support an inclusive workplace culture to allow employees to conduct their job role effectively, without prejudice or discrimination. Whilst some initiatives are driven by legislation, for example flexible working, HIE seeks to go beyond statutory legal requirements and actively support equality, diversity and inclusion for all.

Flexible working practices

HIE offers the right to make a flexible working application to all employees. Whilst this process is in line with the required service outlined in current legislation, HIE goes beyond statutory requirement by actively advertising and highlighting the 'happy to talk flexible working' strapline to all applicants through the recruitment and selection process with the opportunity to discuss any specific requirements during the selection process.

This allows individuals from the stage of application to be open about any flexibility required around the standard advertised working pattern and to highlight at the earliest opportunity a working pattern that would best suit their individual needs.

In last year's HR submission, it was reported 'to promote and encourage greater diversity and inclusion, we ensure that the default position for all roles advertised in HIE is that they can be done from a flexible location unless there is a specified overriding business consideration.

We encourage the geographic dispersal of jobs, particularly to our island communities'. This remains the position within HIE and we have seen an increase in support of this approach from recruiting managers who recognise the benefits of widening the talent pool to ensure HIE appoints the best people for specific job vacancies.

Over the last 12 months there have been an additional 28 flexible working applications approved and of the 275 individuals employed at HIE, this now means 104 employees work either a part time or compressed working hours arrangement. This equates to 37.8% of the workforce, demonstrating the supportive culture and flexibility offered to staff.

Dovetailing our formal flexible working process, HIE has adopted a hybrid working model since 2021. This approach empowers employees to manage their working time and practices according to both business and personal needs. There are currently no specified corporate 'anchor days' or requirements for employees to be present in the office for a specified percentage of working time.

Line managers and employees are afforded flexibility to come to a mutual agreement on what best suits their job role and individual circumstances. This approach will be continually monitored to ensure it is fit for purpose and continues to support service delivery in all directorates and business units. The majority of staff choose to work a blend of home and office working and the current practices, performance and feedback demonstrate that hybrid working is working effectively.

Policies

HIE adopts and actively promotes a range of policies to support equality, diversity and inclusion:

Our health and wellbeing policy outlines HIE's commitment to supporting the health and wellbeing of our employees. It contains a wealth of information for staff and managers on support mechanisms in place – both internally and externally – as well as providing signposting to internal resources that support health and wellbeing such as awareness campaigns.

One such campaign is our inclusive workplace initiative that has been used in the last year to promote a greater awareness of two different campaigns for inclusion of transgender and non-binary individuals, as well as on neurodiversity in the workplace. Both of these initiatives have been well-received internally and have helped to build confidence when working with colleagues and clients who may be trans, non-binary or neurodiverse. In the last year, the attendance management policy has been updated and communicated internally to ensure staff and managers are aware of the key messages in the policy. HIE offers a generous sick pay entitlement to alleviate immediate financial concerns for employees on long term sickness. The nature of the policy is supportive and seeks to facilitate as early a return to work as possible for employees by way of occupational health support and use of tailored phased returns as standard process. This is of particular benefit to some employees with a debilitating condition or disability that hinders consistency in attendance.

HIE operates a suite of family friendly policies to support employees through periods of maternity, paternity and adoption leave. As with our other policies, the offerings of the policy are above and beyond the statutory requirements, which is considered of great benefit to employees. Our special leave policy allows access to a generous entitlement of paid time off for a number of caring scenarios, which is also believed to be more generous than other local employers and is available to all staff when needed.

HIE's retirement policy has been updated in the last year and offers comprehensive guidance (not advice) to employees who are considering retirement. There are a number of options available to employees, including a flexible retirement option, which assists the individual with phasing to eventual retirement without hampering their pension entitlement. HIE has an ageing employee population with 132 employees (48%) aged 50 or over, 37 of those employees aged 60 or over and 2 of those 132 employees aged 70 or over. It is, therefore, important that the organisation supports employees through making them aware of the process and mechanisms in place as they age, such as regularly holding 'financial planning for the future' sessions available to all staff aged 35 and over.

HIE is obliged to publish a Gender Pay Gap report annually. The latest report shows a gender pay gap of 12.2%. This is an improvement on the previously reported gender pay gap at HIE which was 15.86% in 2021. The data returned shows an improved picture year on year and there have been a number of actions taken to actively manage the gender pay gap at HIE (see full report on the website for more information). This demonstrates that HIE is delivering on the messages it conveys in relation to gender equality.

Accreditation

It was reported last year that HIE is progressing applications to achieve the next level in both Carer Positive Employer and Disability Confident. Work continues in this regard, and it is hoped that sufficient evidence will be submitted in support of HIE's application over the coming year. This will then see HIE awarded with the top level of recognition in association with both of these accreditations.

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

HIE is also recognised as an Inclusive Recruiter by the Scottish Credit and Qualifications (SCQF) Framework and has been featured as an exemplar organisation through case studies featuring our recruitment practices and development of the young workforce through our Modern Apprenticeship programme. We acknowledge that many different qualifications have the same worth and have revised our recruitment practices to reflect SCQF levels to offer clarity around skills and experience required for the role, rather than looking for a specific academic qualification.

Internal support forums

Within HIE, Yammer is used, which is "a social networking tool to openly connect and engage across an organisation". In terms of assisting the promotion of equality, diversity and inclusion initiatives, Yammer is proving to be a valuable resource. There is a well-established carer support group and based on this success in the last year additional networking groups have been established for menopause support and neuroinclusion (for neurodivergent employees). There has also been a line manager support group created on Yammer to ensure that all our line managers are kept updated with HR best practice and internal awareness campaigns. This is a powerful tool that can communicate our inclusive culture across our diverse employee population.

PARLIAMENTARY ACCOUNTABILITY REPORT

The results for the year to 31 March 2023 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Summary of Resource and Capital out-turn

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

The net out-turn for Highlands and Islands Enterprise for the year ended 31 March 2023 was as follows:

SUMMARY OF RESOURCE AND CAPITAL OUT-TURN					
	Expenditure	Income	Outturn	Final Budget Allocation	(Over)/Under spend
	£000	£000	£000	£000	£000
Resource Budget	38,038	7,837	30,201	28,409	(1,792)
Capital Budget	50,537	2,501	48,036	48,330	294
Financial Transactions expenditure	1,330	-	1,330	1,000	(330)
Ring Fenced Resource - expected credit losses	468	-	468	-	(468)
	90,373	10,338	80,035	77,739	(2,296)
Non-cash costs including depreciation	2,480	-	2,480	2,738	258
Annually managed expenditure	13,071	-	13,071	7,500	(5,571)
	105,924	10,338	95,586	87,977	(7,609)

Highlands and Islands Enterprise net overspend against its allocated budget for the year to March 2023 was £6.9million. This overspend was agreed by the Scottish Government.

SOURCES OF FINANCE

Grant-in-aid allocation

Highlands and Islands Enterprise drew down grant-in-aid of £77.7 million of the £77.7 million grant-in-aid available from Scottish Government, including an authorised overspend of £3.5 million. Highlands and Islands Enterprise received £77.1 Million of the grant-in-aid drawn down in financial year 2022/23, with the balance being received in financial year 2023/24

Budget out-turn

The resource out-turn including credit losses of £30.7 million was £2.3million higher than the budget allocation. The overspend was agreed with Scottish Government and forms part of the £3.5 million additional GIA allocation. The overspend primarily relates to funding support for from the Scottish Government for the Cairngorm Mountain Scotland Limited subsidiary which was not included in Highlands and Islands Enterprise budget allocation for 2022/23 and provision for writedown of financial assets.

The capital expenditure out-turn of £48.0 million was £0.3 million lower than budget provided by Scottish Government. The underspend arises from lower than expected expenditure within the Wave Energy Scotland subsidiary.

Financial transactions expenditure of £1.3 million was £0.3 million over budget. the overspend was agreed with the Scottish Government post-spring budget allocation and forms part of the £3.5 million additional GIA allocation. The financial transactions overspend was due to new loan opportunity arising post spring budget review to support a client.

Non-cash costs including depreciation were £2.5 million, £0.3 million under the provision set by the Scottish Government. The underspend against non-cash costs is due to the annual budget provided by Scottish Government being consistently higher than Highlands and Island Enterprise requirements.

The Annually Managed Expenditure was £13.1 million against a budget of £7.5 million. £5.6 million over the budget set by the Scottish Government. The main element of the overspend relates to higher than expected downward valuation of property construction projects.

The Budget for 2023/24 of £62.7 million awarded by the Scottish Government comprises grant-in-aid and 'ringfenced' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

RECONCILIATION OF RESOURCE AND CAPITAL OUT-TURN TO GROUP STATEMENT OF COMPREHENSIVE NET EXPENDITURE	NOTE	£000
Resource and capital outturn		95,586
Property plant and equipment disposals HIE	11	1,224
Property plant and equipment additions HIE	11	(19,068)
Plant and equipment revaluations HIE	11	633
Intangible asset additions	13	(565)
Investment additions	14	(1,386)
Consolidation adjustments	4	(911)
Investment disposals and repayments	14	126
IFRS16 opening balance adjustment	4	(4,260)
Net expenditure after interest		71,379

LOSSES AND SPECIAL PAYMENTS

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

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

LOSSES AND SPECIAL PAYMENTS		
	GROUP and HIE	
	No of cases	£000
Financial Asset losses (losses arising from the disposal of financial assets)	1	11
Claims Waived	5	251
There were no financial losses which exceeded £250k in either financial year	-	-
In the year to 31 March 2023 there were no claims waived which exceeded £250k (2022 1)	-	-

FEES AND CHARGES

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



DR J S BLACK

Chief Executive and Accountable Officer
Highlands and Islands Enterprise

13 October 2023

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

REPORTING ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Highlands and Islands Enterprise and its group for the year ended 31 March 2023 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure, Group Statement of Financial Position, Highlands and Islands Enterprise Statement of Financial Position, Group Statement of Cash Flows, Highlands and Islands Enterprise Statement of Cash Flows, Group Statement of Changes in Taxpayers' Equity, Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Government Financial Reporting Manual (the 2022/23 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of the affairs of the body and its group as at 31 March 2023 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Auditor General for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Auditor General on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. Including a previous appointment, the period of total uninterrupted appointment will be six years. I am independent of the body and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

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

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the central government sector to identify that the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers are significant in the context of the body;
- inquiring of the Accountable Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the body;
- inquiring of the Accountable Officer concerning the body's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

REPORTING ON REGULARITY OF EXPENDITURE AND INCOME

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. In addition to my responsibilities in respect of irregularities explained in the audit of the financial statements section of my report, I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

REPORTING ON OTHER REQUIREMENTS

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

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

Other information

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

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

USE OF MY REPORT

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pauline Gillen

Pauline Gillen
Audit Director
Audit Scotland
8 Nelson Mandela Place
Glasgow
G2 1BT

13 October 2023

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2023

		Group		HIE	
		2023	2022	2023	2022
	Notes	£000	£000	£000	£000
Expenditure					
Operating expenditure	6	59,907	64,452	60,097	66,053
Net management expenditure on staff costs	7	18,100	14,712	16,815	13,683
Other management expenditure	7	5,434	6,722	3,407	5,255
Depreciation and amortisation	7	2,164	1,357	1,954	1,238
		85,605	87,243	82,273	86,229
Income					
Income from activities	5	(3,197)	(2,718)	(3,187)	(2,730)
Other income	5	(12,488)	(8,369)	(7,779)	(6,229)
		(15,685)	(11,087)	(10,966)	(8,959)
Net Operating Expenditure		69,920	76,156	71,307	77,270
Interest payable and similar charges	9	95	24	121	6
Share of (profits)/losses in equity accounted investees	14	282	(66)	-	-
Interest income	8	(206)	(196)	(194)	(196)
Other finance income	8	1,288	1,240	1,288	1,240
Net Expenditure after interest		71,379	77,158	72,522	78,320
Taxation	10	65	658	65	658
Net Expenditure after taxation		71,444	77,816	72,587	78,978
Minority interests		1	(3)	-	-
Net Expenditure after Minority Interests		71,445	77,813	72,587	78,978
Other Comprehensive Net Expenditure/(Income)					
Items that will not be reclassified to net expenditure					
Net (gains)/losses on revaluation of property, plant and equipment		(867)	(1,854)	(867)	(1,854)
Actuarial (gains)/losses recognised in retirement benefit scheme and asset ceiling adjustment	22	(11,132)	(16,025)	(11,132)	(16,025)
Other Comprehensive Net Expenditure/(Income) for the year		(11,999)	(17,879)	(11,999)	(17,879)
Total comprehensive Net Expenditure for the year		59,446	59,934	60,588	61,099

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2023

		GROUP		HIE	
		2023	2022	2023	2022
	Notes	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	11/12	43,253	35,741	40,777	34,230
Finance lease receivables	12	4,215	-	4,215	-
Intangible Assets	13	2,183	2,009	2,183	2,009
Financial Assets	14	2,297	1,931	3,740	3,394
Investment in associate	14	880	1,162	-	-
Total non-current assets		52,828	40,843	50,915	39,633
Current assets					
Inventories	16	103	46	-	-
Trade and other receivables	17	12,125	13,722	11,889	13,776
Cash and cash equivalents	18	9,321	10,088	888	381
Finance lease receivables	12	30	-	30	-
Assets classified as held for sale	19	2,591	1,975	2,591	1,975
Total current assets		24,170	25,831	15,398	16,132
Total assets		76,998	66,674	66,313	55,765
Current liabilities					
Trade payables and other current liabilities	20	(9,114)	(10,468)	(6,124)	(8,565)
Taxation	20	(543)	(526)	(457)	(434)
Lease liabilities	12	(682)	-	(682)	-
Provisions	21	-	(11,098)	-	(11,098)
Total current liabilities		(10,339)	(22,092)	(7,263)	(20,097)
Non-current assets plus net current assets		66,659	44,582	59,050	35,668
Non-current liabilities					
Trade payables and other liabilities	20	(8,647)	(10,461)	(4,750)	(4,117)
Provisions	21	(748)	(185)	(748)	(185)
Lease Liabilities	12	(14,560)	-	(14,560)	-
Retirement benefit obligation	22	(40,128)	(46,877)	(40,128)	(46,877)
Total non-current liabilities		(64,083)	(57,523)	(60,186)	(51,179)
Assets less liabilities		2,576	(12,941)	(1,136)	(15,511)
Taxpayers' Equity					
Revaluation reserve		3,372	3,914	3,371	3,913
Other reserve		28	6	14	4
Pension reserve		(40,128)	(46,877)	(40,128)	(46,877)
Minority interests		391	391	-	-
General reserve		38,913	29,625	35,607	27,449
Total equity		2,576	(12,941)	(1,136)	(15,511)

J. S. Black

DR J S BLACK

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

13 October 2023

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023

		Group		HIE	
		2023	2022	2023	2022
	Notes	£000	£000	£000	£000
Cash flow from operating activities					
Net expenditure after interest		(71,379)	(77,158)	(72,522)	(78,320)
Adjustments for non-cash items:					
Depreciation	7	2,164	1,357	1,954	1,238
Provision for irrecoverable debts and losses		(163)	(29)	(163)	(29)
Investments written off, net of provision		484	(1,914)	504	(1,921)
Surplus of disposal of investments	5	-	(500)	-	(500)
Deficit on revaluation of property		19,552	14,968	19,552	14,969
Revaluation of plant and equipment		34	-	34	-
Surplus on disposal of property, plant and equipment		(630)	(62)	(593)	(62)
Share of Associates profit/(loss)	13	282	(66)	-	-
Interest payable	9	95	24	122	6
Interest receivable	8	(206)	(196)	(194)	(196)
Retirement benefit scheme net changes		4,383	2,322	4,383	2,322
		(45,384)	(61,254)	(46,923)	(62,493)
(Increase)/decrease in inventories		(58)	(20)	-	-
(Increase)/decrease in trade and other receivables		2,267	(4,025)	2,558	(4,121)
Increase/(decrease) in trade and other payables		(2,890)	9,291	(1,525)	1,877
(Decrease)/Increase in provision for future liabilities		(10,535)	(5,818)	(10,535)	(5,818)
Net cash outflow from operating activities		(56,600)	(61,826)	(56,425)	(70,555)
Cash flows from investing activities					
Investment in associates		-	(20)	-	(20)
Proceeds of disposal of property, plant and equipment		1,757	763	1,717	753
Proceeds of disposal of preference shares		-	2,500	-	2,500
Interest received		186	197	174	197
Lease income received		35	-	35	-
Loans advanced in year	14	(1,386)	(619)	(1,386)	(619)
Loans repaid in year	14	126	847	126	847
Purchase of intangible assets		(565)	(975)	(565)	(975)
Purchase of property, plant and equipment		(19,926)	(18,128)	(18,749)	(17,068)
Net cash inflow from investing activities		(19,773)	(15,435)	(18,648)	(14,385)
Cash flows from financing activities					
Grants from Scottish Government		76,362	84,710	76,362	84,710
Interest paid	9	32	(24)	6	(6)
Repayment of leasing liabilities		(788)	-	(788)	-
Net cash inflow from financing activities		75,606	84,686	75,580	84,704
Net increase/(decrease) in cash and cash equivalents in the period	18	(767)	7,425	507	(236)
Cash and cash equivalents at the beginning of the period	18	10,088	2,663	381	617
Cash and cash equivalents at the end of the period	18	9,321	10,088	888	381

**GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2023**

	Revaluation reserve	Other reserve	Pension reserve	Minority Interest	General reserve	Total reserves
	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	2,061	5	(60,580)	394	20,406	(37,714)
Net expenditure during the year	-	-	-	(3)	(77,813)	(77,816)
Actuarial Gain in retirement benefit scheme	-	-	16,025	-	-	16,025
Net gains on revaluation of property, plant and equipment	1,853	1	-	-	-	1,854
Transfers between reserves	-	-	(2,322)	-	2,322	-
Total recognised income and expense for year to 31 March 2022	1,853	1	13,703	(3)	(75,491)	(59,937)
Grant in Aid from Scottish Government	-	-	-	-	84,710	84,710
Balance at 31 March 2022	3,914	6	(46,877)	391	29,625	(12,941)
Adjustment on transition to IFRS 16	(1,399)	-	-	-	-	(1,399)
Adjusted Balance at 31 March 2022	2,515	6	(46,877)	391	29,625	(14,340)
Net expenditure during the year	-	-	-	-	(71,445)	(71,445)
Actuarial gains recognised in retirement benefit scheme and asset ceiling adjustment	-	-	11,132	-	-	11,132
Net gains on revaluation of property, plant and equipment	857	10	-	-	-	867
Transfers between reserves	-	12	(4,383)	-	4,371	-
Total recognised income and expense for year to 31 March 2023	857	22	6,749	-	(67,074)	(59,446)
Grant in Aid from Scottish Government	-	-	-	-	76,362	76,362
Balance at 31 March 2023	3,372	28	(40,128)	391	38,913	2,576

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 £14k (2022 £4k) and the share of equity accounted investee reserves £14k (2022 £2k).

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

Minority Interest is the group non-controlling interest in HIE Ventures Ltd.

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 2023**

	Revaluation reserve	Other reserve	Pension reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000
Balance at 1 April 2021	2,061	2	(60,580)	19,395	(39,122)
Net expenditure during the year	-	-	-	(78,978)	(78,978)
Actuarial Gain in retirement benefit scheme	-	-	16,025	-	16,025
Net gains on revaluation of property, plant and equipment	1,852	2	-	-	1,854
Transfers between reserves	-	-	(2,322)	2,322	-
Total recognised income and expense for year to 31 March 2022	1,852	2	13,703	(76,656)	(61,099)
Grant in Aid from Scottish Government	-	-	-	84,710	84,710
Balance at 31 March 2022	3,913	4	(46,877)	27,449	(15,511)
Adjustment on transition to IFRS 16	(1,399)	-	-	-	(1,399)
Adjusted Balance at 31 March 2022	2,514	4	(46,877)	27,449	(16,910)
Net expenditure during the year	-	-	-	(72,587)	(72,587)
Actuarial gains recognised in retirement benefit scheme and asset ceiling adjustment	-	-	11,132	-	11,132
Net gains on revaluation of property, plant and equipment	857	10	-	-	867
Transfers between reserves	-	-	(4,383)	4,383	-
Total recognised income and expense for year to 31 March 2023	857	10	6,749	(68,204)	(60,588)
Grant in Aid from Scottish Government	-	-	-	76,362	76,362
Balance at 31 March 2023	3,371	14	(40,128)	35,607	(1,136)

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 £14k (2022 £4k).

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

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

NOTES TO THE ACCOUNTS

1. Accounting policies

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the 2022/23 Government Financial Reporting Manual (FReM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990.

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

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

- property (note 11)
- financial assets (note 14)
- assets classified as held for sale (note 19)
- financial commitments (note 24)

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

GOING CONCERN

The financial statements for the year ended 31 March 2023 show a net liability position of £1.1m (Group £2.6m net assets). The position of net liabilities has arisen due to the HIE Superannuation Scheme deficit. These liabilities will be funded by the Scottish Government as they arise. The financial statements have therefore been prepared on a going concern basis.

The Board and Accountable Officer have considered HIE's Operating Plan requirement and consider that the budget awarded for 2023/24 by the Scottish Government is adequate.

BASIS OF CONSOLIDATION

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

(a) Subsidiaries

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

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

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

(b) Associates and joint arrangements

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

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

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

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

(c) Other

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

ACCOUNTING FOR GRANT-IN-AID

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

EUROPEAN UNION FUNDING AND OTHER GRANTS

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

INCOME

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

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

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

EXPENDITURE

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

PROPERTY, PLANT AND EQUIPMENT

HIE has 4 categories of property, plant and equipment:

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

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

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

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: up to 60 years
- Buildings – engineering: up to 45 years
- Buildings – specialist engineering: up to 45 years
- Plant and equipment: up to 40 years
- Tenants' improvements: Remaining Lease Term
- IT equipment: 4 years

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

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

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

When revalued assets are sold, the amounts included in the Revaluation Reserve are transferred to the General Reserve. A depreciation charge is applied in the year of acquisition of an asset and no charge is made in the year in which it is disposed. The difference between depreciation based on the revalued carrying amount of the asset charged to the SOCNE and depreciation based on the asset's original cost is transferred from the Revaluation Reserve to the General Reserve.

INTANGIBLE ASSETS

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

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

FINANCIAL ASSETS - EQUITY

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

FINANCIAL ASSETS - LOANS AND RECEIVABLES

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

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

For credit exposures where there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those

credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default. For trade receivables, HIE applies the simplified approach permitted by IFRS 9 which requires lifetime losses to be recognised from initial recognition to the receivables.

INTANGIBLE ASSETS - GOODWILL

Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight-line basis over a period of 4-8 years.

ASSETS CLASSIFIED AS HELD FOR SALE

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

LEASED ASSETS

For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Group has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being 1 April 2022. At this date, the Group has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Group has applied the optional exemptions to not recognised right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 0.95%.

The Group has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

The group as a lessee

For any new contracts entered into on or after 1 April 2022, the Group considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration'. To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use.

The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

MEASUREMENT AND RECOGNITION OF LEASES AS A LESSEE

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Lease liability should be recognised based on the non-cancellable period of the lease.

The Group depreciates the right-of-use assets on a straight-line basis over the non-cancellable period of the lease. The Group also assesses the right-of-use asset for impairment where such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or Statement of Comprehensive Net Expenditure if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments

in relation to these are recognised as expense in the Statement of Comprehensive Net Expenditure on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

The group as a lessor

The Group's accounting policy under IFRS 16 has not changed from the comparative period.

As a lessor, the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of the underlying asset, and classified as an operating lease if it does not.

At lease commencement date, the Group recognises a lease receivable and a lease liability on the Statement of Financial Position.

The Lease Receivable is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). The Lease liability should be recognised based on the non-cancellable period of the lease.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are any changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the lease receivable, or Statement of Comprehensive Net Expenditure if the lease receivable is already reduced to zero.

The Group has elected to account for short-term leases of low-value assets using the practical expedients. Instead of recognising a lease receivable and lease liability, the payments in relation to these are recognised as expense in the Statement of Comprehensive Net Expenditure on a straight-line basis over the lease term.

On the Statement of Financial Position, the non-current amounts for leases receivables have been included in Non-Current Assets, the current lease receivables have been included in Current Assets, current lease liabilities have been included in current liabilities and non-current lease liabilities have been included in Non- Current Liabilities.

IRRECOVERABLE INCOME

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

RESEARCH EXPENDITURE

All research expenditure is charged in the year it occurs.

INSURANCE

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

TAXATION

The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2021 have been agreed with the relevant tax authorities.

EMPLOYEE BENEFITS

Retirement benefits

Most staff are members of the Highlands and Islands Enterprise Superannuation Scheme or Local Government Pension Schemes. The Highlands and Islands Enterprise superannuation scheme is a defined benefits scheme based on career average salary. The appointed actuary for the scheme is Spence and Partners. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension schemes are defined benefit schemes, the assets of which are held in independently administered funds.

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

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

Additional information is disclosed in note 22.

Short-term employee benefits

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

TRADE RECEIVABLES AND PAYABLES

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

CASH AND CASH EQUIVALENTS

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

PROVISIONS

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

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

NEW ACCOUNTING STANDARDS

The Group has adopted the new accounting pronouncements which have become effective this year, and are as follows:

IFRS 16 'LEASES'

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three interpretations (IFRIC 4 'Determining whether an arrangement contains a Lease', SIC 15 'Operating Leases-Incentives' and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease').

The adoption of this new Standard has resulted in the Group recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 April 2022:

	CARRYING AMOUNT AT 31 MARCH 2022	REMEASUREMENT	IFRS16 CARRYING AMOUNTS AT 1 APRIL 2022
	£000	£000	£000
Property, plant and equipment	34,229	10,245	44,474
Lease receivables		4,260	4,260
Lease liabilities		(15,903)	(15,903)
Dilapidations provision			-
Revaluation reserve	(3,913)	1,268	(2,645)
Total	30,316	(130)	30,186

The following is a reconciliation of total operating lease commitments at 31 March 2022 (as disclosed in the financial statements to 31 March 2022) to the lease liabilities recognised at 1 April 2022.

	£000
Total operating lease commitments disclosed at 31 March 2022	906
Operating lease liabilities	10,092
Finance lease liabilities	4,245
Total lease liabilities recognised under IFRS 16 at 1 April 2022	15,243

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

- Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and Definition of Accounting Estimates (Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors). The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies.
- Deferred Tax related to Assets and Liabilities arising from a single transaction (Amendment to IAS 12). These amendments require recognition of deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.
- Initial application of IFRS 17 – Comparative Information (Amendments to IFRS 17) - Insurance contracts

These amendments are effective for accounting periods beginning on or after 1 January 2023 and there is therefore no impact on the 2022/23 accounts.

2. Critical judgements made in applying accounting policies

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

Information about critical judgements in applying accounting policies, that have the most significant effects on the amounts recognised in the accounts, is as follows

(a) Retirement benefit obligations

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

- The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations.
- The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long-term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions.
- The actuary of the Highland and Islands Enterprise superannuation scheme estimates the longevity of current and future pensioners using the Vita Club CMI 2016 tables. This differs from the VitaCurves tables used by the actuary for the local government pension funds.
- When there is a surplus in the defined benefit plan the net defined benefit is measured at the lower of the surplus in the defined benefit plan and the asset ceiling. Judgement has been made to determine the asset ceiling, defined as the present value of the economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. HIE has made a judgement that it does not have an unconditional right to a refund and does not recognise economic benefit in that regard. It has made a judgment that the economic benefit through a reduction in future contributions is the present value of employer future service costs less the present value of future employer contributions, over the future working lifetime of the active scheme members, using assumptions consistent with those used to determine the defined benefit obligation at the end of the reporting period in accordance with IAS 19 Employee Benefits.

(b) Fair value of financial instruments

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

(c) Held-to-maturity investments

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

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

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

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

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

(e) EU income

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

(f) Property

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

The valuation report has been used to inform the measurement of assets in these financial statements. The valuer has continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to the Group at 31 March 2023 and can be relied upon.

(g) Provisions

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

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

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

The Statement of Financial Position of HIE at 31 March 2023 includes the following items for which there is significant risk of material adjustment in the forthcoming financial year:

ITEM	UNCERTAINTIES	EFFECT IF RESULTS DIFFER FROM ASSUMPTIONS
Pensions liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The HIE Superannuation Scheme has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.</p> <p>HIE has incorporated actuarial assumptions which are unbiased, mutually compatible and represent the best estimate of the variables which are used to measure the scheme liabilities. At 31 March 2023, after recognising the effect of the asset ceiling, HIE's pension schemes had a net liability £40.13m nil (2022: net liability £46.88 million).</p>	<p>The impact of changes in assumptions used to calculate the pension liability has been assessed by the actuaries as described in note 22.</p>

4. Segmental information

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

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2022 and 2023 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the group net operating cost before taxation.

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

SEGMENTAL INFORMATION		
	2023	2022
	£000	£000
Expenditure		
Block A		
Discretionary spend	19,481	16,518
Priority Investment	36,564	35,799
Business support	6,717	7,103
Cairngorm Mountain (Scotland) Limited	1,824	1,771
WES	4,242	6,026
Total Block A	68,828	67,217
Block B		
Management, staff and administration cost	15,300	15,660
Total Block B	15,300	15,660
Total Gross Expenditure	84,128	82,877
Income		
Loan repayments	126	847
Equity sales	-	2,500
Property sales	1,814	753
Property rental	2,594	2,143
Loan interest / dividend	172	224
Scottish Government Grant	125	441
Broadband	954	-
Other income	537	534
Total other income	6,322	7,442
Net expenditure funded by core SG income	77,806	75,435

Other income and expenditure

Expenditure		
European Funds	1,338	2,076
Community Renewal fund	200	26
Scottish Land Fund (SLF)	503	488
City Region Deal - Science Skills Academy	407	471
City Region Deal - Northern Innovation Hub	1,410	1,144
Covid Support	1,662	7,274
Orkney the Brand	158	280
Interest Payable	97	-
Expected Credit Losses	468	(1,948)
	6,243	9,811
Income		
European Funds	1,338	2,076
Community Renewal fund	200	26
Scottish Land Fund (SLF)	503	488
City Region Deal - Science Skills Academy	407	471
City Region Deal - Northern Innovation Hub	1,410	1,144
Orkney the Brand	158	280
	4,016	4,485
Financial position (I&E)	80,033	80,761
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	(80,033)	(80,761)
Pension (IAS19)	(4,383)	(2,322)
Depreciation	(1,807)	(1,006)
Amortisation	(391)	(351)
Provisions and charges	10,660	5,939
Property cost of sales	(1,221)	(665)
Capital revaluation and additions	642	1,071
IFRS 16 opening adjustment	4,260	-
Exchange Rate movements	265	-
Taxation provision and charges	-	-
Associate companies	(282)	66
Consolidation adjustments	911	871
Group net operating cost before taxation	(71,379)	(77,158)

5. Income from operating activities

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

5. INCOME FROM OPERATING ACTIVITIES				
	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Income from Activities				
Property rentals	2,567	2,130	2,594	2,142
Surplus on disposal of property	630	88	593	88
Surplus on disposal of investments	-	500	-	500
	3,197	2,718	3,187	2,730
Other Income				
Other European contributions	1,568	2,098	1,568	2,098
Scottish Government receipts	210	570	210	570
Other external income	10,710	5,701	6,001	3,561
	12,488	8,369	7,779	6,229

6. Expenditure on operating activities

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

	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2022
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	10,188	26,256	16,190	-	52,634	57,869
Cairngorm Mountain (Scotland) Limited	-	-	-	2,258	2,258	1,427
Wave Energy Scotland	5,015	-	-	-	5,015	5,156
HIE Ventures Limited	-	-	-	-	-	-
Group	15,203	26,256	16,190	2,258	59,907	64,452
2022	32,021	12,003	19,001	1,427	64,452	

Expenditure includes grants of £28,081k (2022: £35,959k) of which £399k (2022: £692k) were made to the public sector and £27,682k (2022: £35,276k) to the private sector.

Property revaluation and management costs of £19,509k (2022 £5,018k) are included within Business Support expenditure above.

	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2022
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	17,651	26,256	16,190	-	60,097	66,053
Cairngorm Mountain (Scotland) Limited	-	-	-	-	-	-
Wave Energy Scotland	-	-	-	-	-	-
HIE Ventures Limited	-	-	-	-	-	-
Highlands and Islands Enterprise	17,651	26,256	16,190	-	60,097	66,053
2022	35,049	12,003	19,001	-	66,053	

7A. ADMINISTRATION AND MANAGEMENT CHARGES BY ORGANISATION

	GROUP	
	2023	2022
	£000	£000
Highlands and Islands Enterprise	22,152	20,038
Cairngorm Mountain (Scotland) Limited	2,214	1,421
Wave Energy Scotland Limited	1,331	1,331
HIE Ventures Limited	1	1
Continuing operations	25,698	22,791

7B. ADMINISTRATION AND MANAGEMENT CHARGES

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Continuing operations				
Staff and board member salaries	15,005	13,630	13,720	12,601
IAS 19 adjustment in respect of service costs and curtailments	3,095	1,082	3,095	1,082
	18,100	14,712	16,815	13,683
Travel and subsistence - board members	10	1	10	1
Travel and subsistence - staff	343	105	285	79
Accommodation	719	1,053	459	983
Hospitality – staff	13	-	13	-
Audit fees - current year	204	163	188	144
Audit fees - prior year rebate	(8)	-	(8)	-
Non-audit fees paid to auditors	3	-	-	-
Operating lease rentals – equipment	63	46	15	17
Plant and equipment revaluations	34	-	34	-
Equipment and furnishings	17	14	17	14
Provision for irrecoverable debts and losses and write off of debts	(344)	13	(344)	13
Movement in investment provisions and write off of investments	506	(1,933)	506	(1,933)
Investment fair value adjustments	(22)	19	(2)	12
Other provisions	748	4,307	748	4,307
Other administration costs	3,148	2,934	1,486	1,618
	5,434	6,722	3,407	5,255
Depreciation of fixed assets	1,773	1,006	1,563	887
Amortisation of intangible assets	391	351	391	351
	2,164	1,357	1,954	1,238
Total administration and management charges	25,698	22,791	22,176	20,176

Fees chargeable for audit services provided by Audit Scotland, net of credits for prior year audit services, amounted to £180k (2022 £144k).

Details of staff and board members' salaries, including staff numbers can be found in the Remuneration and staff report (p54).

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

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Interest receivable				
Loan interest receivable	(152)	(195)	(152)	(195)
Bank interest receivable	(34)	(1)	(22)	(1)
Lease interest receivable	(20)	-	(20)	-
	(206)	(196)	(194)	(196)
Other finance (income) / charges				
Interest income on retirement benefit assets	(3,879)	(2,763)	(3,879)	(2,763)
Interest on retirement benefit scheme obligations	5,167	4,003	5,167	4,003
	1,288	1,240	1,288	1,240

9. FINANCE COSTS

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Interest expense for borrowings at amortised cost	(38)	24	(6)	6
Interest expense for leasing arrangements	133	-	127	-
	95	24	121	6

10. Taxation

Corporation tax is charged at 19% (2022: 19%) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10% and 20% on the taxable incomes of its subsidiaries.

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

10. TAXATION				
	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Current tax				
Current tax on profits for the year	-	-	-	-
Adjustment in respect of prior years	-	-	-	-
Total current tax	-	-	-	-
Deferred tax				
Current year	185	209	185	209
Adjustment in respect of previous periods	(178)	(153)	(178)	(153)
Effect of changes in tax rates	58	602	58	602
Total deferred tax	65	658	65	658
Tax per statement of comprehensive net expenditure	65	658	65	658
Factors affecting tax charge for the period				
Net expenditure after interest	71,379	77,158	72,522	78,320
Tax on loss at 19% (2022 19%)	(13,562)	(14,660)	(13,779)	(14,881)
Tax under/(over) provided in previous years	(178)	(153)	(178)	(153)
Non taxable income and disallowable expenditure	13,822	14,848	14,039	15,069
Effect of changes in Tax Rates	58	602	58	602
Revaluation	(75)	21	(75)	21
Current tax charge	65	658	65	658

11. Property, plant and equipment

Land and buildings held for industrial and commercial use, were valued at 31 March 2023 on a fair value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald chartered surveyors and had a total value of £30.1m (2022: £34.1m).

PROPERTY PLANT AND EQUIPMENT - GROUP								
	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2021	24,184	3,480	175	27,839	1,319	566	7,637	37,361
Additions	3,862	349	13,063	17,274	13	58	1,127	18,472
Write down	-	-	-	-	-	-	-	-
Disposals	(66)	-	-	(66)	(1,237)	-	(19)	(1,322)
Reclassifications	(880)	-	-	(880)	-	-	-	(880)
Revaluations	(1,511)	50	-	(1,461)	-	-	235	(1,226)
Impairment	20	-	(12,178)	(12,158)	-	-	-	(12,158)
At 31 March 2022	25,609	3,879	1,060	30,548	95	624	8,980	40,247
Depreciation								
At 1 April 2021	-	-	-	-	1,234	350	3,412	4,996
Charged in year	243	45	-	288	8	119	520	935
Write down	-	-	-	-	-	-	71	71
Disposals	-	-	-	-	(1,200)	-	(8)	(1,208)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(243)	(45)	-	(288)	-	-	-	(288)
At 31 March 2022	-	-	-	-	42	469	3,995	4,506
Net Book Value								
At 31 March 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741
At 1 April 2022	25,609	3,879	1,060	30,548	95	624	8,980	40,247
Adjustment on transition to IFRS16	10,420	-	(175)	10,245	-	-	-	10,245
Additions	272	12	18,037	18,321	4	31	1,244	19,600
Write down	-	-	-	-	-	-	-	-
Reclassifications	(719)	1,423	(1,000)	(296)	-	-	(1,423)	(1,719)
Disposals	(90)	-	-	(90)	-	(3)	(72)	(165)
Revaluations	(1,473)	(263)	-	(1,736)	-	-	11	(1,725)
Impairment	-	-	(17,922)	(17,922)	-	-	-	(17,922)
At 31 March 2023	34,019	5,051	-	39,070	99	652	8,740	48,561

Depreciation									
At 1 April 2022	-	-	-	-	42	469	3,995	4,506	
Charged in year	946	61	-	1,007	31	129	606	1,773	
Write down	-	-	-	-	-	-	-	-	
Disposals	-	-	-	-	-	(2)	(51)	(53)	
Reclassifications	-	-	-	-	-	-	-	-	
Revaluations	(236)	(49)	-	(285)	-	-	(633)	(918)	
At 31 March 2023	710	12	-	722	73	596	3,917	5,308	

Net Book Value									
At 31 March 2023	33,309	5,039	-	38,348	26	56	4,823	43,253	
At 1 April 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741	
At 1 April 2021	24,184	3,480	175	27,839	85	216	4,225	32,365	

Analysis of asset financing:

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	25,309	3,879	1,060	30,248	53	155	4,985	35,441
Finance leased	300	-	-	300	-	-	-	300

Net Book Value									
At 1 April 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741	
Owned	33,309	5,039	-	38,348	26	56	4,823	43,253	
Finance leased	-	-	-	-	-	-	-	-	

Net Book Value									
At 31 March 2023	33,309	5,039	-	38,348	26	56	4,823	43,253	
At 1 April 2022	25,609	3,879	1,060	30,548	53	155	4,985	35,741	
At 1 April 2021	24,184	3,480	175	27,839	85	216	4,225	32,365	

PROPERTY PLANT AND EQUIPMENT - HIE

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2021	24,186	3,480	175	27,841	1,319	567	6,798	36,525
Additions	3,862	349	13,063	17,274	13	52	73	17,412
Write down	-	-	-	-	-	-	-	-
Disposals	(66)	-	-	(66)	(1,237)	-	-	(1,303)
Reclassifications	(880)	-	-	(880)	-	-	-	(880)
Revaluations	(1,491)	50	-	(1,441)	-	-	235	(1,206)
Impairment	-	-	(12,178)	(12,178)	-	-	-	(12,178)
At 31 March 2022	25,611	3,879	1,060	30,550	95	619	7,106	38,370
Depreciation								
At 1 April 2021	-	-	-	-	1,234	351	3,156	4,741
Charged in year	243	45	-	288	8	119	401	816
Write down	-	-	-	-	-	-	71	71
Disposals	-	-	-	-	(1,200)	-	-	(1,200)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(243)	(45)	-	(288)	-	-	-	(288)
At 31 March 2022	-	-	-	-	42	470	3,628	4,140
Net Book Value								
At 31 March 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
At 1 April 2022	25,611	3,879	1,060	30,550	95	619	7,106	38,370
Adjustment on transition to IFRS16	10,420	-	(175)	10,245	-	-	-	10,245
Additions	272	12	18,037	18,321	4	31	67	18,423
Write down	-	-	-	-	-	-	-	-
Reclassifications	(719)	-	(1,000)	(1,719)	-	-	-	(1,719)
Disposals	(90)	-	-	(90)	-	(3)	(44)	(137)
Revaluations	(1,473)	(263)	-	(1,736)	-	-	11	(1,725)
Impairment	-	-	(17,922)	(17,922)	-	-	-	(17,922)
At 31 March 2023	34,021	3,628	-	37,649	99	647	7,140	45,535

Depreciation								
At 1 April 2022	-	-	-	-	42	470	3,628	4,140
Charged in year	946	49	-	995	31	128	409	1,563
Write down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(2)	(25)	(27)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(236)	(49)	-	(285)	-	-	(633)	(918)
At 31 March 2023	710	-	-	710	73	596	3,379	4,758

Net Book Value								
At 31 March 2023	33,311	3,628	-	36,939	26	51	3,761	40,777
At 1 April 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
At 1 April 2021	24,186	3,480	175	27,841	85	216	3,642	31,784

Analysis of asset financing:

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	25,311	3,879	1,060	30,250	53	149	3,478	33,930
Finance leased	300	-	-	300	-	-	-	300

Net Book Value								
At 31 March 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
Owned	33,311	3,628	-	36,939	26	51	3,761	40,777
Finance leased	-	-	-	-	-	-	-	-

Net Book Value								
At 31 March 2023	33,311	3,628	-	36,939	26	51	3,761	40,777
At 1 April 2022	25,611	3,879	1,060	30,550	53	149	3,478	34,230
At 1 April 2021	24,186	3,480	175	27,841	85	216	3,642	31,784

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

RECONCILIATION OF PROFIT ON SALES:

	GROUP	
	2023	2022
	£000	£000
Sales value of disposals	1,854	753
Net book value of disposals	(1,224)	(665)
Profit on sales	630	88

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

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Government Grant in Aid	19,045	17,861	17,868	16,801
EU and other income	555	611	555	611
Total	19,600	18,472	18,423	17,412

12. Leases

The Group has leases for land and offices. With the exception of short term leases and leases of low-value underlying assets, each lease is reflected on the Statement of Financial Position as a right-of-use asset and a lease liability.

The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (Note 11).

Leases of property generally have a lease term ranging from 2 years to 95 years. Lease payments are generally fixed however the Group a limited number of property leases where rentals are linked to annual changes in an index (either RPI or CPI).

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee.

For leases over office buildings the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on the Statement of Financial Position.

RIGHT-OF-USE ASSET	NO OF RIGHT-OF-USE ASSETS LEASED	RANGE OF REMAINING TERM	AVERAGE REMAINING LEASE TERM	NO OF LEASES WITH VARIABLE PAYMENTS LINKED TO INDEX
Property	14	1-95	21	6

There are no leases with options to purchase or termination options.

RIGHT-OF-USE ASSETS

Additional information on the right-of-use assets by class of assets is as follows:

	ASSET
	£000
Right of use asset	Property
At 1 April 2022	-
Transition to IFRS on 1 April 2022	11,644
Additions	-
Disposals	-
Remeasurement	-
Impairment	-
At 31 March 2023	11,644
Depreciation	
At 1 April 2022	-
Charge for the year	710
Remeasurement	-
Disposals	-
At 1 April 2022	-
At 31 March 2023	710
Carrying amount	
At 31 March 2023	10,934
At 31 March 2022	-

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

LESSOR

	2023
	£000
Current	30
Non-current	4,215
Total discounted lease receivables	4,245

FINANCE LEASE RECEIVABLES

Finance lease receivables are presented in the statement of financial position as follows:

The group has entered into various lease arrangements as a lessor that are considered to be finance leases. The group leases property and as they transfer all of the risks and rewards of ownership of the assets they are classified as finance leases.

	WITHIN 1 YEAR	2-5 YEARS	OVER 5 YEARS	TOTAL
	£000	£000	£000	£000
31 March 2023				
Lease receivable	70	282	5,701	6,053
Finance charges	(40)	(158)	(1,610)	(1,808)
Net Present values	30	124	4,091	4,245

During the year, HIE incurred £30k on expenditure related to low-value assets for which the recognition and measurement exemption is applied. There was no expenditure on short-term leases. HIE received £35k in income from sub-leasing right-of-use assets.

The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

LESSEE

	2023
	£000
Current	652
Non-current	10,346
Total discounted lease liabilities	10,998

LEASE LIABILITIES

Lease liabilities are presented in the statement of financial position as follows:

The lease liabilities are secured by the related underlying assets. There was no expenditure on short-term leases. There was no variable lease payments included in the measurement of lease liabilities. The undiscounted maturity analysis of lease liabilities at 31 March 2023 is as follows:

	WITHIN 1 YEAR	2-5 YEARS	OVER 5 YEARS	TOTAL
	£000	£000	£000	£000
31 March 2023				
Lease payments	753	1,732	10,941	13,426
Finance charges	(101)	(619)	(1,708)	(2,428)
Net Present values	652	1,113	9,233	10,998

13. Intangible assets

At 31 March 2023, HIE had an internally generated intangible asset under construction.

INTANGIBLE ASSETS - GROUP			
	Intangible assets in development	Intangible assets	Total intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2021	1,257	358	1,615
Additions	151	824	975
Reclassifications	(1,257)	1,257	-
At 31 March 2022	151	2,439	2,590
Amortisation			
At 1 April 2021	-	230	230
Charged in year	-	351	351
At 31 March 2022	-	581	581
Net Book Value			
At 31 March 2022	151	1,858	2,009
Cost or valuation			
At 1 April 2022	151	2,439	2,590
Additions	135	430	565
Disposals	-	-	-
Reclassifications	(151)	151	-
Impairment	-	-	-
At 31 March 2023	135	3,020	3,155
Amortisation			
At 1 April 2022	-	581	581
Charged in year	-	391	391
Write down	-	-	-
Disposals	-	-	-
Reclassifications	-	-	-
At 31 March 2023	-	972	972
Net Book Value			
At 31 March 2023	135	2,048	2,183
At 1 April 2022	151	1,858	2,009

INTANGIBLE ASSETS - HIE

	Intangible assets in development	Intangible assets	Total Intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2021	1,257	358	1,615
Additions	151	824	975
Reclassifications	(1,257)	1,257	-
At 31 March 2022	151	2,439	2,590
Amortisation			
At 1 April 2021	-	230	230
Charged in year	-	351	351
At 31 March 2022	-	581	581
	-		
Net Book Value			
At 31 March 2022	151	1,858	2,009
Cost or valuation			
At 1 April 2022	151	2,439	2,590
Additions	135	430	565
Disposals	-	-	-
Reclassifications	(151)	151	-
Impairment	-	-	-
At 31 March 2023	135	3,020	3,155
Amortisation			
At 1 April 2022	-	581	581
Charged in year	-	391	391
Write down	-	-	-
Disposals	-	-	-
Reclassifications	-	-	-
At 31 March 2023	-	972	972
Net Book Value			
At 31 March 2023	135	2,048	2,183
At 1 April 2022	151	1,858	2,009

14. Financial assets

FINANCIAL ASSETS - GROUP				
			2023	2022
			£000	£000
Financial assets at fair value through profit and loss				
Unlisted equity shares			27	18
Investment through membership			-	-
			27	18

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

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

LOANS AND RECEIVABLES				
	Preference shares	Loans and receivables	Total 2023	Total 2022
	£000	£000	£000	£000
Amortised cost				
At 1 April 2022	276	5,305	5,581	8,094
Additions	-	1,386	1,386	619
Repayments	-	(126)	(126)	(847)
Disposals	-	-	-	(2,000)
Fair value adjustment	-	13	13	(36)
Written off	-	(12)	(12)	(249)
At 31 March 2023	276	6,566	6,842	5,581
Diminution in value				
At 1 April 2022	276	3,115	3,391	5,573
Additions	-	541	541	89
Released	-	-	-	(2,507)
Risk premium	-	(35)	(35)	486
Written off	-	(12)	(12)	(250)
At 31 March 2023	276	3,609	3,885	3,391
Net book value				
At 31 March 2023	-	2,957	2,957	2,190
At 1 April 2022	-	2,190	2,190	
Analysis of loans and receivables				
Due within 1 year	-	687	687	277
Due over 1 year	-	2,270	2,270	1,913
	-	2,957	2,957	2,190

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

Risk premium represents the movement in risk premium in year.

FINANCIAL ASSETS - HIE

			2023	2022
			£000	£000
Financial assets at fair value through profit and loss				
Unlisted equity shares			555	545
Investment through membership			856	878
			1,411	1,423

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

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

LOANS AND RECEIVABLES

	Preference	Loans and	Total	Total
	Shares	receivables	2023	2022
	£000	£000	£000	£000
Amortised cost				
At 1 April 2022	276	5,725	6,001	8,514
Additions	-	1,386	1,386	619
Repayments	-	(126)	(126)	(847)
Disposals	-	-	-	(2,000)
Fair value adjustment	-	13	13	(36)
Written off	-	(12)	(12)	(249)
At 31 March 2023	276	6,986	7,262	6,001
Diminution in value				
At 1 April 2022	276	3,476	3,752	5,935
Additions	-	541	541	89
Released	-	-	-	(2,507)
Risk premium	-	(35)	(35)	486
Written off	-	(12)	(12)	(250)
At 31 March 2023	276	3,970	4,246	3,753
Net book value				
At 31 March 2023	-	3,016	3,016	2,248
At 1 April 2022	-	2,248	2,248	
Analysis of loans and receivables				
Due within 1 year	-	687	687	277
Due over 1 year	-	2,329	2,329	1,971
	-	3,016	3,016	2,248

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

Risk premium represents the movement in risk premium in year.

OTHER INVESTMENTS				
			2023	2022
			£000	£000
At 1 April 2022			878	850
Additions			-	20
Increase/(Decrease) in value			(22)	8
At 31 March 2023			856	878

SUBSIDIARIES

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

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

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

On 30 March 2012, 50,000 ordinary shares of £1.00 each were acquired in HIE Ventures Limited, this increased HIE's holding from 30% to 55% of the ordinary shares. HIE acquired the shares to ensure the continuity of the HIE Ventures investment fund. The non-controlling interest amounts to 45% as at 31 March 2023.

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

DETAILS OF ASSOCIATED AND JOINTLY CONTROLLED UNDERTAKINGS: ALL HELD BY HIGHLANDS AND ISLANDS ENTERPRISE UNLESS INDICATED.

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

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

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

On 9 November 2022, This is Remarkable Limited was placed in voluntary administration. The company carrying value in Group investments in associates is Nil. HIE as a member is limited. HIE is due to share in any surplus arising from administration as a member. Conversely where there is a deficit on administration as a member, HIE is liable for up to £1.00.

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

LIMITED BY SHARES				
Name of company	Country of incorporation	Accounting period end date	Percentage of potential voting rights held	Nature of business
Inverness Airport Business Park	Scotland	31 March	25%	Construction and development of a business park adjacent to Inverness airport

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

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

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

	NON CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	CURRENT LIABILITIES	NON CURRENT LIABILITIES	TOTAL LIABILITIES	REVENUE	EXPENSES	PROFIT/ (LOSS)
As at March 2021	580	2,626	3,206	(1,455)	(498)	(1,954)	1,230	(8,475)	(7,245)
As at March 2022	1,490	10,654	12,144	(3,048)	(1,383)	(4,432)	3,376	(9,403)	(6,027)
As at March 2023	2,477	9,860	12,337	(2,816)	(2,749)	(5,565)	9,331	(3,873)	5,458

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

	NON CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	CURRENT LIABILITIES	NON CURRENT LIABILITIES	TOTAL LIABILITIES	REVENUE	EXPENSES	PROFIT/ (LOSS)
As at March 2021	8,257	1,395	9,652	(2,723)	(4,455)	(7,178)	2,453	(2,699)	(246)
As at March 2022	7,804	2,607	10,411	(4,207)	(3,394)	(7,601)	2,433	(2,421)	12
As at March 2023	2,693	6,657	9,350	(2,583)	(4,558)	(7,141)	521	(600)	(79)

MOVEMENTS IN CARRYING AMOUNT OF INVESTMENT IN EQUITY ACCOUNTED INVESTEES

	£000
Carrying amount as at 1 April 2021	1,076
Investment in the year	20
Share of net profit/(Loss)	66
Carrying amount as at 31 March 2022	1,162
Carrying amount as at 1 April 2022	1,162
Share of net profit/(Loss)	(282)
Carrying amount as at 31 March 2023	880

SIGNIFICANT HOLDINGS

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

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

Name of company	Activity	Percentage of voting rights	Holding as at 31 March 2023	Share value paid £000	Original loan capital £000
Inverness Airport Business Park Limited	Construction and operation of Business park	25%	500 Class 'C' Ordinary shares	-	1,000
			24,997 Class 'D' Ordinary shares	29	-
			275,000 Redeemable Preference shares	550	-
HIE Ventures Limited	Equity investment company	55%	110,000 Ordinary Shares	61	1,000
			40,000 Class 'A' Ordinary shares	40	-
Cairngorm Mountain (Scotland Limited)	Tourism Attraction Operator	100%	1,060,952 Ordinary Shares	1,061	700
Investments in 28 other businesses				770	5,448
				2,511	8,148

15. FAIR VALUE AND IMPAIRMENTS

GROUP

	Statement of comprehensive net expenditure	Revaluation reserve	Total 2023	Total 2022
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	1,664	(857)	807	918
Intangible Assets	-	-	-	-
Financial assets	(22)	-	(22)	19
	1,642	(857)	785	937

Impairments				
Property, plant and equipment	17,922	-	17,922	12,178
Intangible Assets	-	-	-	-
Assets classified as held for sale	-	-	-	20
Financial assets	(506)	-	(506)	1,932
	17,416	-	17,416	14,130

HIE

	Statement of comprehensive net expenditure	Revaluation reserve	Total 2023	Total 2022
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	1,664	(857)	807	918
Intangible Assets	-	-	-	-
Financial assets	(2)	-	(2)	12
	1,662	(857)	805	930

Impairments				
Property, plant and equipment	17,922	-	17,922	12,178
Intangible Assets	-	-	-	-
Assets classified as held for sale	-	-	-	20
Financial assets	(506)	-	(506)	1,932
	17,416	-	17,416	14,130

16. INVENTORIES

	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Goods for resale	103	46	-	-

Goods for resale are held by Cairngorm Mountain (Scotland) Ltd and consist of café catering supplies and retail shop visitor goods.

The difference between the purchase price of inventories and the replacement cost is not material.

17. TRADE AND OTHER RECEIVABLES

	Note	GROUP			HIE
		2023	2022	2023	2022
		£000	£000	£000	£000
Trade receivables		8,639	11,483	8,430	11,477
Impairment for bad debts		(923)	(1,086)	(923)	(1,086)
		7,716	10,397	7,507	10,391
Taxation recoverable		1,499	930	1,478	844
Accrued income and prepayments		2,223	2,118	1,751	1,878
Owed by subsidiary undertakings		-	-	466	386
Loans and other receivables	14	687	277	687	277
		12,125	13,722	11,889	13,776

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

	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Balances with other central government bodies	1,595	956	1,574	870
Balances with local authorities	423	119	423	119
Balances with NHS bodies	10	-	10	-
Balances with similar public bodies	341	257	341	257
	2,369	1,332	2,348	1,246
Balances with bodies external to government	9,756	12,390	9,541	12,530
	12,125	13,722	11,889	13,776

18. CASH AND CASH EQUIVALENTS

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Balance at 1 April	10,088	2,663	381	617
Net change in cash and cash equivalent balances	(767)	7,425	507	(236)
Balance as at 31 March	9,321	10,088	888	381
	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Commercial funds	9,209	9,814	776	107
Deposits held	-	163	-	163
Other scheme funds held	112	111	112	111
	9,321	10,088	888	381

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

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Community Broadband Scotland	112	111	112	111
	112	111	112	111

19. Assets classified as held for resale

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

ASSETS CLASSIFIED AS HELD FOR RESALE - GROUP				
	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2021	1,701	-	-	1,701
Transfers to/(from) assets held for resale	882	-	-	882
Disposals of non current assets held for sale	(548)	-	-	(548)
Other costs associated with sale of assets	(40)	-	-	(40)
Impairment recognised on remeasurement	(20)	-	-	(20)
At 31 March 2022	1,975	-	-	1,975
	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2022	1,975	-	-	1,975
Transfers to/(from) assets held for resale	1,729	-	-	1,729
Disposals of non current assets held for sale	(1,075)	-	-	(1,075)
Other costs associated with sale of assets	(38)	-	-	(38)
Impairment recognised on remeasurement	-	-	-	-
At 31 March 2023	2,591	-	-	2,591

During the year it was decided that 3 assets (2022: 2) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

ASSETS CLASSIFIED AS HELD FOR RESALE - HIE

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

	Land and Buildings	Plant and Equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2022	1,975	-	-	1,975
Transfers to/(from) assets held for resale	1,729	-	-	1,729
Disposals of non current assets held for sale	(1,075)	-	-	(1,075)
Other costs associated with sale of assets	(38)	-	-	(38)
Impairment recognised on remeasurement	-	-	-	-
At 31 March 2023	2,591	-	-	2,591

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

	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Trade payables	5,183	5,949	3,966	5,045
Accruals and deferred income	3,634	4,131	1,327	2,614
Prepaid rental income	297	388	297	388
Owed to subsidiary undertakings	-	-	534	518
	9,114	10,468	6,124	8,565
Taxation and social security	543	526	457	434
Corporation tax	-	-	-	-
	543	526	457	434
	9,657	10,994	6,581	8,999

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

	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Balances with other central government bodies	643	460	550	326
Balances with local authorities	87	170	87	170
Balances with similar public bodies	243	770	243	352
	973	1,400	880	848
Balances with bodies external to government	8,684	9,594	5,701	8,151
	9,657	10,994	6,581	8,999

AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP			HIE
	2023	2022	2023	2022
	£000	£000	£000	£000
Deferred income	3,897	6,520	0	176
Scottish Government	2,176	1,433	2,176	1,433
Deferred tax	2,574	2,508	2,574	2,508
	8,647	10,461	4,750	4,117

21. PROVISIONS GROUP

GROUP			
	Tax	Construction costs	Total
	£000	£000	£000
As at 1 April 2021	44	17,057	17,101
Increase during the year	-	4,351	4,351
Released during the year	-	(10,125)	(10,125)
Reversed during the year	(44)	-	(44)
At 31 March 2022	-	11,283	11,283
Timing of provisions			
Due within 1 year	-	11,098	11,098
Due over 1 year	-	185	185
	-	11,283	11,283

GROUP			
	Dilapidations	Construction costs	Total
	£000	£000	£000
As at 1 April 2022		11,283	11,283
Recognised on transition to IFRS 16	748	-	748
Released during the year	-	(11,283)	(11,283)
At 31 March 2023	748	-	748
Timing of provisions			
Due within 1 year	-	-	-
Due over 1 year	748	-	748
	748	-	748

TAX PROVISION

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

CONSTRUCTION COSTS

This provision related to a programme of engineering works to reinstate the Cairngorm funicular railway. The works were completed during the winter of 2022/23.

DILAPIDATIONS

This provision relates to future dilapidation charges on nine leased properties.

21. PROVISIONS HIE

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

Timing of provisions			
Due within 1 year	-	11,098	11,098
Due over 1 year	-	185	185
	-	11,283	11,283

			HIE
	Dilapidations	Construction costs	Total
	£000	£000	£000
As at 1 April 2022	-	11,283	11,283
Recognised on transition to IFRS 16	748	-	748
Released during the year	-	(11,283)	(11,283)
At 31 March 2023	748	-	748

Timing of provisions			
Due within 1 year	-	-	-
Due over 1 year	748	-	748
	748	-	748

TAX PROVISION

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

CONSTRUCTION COSTS

This provision related to a programme of engineering works to reinstate the Cairngorm funicular railway. The programme was completed during the winter of 2022/23.

DILAPIDATIONS

This provision relates to future dilapidation charges on nine leased properties.

22. Retirement benefit obligation

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

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

The retirement age for members in the superannuation scheme prior to 1 August 2014 is age 60. After this date, for all new entrants in the scheme, retirement age is 65. This changed again from 1 September 2016, the retirement age is now in line with the members' state pension age. The employee contribution rate is 6% of pensionable salary. The employer pays 27.9%.

Some employees are members of the Local Government Pension Scheme (LGPS). In April 2022, we had 24 employees, of which 13 were in the Highland Council pension fund (1 member retired 31 January 2023), 4 in the Orkney Islands Council pension fund, and 6 in the Strathclyde pension fund. Shetland Islands Council pension fund does not have any active members but does still have deferred and pensioners. The LGPS schemes are all now closed schemes. All new starts join the HIE Pension Scheme.

On 1 November 2022 Orkney Islands Council, and Strathclyde pension fund members were transferred into the Highland Council pension scheme. There are now 22 members in the Highland Council Pension Fund. Shetland Island Council deferred and Pensioners were also transferred.

The LGPS is also a defined benefit scheme based on CARE, a pension of 1/49 of pensionable salary for each year of service accrued. Prior to 1 April 2015 this was based on final pensionable salary.

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

The pension scheme operated by Wave Energy Scotland is the National Employment Savings Trust (NEST) which is a trust based defined contribution scheme. Further information about WES pension arrangements can be found in that company's Annual Report and Accounts.

The Pension scheme operated by Cairngorm Mountain (Scotland) Limited is a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. Further information about CM(S)L pension arrangements can be found in that company's Annual Report and Accounts.

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

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

HIGHLANDS AND ISLANDS ENTERPRISE SUPERANNUATION SCHEME

The IAS 19 valuation at 31 March 2023, indicated a potential deficit of £40.1 million in the HIE pension fund.

In December 2013 HIE, with agreement of the HIE Pension Fund Trustees and Scottish Government implemented a recovery plan to address the actuarial shortfall. The plan was updated in December 2018 and further updated in April 2021 to:

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

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

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

A full actuarial valuation was carried out at 5 April 2021 and updated to 31 March 2023 by a qualified independent actuary.

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

AT 31 MARCH	2023	2022	2021	2020	2019
Main assumptions:					
Rate of salary increases (% per annum)	3.50%	2.50%	2.50%	3.00%	3.45%
Rate of pension increase CPI (% per annum)	3.07%	3.33%	2.87%	1.92%	2.45%
Discount rate (% per annum)	4.73%	2.73%	2.03%	2.44%	2.40%

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

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

THE ASSETS IN THE SCHEME AND EXPECTED RATE OF RETURN WERE:					
Value as at 31 March	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
Equities	44,887	76,592	69,560	55,074	70,318
Gilts	24,344	28,253	25,756	23,911	16,127
Bonds	-	-	-	-	-
Property	8,222	9,777	8,859	8,638	8,438
Cash	2,669	2,633	7,530	8,076	2,880
Employer assets	80,122	117,255	111,705	95,699	97,763
Present value of scheme liabilities	(120,249)	(162,646)	(168,790)	(134,576)	(139,518)
Deficit in the scheme	(40,127)	(45,391)	(57,085)	(38,877)	(41,755)
Related deferred tax asset/ (liability)	-	-	-	-	-
Net pension asset/ (liability)	(40,127)	(45,391)	(57,085)	(38,877)	(41,755)

The current values show a decrease in the deficit from 31 March 2022 of £5.3m to £40.1m at 31 March 2023.

LOCAL GOVERNMENT PENSION FUNDS

The IAS 19 valuation at 31 March 2023, indicated an asset of £6m in the LGPS pension funds. To comply with the IAS 19 criteria for recognising a pension surplus, there is no LGPS pension funds surplus recognised.

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

A full actuarial valuation was made at 31 March 2020 and updated to 31 March 2023 by a qualified independent actuary.

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

AT 31 MARCH	2023	2022	2021	2020	2019
Main assumptions:					
Rate of salary increases (% per annum)	3.50%	2.50%	2.59%	3.00%	3.45%
Rate of pension increase CPI (% per annum)	3.07%	3.33%	2.87%	1.92%	2.45%
Discount rate (% per annum)	4.73%	2.73%	2.02%	2.44%	2.40%

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

THE ASSETS IN THE SCHEME AND EXPECTED RATE OF RETURN WERE:					
Value at 31 March	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
Equities	14,193	17,667	18,269	12,997	13,896
Gilts	1,798	671	287	273	130
Bonds	2,137	3,596	2,641	2,829	2,975
Property	5,544	2,677	1,834	1,705	1,692
Cash	1,365	921	1,370	1,135	703
Employer assets	25,037	25,532	24,401	18,939	19,396
Present value of scheme liabilities	(18,422)	(26,289)	(27,123)	(21,367)	(24,088)
Present value of unfunded liabilities	(605)	(729)	(772)	(679)	(787)
Deficit in the scheme	6,010	(1,486)	(3,494)	(3,107)	(5,479)
Related deferred tax liability	-	-	-	-	-
Net pension asset / (liability)	6,010	(1,486)	(3,494)	(3,107)	(5,479)

The pension contributions with effect from 1 April 2023 for the local government pension funds are:

	2023	2022			
Highland Council Pension Fund	35.3%	30.1%			
Orkney Islands Council Pension Fund	*	17.0%			
Strathclyde Pension Fund	*	33.6%			

* All members transferred into Highland Council Pension Fund on 1 November 2022

HIE paid £32k for unfunded pension contributions in 2022/23 for the Shetland Islands Council Pension Fund.

RETIREMENT BENEFIT OBLIGATION - GROUP AND HIE

	HIE	LGPS	Total	HIE	LGPS	Total
	2023	2023	2023	2022	2022	2022
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SOCNE						
Current service cost	3,733	565	4,298	4,216	605	4,821
Past service cost	-	-	-	-	-	-
Admin expenses	267	-	267	189	-	189
Interest income on retirement benefit assets	(3,189)	(690)	(3,879)	(2,267)	(496)	(2,763)
Interest on retirement benefit scheme obligations	4,432	735	5,167	3,436	567	4,003
Net pension scheme expense	5,243	610	5,853	5,574	676	6,250
Analysis of the amount recognised in SOCNE						
Actual return less expected return on pension scheme assets	(39,448)	(1,360)	(40,808)	3,339	464	3,803
Experience gains and (losses) arising on the scheme liabilities	(12,300)	(1,126)	(13,426)	(5,201)	(30)	(5,231)
Effect of ceding limitation on net defined benefit asset	-	(6,010)	(6,010)	-	-	-
Changes in financial assumptions underlying the present value of the scheme liabilities	58,560	12,816	71,376	15,740	1,713	17,453
Defined benefit income/(cost) recognised in SOCNE	6,812	4,320	11,132	13,878	2,147	16,025
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	162,646	27,018	189,664	168,790	27,895	196,685
Movement in year						
Current Service costs	4,000	565	4,565	4,405	605	5,010
Contributions by members	650	90	740	628	93	721
Effect of business combinations and disposals	-	2,783	2,783	-	-	-
Unfunded benefits paid	-	(34)	(34)	-	(32)	(32)
Benefits paid	(5,219)	(440)	(5,659)	(4,074)	(427)	(4,501)
Interest cost	4,432	735	5,167	3,436	567	4,003
Actuarial losses/(gains)	(46,260)	(11,690)	(57,950)	(10,539)	(1,683)	(12,222)
Closing defined benefit obligation	120,249	19,027	139,276	162,646	27,018	189,664
Present value of funded liabilities						
Present value of funded liabilities	120,249	18,422	138,671	162,646	26,289	188,935
Present value of unfunded liabilities	-	605	605	-	729	729
Reconciliation of fair value of assets						
Opening fair value of assets	117,255	25,532	142,787	111,704	24,401	136,105
Movement in year						
Expected return on assets	3,189	690	3,879	2,267	496	2,763
Contributions by members	650	90	740	628	93	721
Contributions by employer	3,694	525	4,219	3,391	505	3,896
Contribution in respect of unfunded benefits	-	34	34	-	32	32
Effect of business combinations and disposals	-	-	-	-	-	-
Actuarial gains/(losses)	(39,448)	(1,360)	(40,808)	3,339	464	3,803
Unfunded benefits paid	-	(34)	(34)	-	(32)	(32)
Benefits paid	(5,219)	(440)	(5,659)	(4,074)	(427)	(4,501)
Closing fair value of assets	80,121	25,037	105,158	117,255	25,532	142,787
Net pension asset / (liability)						
Net pension asset / (liability)	(40,128)	6,010	(34,118)	(45,391)	(1,486)	(46,877)
Estimated employer contributions for the year ended 31 March 2024						
Estimated employer contributions for the year ended 31 March 2024	3,940	531	4,471	5,091	505	5,596

Expenditure recognised in the Statement of Comprehensive Net Expenditure

	2023	2022
	£000	£000
Net management expenditure on staff costs	3,095	1,082
Other finance charges/(income)	1,288	1,240

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

	HIE				
	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	(39,448)	3,339	13,912	(5,035)	2,497
Value of assets	80,121	117,255	111,704	95,699	97,763
Percentage of scheme assets	(49.2)%	2.8%	12.5%	(5.3)%	2.6%
Experience gains and (losses) on scheme liabilities	(12,300)	(5,201)	2,324	(5,227)	1,269
Present value of liabilities	(120,249)	(162,646)	(168,790)	(134,576)	(139,518)
Percentage of scheme liabilities	10.2%	3.2%	(1.4)%	3.9%	(0.9)%
	LGPS				
	2023	2022	2021	2020	2019
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	(1,360)	464	4,791	(1,270)	676
Value of assets	25,037	25,532	24,401	18,939	19,396
Percentage of scheme assets	(5.4)%	1.8%	19.6%	(6.7)%	3.5%
Experience gains and (losses) on scheme liabilities	(1,126)	(30)	(7)	128	(26)
Present value of liabilities	(19,027)	(27,018)	(27,895)	(22,046)	(25,071)
Percentage of scheme liabilities	5.9%	0.1%	0.0%	(0.6)%	0.1%

The total gain amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £17,142k gain (2021/22 £16,025k gain).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £7,552k (2021/22 £24,694k loss).

EFFECT OF ASSET CEILING LIMITATION ON NET LIABILITY

The net defined benefit asset at 31 March 2023 has been measured at the lower of the surplus in the defined benefit plan and the asset ceiling. In deriving the asset ceiling, assumptions have been made on the present value of the economic benefits available in the form of refunds from the plan and reductions in future contributions to the plan. No economic benefit has been recognised with regards to a refund as it is an entitlement which is not wholly within HIE's control. The economic benefit associated with a reduction in future contributions, recognising a minimum funding requirement for future service, has been estimated as the present value of employer future service costs less the present value of future employer contributions. This economic benefit, however, cannot be reduced below zero where the present value of future employer contributions exceed the present value of future service costs.

Using assumptions consistent with those used to determine the defined benefit obligation at 31 March 2023, the asset ceiling has been valued at £nil, recognising the following:

- Net present value of employer future service costs: £2.24 million
- Net present value of employer future contributions: £3.81 million

EFFECT OF ASSET CEILING LIMITATION ON NET LIABILITY		
	2023	2022
	£000	£000
Present value of funded defined benefit obligations	(138,671)	(188,935)
Future value of plan assets	105,158	142,787
	(33,513)	(46,148)
Present value of unfunded obligations	(605)	(729)
Net liability	(34,118)	(46,877)
Effect of asset ceiling limitation on net liability		
Net liability	(34,118)	(46,877)
Effect of asset ceiling limitation on net defined benefit asset	(6,010)	-
At 31 March	(40,128)	(46,877)

MORTALITY

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

	HIE		LGPS	
	2023	2022	2023	2022
	Years	Years	Years	Years
1. Male member aged 65 (current life expectancy)	22.6	22.6	20.4	20.6
2. Male member age 45 (life expectancy at 65)	23.6	23.5	21.6	22.0
3. Female member aged 65 (current life expectancy)	24.6	24.5	23.1	23.1
4. Female member aged 45 (life expectancy at 65)	26.4	26.3	25.0	25.2

Defined benefit obligation analysed by participant status:

HIE				
	2023		2022	
	%	£000	%	£000
Active members	33.0%	39,682	38.0%	61,805
Vested deferred members	18.7%	22,487	22.8%	37,083
Retired members	48.3%	58,080	39.2%	63,758
		120,249		162,646
LGPS				
	2023		2022	
	%	£000	%	£000
Active members	59.8%	11,380	60.1%	16,236
Vested deferred members	21.4%	4,068	23.7%	6,392
Retired members	18.8%	3,579	16.2%	4,390
		19,027		27,018

SENSITIVITY ANALYSIS

HIE				
	2023		2022	
	%	£000	%	£000
0.5% decrease in real discount rate	8.8%	10,582	10.8%	17,566
1 Year increase in member life expectancy	3.2%	3,848	4.1%	6,668
0.5% increase in the salary increase rate	0.5%	601	0.7%	1,139
0.5% increase in pension increase rate	6.8%	8,177	8.2%	13,337

LGPS				
	2023		2022	
	%	£000	%	£000
0.1% decrease in real discount rate	2.0%	359	1.9%	514
1 Year increase in member life expectancy	4.0%	761	4.0%	1,081
0.1% increase in the salary increase rate	0.0%	43	0.2%	59
0.1% increase in pension increase rate	2.0%	321	1.7%	453

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

RISKS

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

Asset volatility

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

Changes in bond yields

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

Inflation risk

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

Life expectancy

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

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

23. COMMITMENTS

	GROUP		HIE	
	2023	2022	2023	2022
	£000	£000	£000	£000
Commitments				
Property	23,603	15,067	23,603	15,067
Grants and loans	57,510	68,119	56,870	66,524

LIFE EXPECTANCY

	HIE	LGPS
	Years	Years
Weighted average duration of defined benefit obligation	17.3	21

24. Financial commitments

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

FUTURE MINIMUM RENTALS RECEIVABLE UNDER NON-CANCELLABLE OPERATING LEASES				
GROUP				
	Property	Plant and Equipment	Total 2023	Total 2022
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	1,681	202	1,883	1,793
Within two to five years	4,411	798	5,209	5,430
In over five years	5,698	1,061	6,759	4,434
	11,790	2,061	13,851	11,657
HIE				
	Property	Plant and Equipment	Total 2023	Total 2022
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	1,681	202	1,883	1,793
Within two to five years	4,411	798	5,209	5,430
In over five years	5,698	1,061	6,759	4,434
	11,790	2,061	13,851	11,657

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 2023 is £20k (2022 £24k).

Highlands and Islands holds office and manufacturing buildings for the purpose of economic development, which are let to third parties. These non-cancellable leases have remaining terms between 1 and 49 years.

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

25. Contingent liabilities

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

HIE has liability to decommission the Sutherland space port site at the end of the site's useful life. Arrangements are in place between HIE's tenant and the planning authority to meet any liability.

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

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

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

TRANSACTIONS WHERE A BOARD MEMBER HAD A FINANCIAL INTEREST.

During the year the following transactions were made by Highlands and Islands Enterprise with businesses in which Highlands and Islands Enterprise Board members had declared an interest: All transactions involving companies or organisations in which a member may have an interest are conducted at arm's length and in accordance with normal project and programme rules.

Calum Ross is a director of Loch Melfort Hotel Ltd. During the year, Highlands and Islands Enterprise paid a total of £67,121 in development grants.

Dr Keith Nicholson is a director of 55 North Network Ltd. During the year, Highlands and Islands Enterprise paid a total of £16,963 for cyber security consultancy. He is also a board member of Visit Scotland to which Highlands and Islands Enterprise paid a grant of £31,213 in the year.

Paddy Crerar CBE was a director of Crerar Hotel Group Ltd until 14 March 2023. During the year, Highlands and Islands Enterprise paid a total of £29,836 in development grants.

During the year Ailsa Raeburn was a Board Member and Amanda Bryan was Board Chair of Crown Estate Scotland to which Highlands and Islands Enterprise paid a grant of £10,750 in the year.

Amanda Bryan is an employee of UHI Inverness to which Highlands and Islands Enterprise paid £1,500 in sponsorship in the year.

TRANSACTIONS WHERE A DIRECTOR OR SENIOR MANAGER HAD A FINANCIAL INTEREST.

During the year Shetland Amenity Trust received £5,683 in development grant and room hire. Rachel Hunter is a related party.

TRANSACTIONS WHERE A BOARD MEMBER DIRECTOR, SENIOR MANAGER HAD A NON-FINANCIAL INTEREST

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

- Argyll and the Isles Tourism Co-operative Limited
- Caithness Chamber of Commerce
- Changing the Chemistry
- Community Land Scotland
- Elsie Normington Foundation
- Enterprise North East Trust Ltd T/A Elevator
- Isle of Eigg Heritage Trust
- Jacobite Cruises Ltd
- Royal Scottish Geographical Society
- Scottish Tourism Alliance
- University of the Highlands and Islands
- University of Strathclyde
- Visit Inverness Loch Ness Ltd
- VisitScotland
- Wave Energy Scotland Limited

27. 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.

During the year transactions have taken place with:

- Argyll and Bute Council
- Audit Scotland
- Cairngorm Mountain (Scotland) Limited
- Comhairle Nan Eilean Siar
- Creative Scotland
- Economic Development Association of Scotland
- HM Revenue and Customs
- HIE Ventures Limited
- Historic Environment Scotland
- North Ayrshire Council
- Moray Council
- Orkney Islands Council
- Orkney Research and Innovation Campus LLP
- Registers of Scotland
- Scottish Enterprise
- Scottish Natural Heritage
- Scottish Water
- Shetland Island Council
- Skills Development Scotland
- South Ayrshire Council
- The Highland Council
- The Pensions Regulator
- UK Space Agency

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 27.

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 (2022 £6k) employers national insurance contributions and Nil (2022 Nil) employer pension contributions.

28. Financial instruments

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

- Liquidity risk
- Credit risk
- Market risk

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

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

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

LIQUIDITY RISK

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

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

The table below details the contractual maturities of financial liabilities.

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2023 (2022: £nil).

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES				
2023				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	2,633	2,633	2,633	-
	2,633	2,633	2,633	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	5,023	5,023	5,023	-
	5,023	5,023	5,023	-
2022				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	2,502	2,502	2,502	-
	2,502	2,502	2,502	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	7,178	7,178	7,178	-
	7,178	7,178	7,178	-

CREDIT RISK

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

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

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

Highlands and Islands Enterprise carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk

Highlands and Islands Enterprise will have from any single counterparty. The maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position.

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

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

The maximum exposure to credit risk at 31 March was:

CREDIT RISK EXPOSURE		
GROUP		
	Carrying Amount	Carrying Amount
	2023	2022
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	27	18
Preference shares	-	-
Loans and other receivables	2,957	2,190
Financial assets		
Trade and other receivables	8,943	11,735
Cash and cash equivalents	9,321	10,088
	21,248	24,031
HIE		
	Carrying Amount	Carrying Amount
	2023	2022
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	1,411	1,423
Preference shares	-	-
Loans and other receivables	3,016	2,248
Financial assets		
Trade and other receivables	8,734	11,729
Cash and cash equivalents	888	381
	14,049	15,781

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

AGEING				
GROUP				
	Gross	Impairment	Gross	Impairment
	2023	2023	2022	2022
	£000	£000	£000	£000
Not past due	5,919	-	12,371	-
Past due 0 to 30 days	86	-	139	-
Past due more than 31 days	3,870	(923)	428	(1,086)
	9,875	(923)	12,938	(1,086)

HIE				
	Gross	Impairment	Gross	Impairment
	2023	2023	2022	2022
	£000	£000	£000	£000
Not past due	5,719	-	12,248	-
Past due 0 to 30 days	86	-	139	-
Past due more than 31 days	3,870	(923)	428	(1,086)
	9,675	(923)	12,815	(1,086)

Movements in impairment of trade and other receivables is shown in Note 17. 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:

INTEREST RATE RISK		
GROUP		
	Carrying Amount	Carrying Amount
	2023	2022
	£000	£000
Fixed rate instruments		
Financial assets	2,957	2,190
Financial liabilities	-	-
	2,957	2,190
Variable rate instruments		
Cash and cash equivalents	9,321	10,088
	9,321	10,088
HIE		
	Carrying Amount	Carrying Amount
	2023	2022
	£000	£000
Fixed rate instruments		
Financial assets	3,016	2,248
Financial liabilities	-	-
	3,016	2,248
Variable rate instruments		
Cash and cash equivalents	888	381
	888	381

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

INTEREST RATE RISK - CASH		
	GROUP	HIE
	100 basis points change	100 basis points change
	£000	£000
Cash and cash equivalents		
31 March 2022	64	5
31 March 2023	97	6

CURRENCY RISK

Highlands and Islands Enterprise and the group are exposed to currency risk on transactions and balances that are denominated in currencies other than Sterling. Whenever practical, Highlands and Islands Enterprise and the group enters into agreements in its functional currency in order to minimise currency risks. Highlands and Islands Enterprise and the group are exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

FAIR VALUES

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

FAIR VALUES				
GROUP				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2023	2023	2022	2022
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	27	27	18	18
Preference shares	-	-	-	-
Loans and other receivables	2,957	2,957	2,190	2,190
Trade and other receivables	8,943	8,943	11,735	11,735
Cash and cash equivalents	9,321	9,321	10,088	10,088
Trade and other payables	(2,633)	(2,633)	(2,502)	(2,502)
	18,615	18,615	21,529	21,529
HIE				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2023	2023	2022	2022
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	1,411	1,411	1,423	1,423
Preference shares	-	-	-	-
Loans and other receivables	3,016	3,016	2,248	2,248
Trade and other receivables	8,734	8,734	11,729	11,729
Cash and cash equivalents	888	888	381	381
Trade and other payables	(5,023)	(5,023)	(7,178)	(7,178)
	9,026	9,026	8,603	8,603

Financial assets at fair value through profit and loss are not being actively marketed and there is no expectation that completed sales will occur within one year.

NON-CURRENT ASSETS

Valuation Process

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

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

FAIR VALUE HIERARCHY

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

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

FAIR VALUES (CONTINUED)

GROUP					
	2023	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	27	-	-	27	-
Non-recurring Measurements					
Property classified as held-for-resale	-	-	-	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-
HIE					
	2023	Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	1,411	-	-	1,411	-
Non-recurring Measurements					
Property classified as held-for-resale	-	-	-	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-

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.

- 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 and Sibbald.
- Level 3 Equity shares are valued using recent marketplace transactions, where available, or using a net worth basis of valuation

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

CHANGES IN RECURRING FAIR VALUE MEASUREMENTS		
	GROUP	HIE
	£000	£000
Opening Balance	19	545
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	-	-
Disposals	-	-
Impairment	8	10
Total Gains or Losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	-	-
Closing Balance	<u>27</u>	<u>555</u>

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

QUANTITATIVE INFORMATION				
Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£27k	Net Asset Value (a)	n/a	n/a

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

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

ESTIMATION OF FAIR VALUES

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

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

ACCOUNTS DIRECTION BY THE SCOTTISH MINISTERS

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

Signed by the authority of the Scottish Ministers

A handwritten signature in blue ink, consisting of several stylized, overlapping loops and lines, positioned below the text 'Signed by the authority of the Scottish Ministers'.

Head of Enterprise Policy Delivery Division

10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

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



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Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean