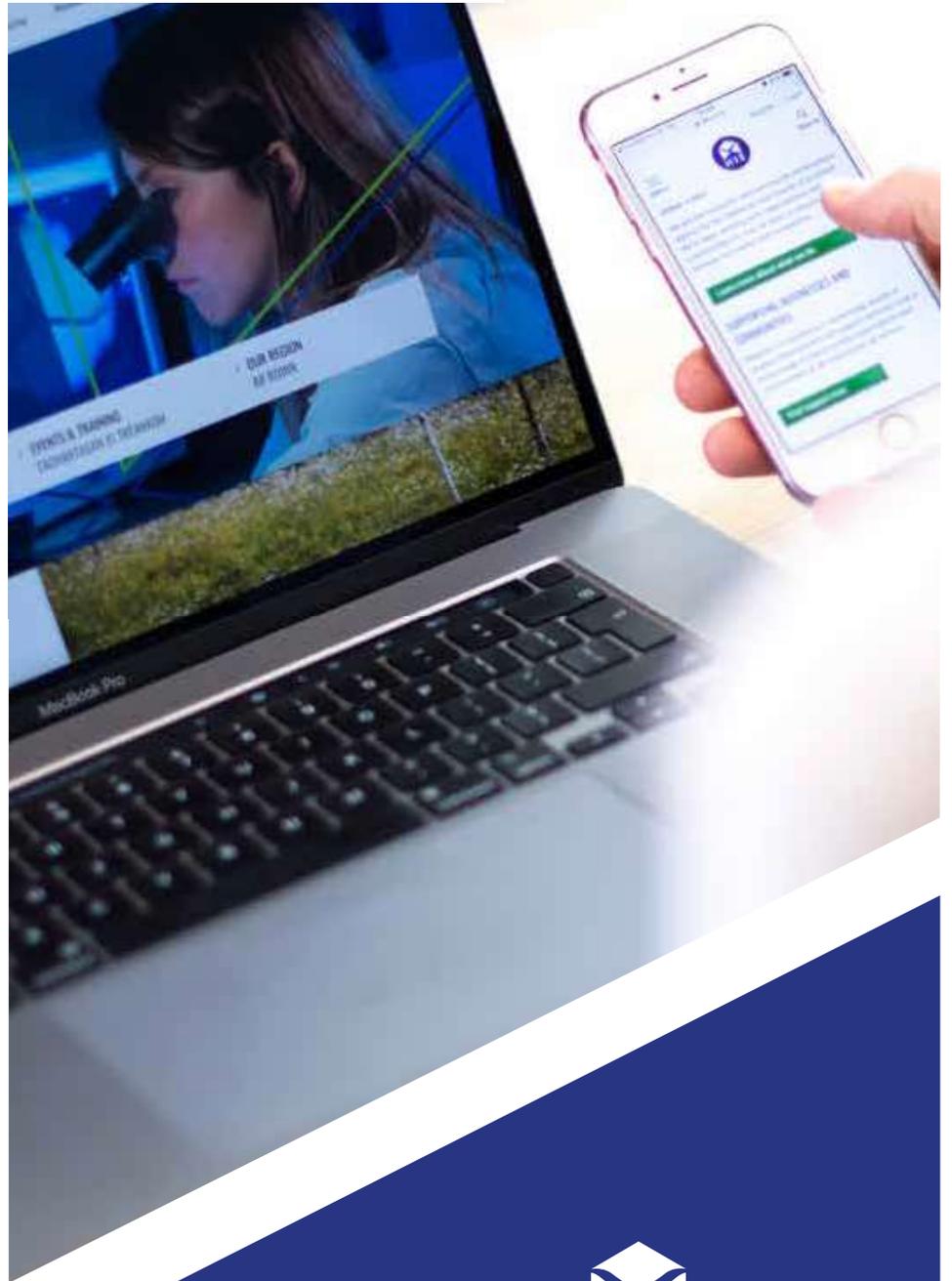
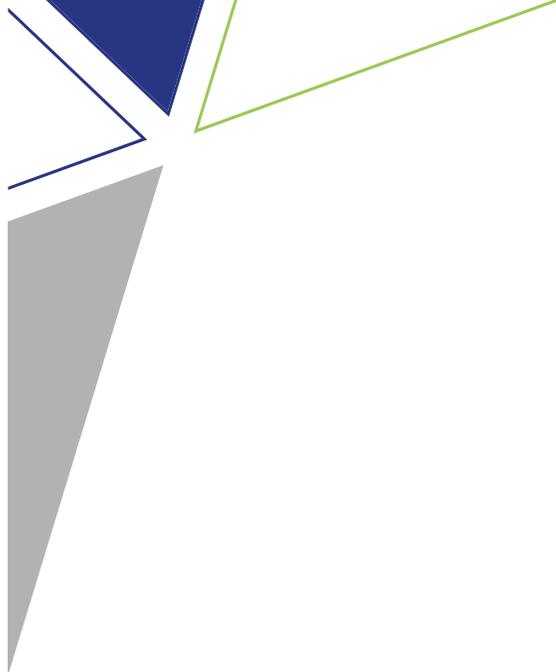


# ANNUAL REPORT AND ACCOUNTS

2019-20



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd's nan Eilean



**ENTERPRISE AND NEW TOWNS (SCOTLAND) ACT 1990**

Accounts of Highlands and Islands Enterprise prepared pursuant to section 30(1) of the Enterprise and New Towns (Scotland) Act 1990, for the year ended 31 March 2020 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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Stornoway

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## CHIEF EXECUTIVE'S FOREWORD

**2019-20 will be remembered as a watershed year for the global economy. While the purpose of this report is to document the performance of Highlands and Islands Enterprise in delivering our priorities for the region, everything is overshadowed by the impacts of the coronavirus disease COVID-19.**

Since early 2020, the pandemic has altered the path of economic progress for our region, as it has for countries around the world. We remain committed to the principles and priorities outlined in our 2019-22 strategy to develop all parts of the Highlands and Islands, and maximise our region's impact on Scotland's progress. However, our role in the coming years needs to focus on recovery from the economic shock of COVID-19 and building resilience in our communities and businesses.

Of course, other challenges that were already present also still need to be faced, not least preparing for the UK's ultimate departure from the European Union following the end of the transition period that came in to effect in January 2020.

Dealing effectively with economic challenges has always been at the core of what Highlands and Islands Enterprise is here to do. When our forerunner, the Highlands and Islands Development Board, was established in 1965, its central purpose was to increase the region's capacity to halt and reverse population decline which, at that time, presented a highly significant barrier to growth and a threat to progress.

Building resilience and responding effectively to both need and opportunity have always been key characteristics of HIE and were again evident in the year under review.

Throughout 2019-20, we maintained our focus on actions that would benefit all parts of our region and all sizes of businesses, social enterprises and communities.

We delivered a strong performance across most of our performance measures, awarding a total of £50.4m of investment. Out-turns (detailed on page 11) include the creation or retention of 646.75 full-time equivalent jobs, including 80.5 in our most fragile and remote areas.

We progressed complex and innovative projects that have the potential to deliver positive impacts well beyond their local areas. Key projects at our own hand included Orkney Research and Innovation Campus, a joint venture with Orkney Islands Council that will consolidate the region's position as a world centre for marine energy, and Space Hub Sutherland, one of three proposed vertical launch sites for small satellites in our region, as part of a growing Scottish space sector.

“

Throughout 2019-20, we maintained our focus on actions that would benefit all parts of our region and all sizes of businesses, social enterprises and communities.

”

At Cairngorm, we continued to operate a key visitor attraction through our subsidiary Cairngorm Mountain (Scotland) Ltd, while also taking forward a detailed inspection and options appraisal that will help determine whether the funicular railway can be brought back into service. Work also began on a long-term Cairngorm masterplan.

We sought to make our services fully accessible and customer-focused, including joining our partners from the Enterprise and Skills Strategic Board to launch a new online entry point to public support for businesses. The service – at [www.findbusinesssupport.gov.scot](http://www.findbusinesssupport.gov.scot) – launched in January 2020 and proved an invaluable resource, not least as a central point of information and advice relating to COVID-19 support.

Looking ahead, other key themes that will define our work include even greater focus on delivering inclusive growth across the region and contributing to Scotland’s fair work agenda.

Scotland’s ambition to cut carbon emissions and transition to a net-zero economy by 2045 will also feature strongly. Rural areas of the country will have a strong role to play in achieving the net-zero target, and we believe this represents a great opportunity for the Highlands and Islands.

Before closing, I wish to pay sincere tribute to Professor Lorne Crerar CBE, who concluded his second term as Chair of HIE in February 2020, after eight years in post. Lorne’s passion for the Highlands and Islands and its people was evident throughout his leadership of the board and was recognised when he was appointed CBE shortly before stepping down.

I would also like to thank Alistair Dodds CBE, who became Acting Chair in March 2020, and was appointed as Chair in May. A former chief executive of Highland Council, Alistair has served the HIE Board with great commitment since 2014 and chaired our Risk and Assurance Committee.

Special thanks go to Carroll Buxton, who stood in very effectively as interim chief executive when I had to take leave for an extended period.

As ever, I am extremely grateful to all our board members and staff, whose dedication and ambition for our region will be vital in helping restore its vitality and achieving future progress.

**CHARLOTTE WRIGHT**  
Chief executive

**Thèid cuimhne a chumail air 2019-20 mar bhliadhna a tha comharraichte a thaobh eaconamaidh na cruinne. Ged is e adhbhar na h-aithisg seo coileanadh lomairt na Gàidhealtachd 's nan Eilean a chlàradh a thaobh ar prìomhachasan a liubhairt don roinn, tha gach nì fo sgàil buaidhean galair a' choròna-bhìorais, COVID-19.**

Bho thràth ann an 2020, tha an galar-sgaoilte air slighe adhartais eaconamach na roinne againn atharrachadh, mar a tha e ann an dùthchannan air feadh an t-saoghail. Tha sinn a' seasamh dealasach do na prionnsapalan agus na prìomhachasan a tha minichte nar ro-innleachd airson 2019-22, gus gach pàirt den Ghàidhealtachd agus na h-Eileanan a leasachadh agus buaidh ar roinne air adhartas na h-Alba a thoirt chun na h-ìre as àirde. Ach, feumaidh ar dleastanas sna bliadhnaichean a tha romhainn cuimseachadh air slànachadh fhaighinn bho chriothnachadh eaconamach COVID-19 agus fulangas a thogail nar coimhearsnachdan agus nar gnothachasan.

Gun teagamh, feumar dèiligeadh cuideachd ri dùbhlain eile a bha an làthair bho thoiseach cùise, agus aon dhiubh sin nach beag, a bhith ag ullachadh airson sgaradh deireannach na RA bhon Aonadh Eòrpach a' leantainn air deireadh na h-ùine eadar-ghluasaid a thàinig gu bith san Fhaoilleach 2020.

Tha dèiligeadh gu h-èifeachdach ri dùbhlain eaconamach a-riamh air a bhith aig cridhe na tha e an dleastanas do dh'Iomairt na Gàidhealtachd 's nan Eilean a dhèanamh. Nuair a chaidh Bòrd Leasachaidh na Gàidhealtachd aig an robh an dleastanas seo romhainne, a stèidheachadh ann an 1965, b' e a phrìomh adhbhar comas na roinne a mheudachadh air stad

agus tilleadh a chur air crìonadh àireamh-sluaigh, a bha aig an àm sin a' riochdachadh bacadh cudromach agus bagairt air adhartas.

Tha togail fulangas agus freagairt gu h-èifeachdach don dà chuid feumalachd agus cothrom, a-riamh air a bhith nam prìomh fheartan aig HIE agus bha sin follaiseach a-rithist sa bhliadhna a tha fo ath-sgrùdadh.

Tro 2019-20, bha sinn a' cuimseachadh gu daingeann air gnìomhan a bhiodh nam buannachd do gach pàirt den roinn againn agus gach meud de ghnòthachasan, iomairtean sòisealta agus coimhearsnachdan.

Liubhair sinn gnìomhadh làidir tarsainn na mòr-chuid de ar ceumannan coileanaidh, a' buileachadh iomlan de £50.4m de thasgadh. Tha mach-churan (minichte air duilleag 11) a' gabhail a-steach cruthachadh agus gleidheadh air 646.75 obair co-ionann ri làn-ùine, nam measg 80.5 sna sgìrean as cugallaiche agus as iomallaiche a th' againn.

Dh'adharthaich sinn pròiseactan toinnte is tionnsgaineach aig a bheil comas air buaidhean deimhinneach a liubhairt fada seachad air an sgìrean ionadail. Am measg nam prìomh phròiseactan fo ar làimh fhìn, tha Àrainn Rannsachaidh is Ùr-ghnàthachaidh Arcaibh, co-iomairt le Comhairle Eileanan



Tro 2019-20, chùm sinn ar fòcas air gnìomhan a bhiodh buannachdail do gach pàirt de ar roinn agus do gach meud gnothachais, iomairtean sòisealta agus coimhearsnachdan.”





Arcaibh a dhaingnicheas suidheachadh na roinne mar ionad cruinneil airson lùth mara, agus Mòr-ionad Fànais Chataibh, aon de na trì raointean itealaichidh inghearach a tha air am moladh airson saidealan beaga nar roinn, mar phàirt den roinn fhànais Albannach a tha a' sior fhàs.

Sa Mhonadh Ruadh, lean sinn air adhart ag obrachadh prìomh nì a tha tarraingeach do luchd-tadhail tro ar fo-bhuidheann Beinn a' Chùirn Ghuirm (Alba) Earranta, agus aig an aon àm a' toirt air adhart sgrùdadh mionaideach is roghainnean measaidh a chuidicheas le dearbhadh an gabh no nach gabh an rèile-bruthaich a thoirt air ais ann an seirbheis. Thòisich obair cuideachd air mòr-phlana fad-amail don Chàrn Ghorm.

Dh'fheuch sinn ri ar seirbheisean a dhèanamh làn ruigsinneach agus cuimsichte air teachdaichean, a' gabhail a-steach co-obrachadh le ar com-pàirtichean bhon Bhòrd Ro-innleachdail Iomairt agus Sgìlean gus puing inntrigidh ùr air-loidhne gu taic poblach do ghnothachasan, fhoillseachadh. Chaidh an t-seirbheis – at [www.findbusinesssupport.gov.scot](http://www.findbusinesssupport.gov.scot) – air bhog san Fhaoilleach 2020 agus dhearbhadh sin a bhith na ghoireas thar luaich, gu h-àraid mar phrìomh phuig fiosaichidh is comhairle co-cheangailte ri taic COVID-19.

A' coimhead air adhart, tha prìomh thèaman eile a mhìnichas ar n-obair, a' gabhail a-steach cuimse fiù nas motha a liubhairt air fàs in-ghabhalach tarsainn na roinne agus cur ri plana obair chothromach na h-Alba.

Bidh àrd-mhiann na h-Alba a thaobh sgaoilidhean càrboin a ghearradh agus atharrachadh gu eaconamaidh lom-neoini ro 2045 a' nochdadh gu làidir. Bidh àite làidir aig sgìrean dùthchail na dùthcha seo ann an coileanadh na targaid lom-neoini, agus tha sinn a' creidsinn gu bheil seo a' riochdachadh cothrom mòr don Ghàidhealtachd agus na h-Eileanan.

Mus crìochnaich mi, tha mi airson moladh dùrachdach a thoirt don Àrd-Ollamh Lorne Crerar CBE, a chuir crìoch air a dhàrna teirm na dhreuchd mar Chathraiche HIE sa Ghearran 2020, an dèidh ochd bliadhna san t-suidheachadh sin. Bha dìoghras Lorne a thaobh na Gàidhealtachd agus nan Eilean follaiseach tro a cheannardas air a' bhòrd agus chaidh sin aithneachadh nuair a chaidh CBE a bhuileachadh air, goirid mus do leig e dheth a dhreuchd.

Bu mhath leam cuideachd taing a thoirt do Alasdair Dodds CBE, a ghabh dreuchd Cathraiche Eadar-amail sa Mhàrt 2020, agus a chaidh fhastadh mar Chathraiche sa Chèitean. Tha Alasdair a bha na àrd-oifigear aig Comhairle na Gàidhealtachd, air Bòrd HIE a fhrithealadh le dealas mòr bho 2014 agus cuideachd na chathraiche air ar Comataidh Cunnairt is Barantais.

Taing shònraichte a' dol gu Carroll Buxton, a sheas gu h-èifeachdach nam àite mar àrd-oifigear eadar-amail nuair a bha agam ri dhol air fòrladh rè ùine fhada.

Mar a tha mi an-còmhnaidh, tha mi air leth taingeil do bhuill a' bhùird againn uile agus do ar luchd-obrach, agus bidh an dìcheall agus an àrd-amas don roinn againn deatamach ann an cuideachadh le beòthalachd ar roinne ath-stèidheachadh agus adhartas san àm ri teachd a choileanadh.

**CHARLOTTE WRIGHT**  
Àrd-Oifigear



## OVERVIEW: ABOUT HIE

### HISTORY AND STATUTORY BACKGROUND

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

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

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

Our duties are determined by Scottish Government ministers under Section 24 of the Act, and our powers are set out in section 8.

### OUR VISION

We will help build a prosperous, inclusive and sustainable economy across the Highlands and Islands, attracting more people to live, work, study, invest and visit.

We approved **£50.4M**  
investment in 420 projects for 270 clients

### STRATEGIC AIMS

The Scottish Government's economic and policy frameworks provide a clear vision and set of actions which foster a collaborative enterprise and skills environment and collectively ensure that sustainable, inclusive economic growth is achieved in all parts of Scotland.

Our direction and guidance are set out each year in a letter from the Cabinet Secretary for Rural Economy and Tourism, and based on four documents: Programme for Government; Economic Action Plan; Enterprise and Skills Strategic Board Strategic Plan, and Scotland: A Trading Nation.

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

### 2019-2022 STRATEGY

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

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

The strategy is online at:  
[hie.co.uk/strategy](https://hie.co.uk/strategy)



Inverness Campus

## BUSINESS MODEL AND ENVIRONMENT

The HIE board oversees the work of the organisation, reporting to the Cabinet Secretary for Rural Economy and Tourism. We work collaboratively with the Scottish Government and partners – including Scottish Enterprise, South of Scotland Enterprise, Skills Development Scotland, the Scottish Funding Council, VisitScotland, local authorities and Business Gateway – to align strategies and resources behind growth opportunities. Formal arrangements include long-established community planning partnerships and city, area and island growth deals.

## OUR VALUES

HIE employees are committed to the following values:

- 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

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

**Business growth** leads on our engagement with businesses and sectors that can make the greatest contribution to regional growth, and runs programmes, including innovation and exporting, to support the wider business community.

**Strategy and regional economy** holds responsibility for strategy, planning, research, economics, performance measurement, marketing, communications, strategic engagement and partnerships, and leads on property matters, including facilities management.

**Communities and place** aims to empower communities by taking a place-based approach to local development that supports local ownership of assets that generate value, encourages the vital work of social enterprises and third sector organisations, and recognises the value of culture and heritage, including Gaelic.

**Finance and corporate services** is responsible for strategic financial management, financial services, procurement, information technology, information governance, and environmental management.

**Business improvement and internal audit** ensures that innovation, high standards of corporate governance and value for money are at the heart of the business and its decision making, and is responsible for risk management, managing state aid, and legal services.

**Service delivery** oversees the eight area teams that provide local access to and delivery of HIE services across the Highlands and Islands.

**Human resources** leads HIE's people agenda, ensuring that our staff resource is managed and developed effectively to support the organisation's objectives and ensure individual behaviours align with HIE's organisational values.

## NATIONAL INITIATIVES

We also deliver programmes on behalf of the Scottish Government that are open to applicants across the whole of Scotland.

Our subsidiary company Wave Energy Scotland runs the world's largest wave technology innovation programme, having now worked with over 200 organisations and invested almost £40m in 88 projects since it was established in 2014.

The Scottish Land Fund, which we administer with the National Lottery Community Fund, provides grants to enable communities throughout the country to own and develop land, buildings and other assets, with an annual budget of £10m.

## PRINCIPAL RISKS AND UNCERTAINTIES

At HIE we operate a robust risk management policy aligned with Scottish Government best practice. We carried out a significant review of these arrangements in 2019-20 and updated our risk appetite statements to enable creative delivery approaches and ambitious, bold investment choices.

We maintain risk registers at three levels – project, business unit and corporate. Additional registers are created when we recognise that there is significant risk to HIE, a good example being a specific COVID-19 risk register.

Our Corporate and COVID-19 risk registers are reviewed regularly by our Leadership Team, Risk and Assurance Committee and Board, and the risks themselves are actively managed and reviewed at appropriate levels within the organisation.

At the end of 2019-20, our principal risks included:

### ■ Economic resilience and recovery

Significant challenges to the region's businesses and communities are presented by the economic impacts of the COVID-19 pandemic across our region of the COVID-19 pandemic, and changes to international relations and trade that will be created when the UK leaves the European Union.

### ■ Major project challenges

Ambitious projects to generate wider economic benefits, including Cairngorm Mountain (p21) and capturing opportunities from supporting the growth of the UK space sector (p20), are extremely complex and carry a high degree of risk.

### ■ Budget and financial liabilities

Securing sufficient budget to meet our ambitions for the region is always a challenge, and more so in current circumstances when demand for investment in public services across the country is high. Our financial planning is also affected by the need to settle an outstanding VAT liability and manage pension provision (see Financial Performance, p26 onwards).

### ■ Organisational strategy and transformation

As an organisation, we recognise the challenges associated with effective strategic planning, including our roles as an influencer and partner with other organisations. We seek to optimise the delivery and impact of the services we provide to our customers and improve our efficiency and effectiveness, particularly in a changing digital environment where we also are alert to the threats of potential cyber attack.

## COLLABORATION

HIE continues to improve service access and delivery through effective collaboration with partner organisations. This happens at local, regional and national levels, including the Enterprise and Skills Strategic Board (ESSB).

The ESSB Strategic Plan sets out four missions, which we have been pursuing collaboratively with our partners in Scottish Enterprise, Skills Development Scotland, Business Gateway and the Scottish Funding Council. These missions focus on: Future Skills Needs; Business Creation and Growth; Business Models and Workplace Innovation, and Exporting.

A key outcome in 2019-20 was the launch of [www.FindBusinessSupport.gov.scot](http://www.FindBusinessSupport.gov.scot) as a shared point of access to business support services provided by the public sector. A beta version went live in December 2019, providing access to more than 200 products and services from partners across Scotland.

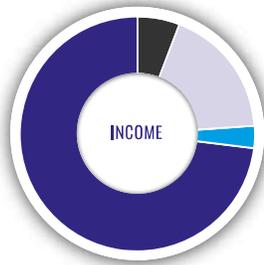
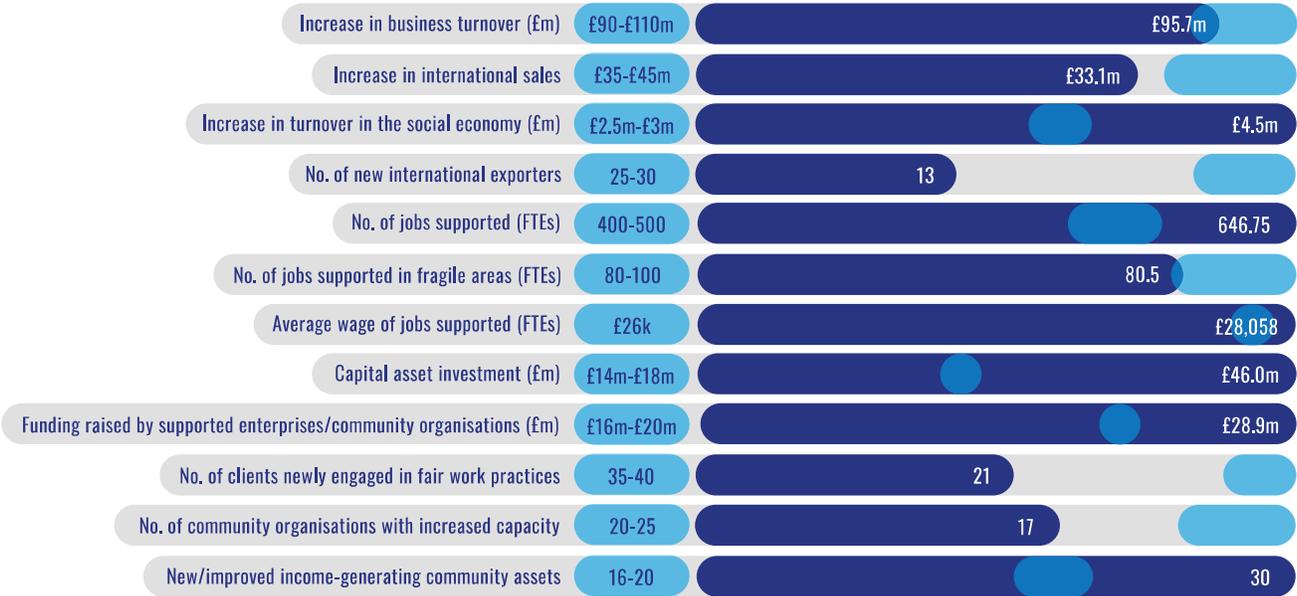
We also introduced new arrangements in HIE and at partner level for product and service governance, enabling knowledge sharing, co-design and development, and avoiding unnecessary duplication.

## GOING CONCERN

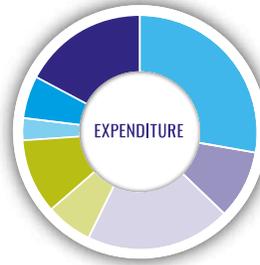
The financial statements for the year ended 31 March 2020 show net liability position of £18.6m (Group £16.6m net liabilities). The position of net liabilities has arisen due to the HIE pension fund and Local Government Pension Scheme deficits. Net current liabilities will be funded by the Scottish Government as they arise. The Scottish Government has provided a resource budget for 2020-21 of £58.1m. The financial statements have therefore been prepared on a going concern basis.

## OVERVIEW: PERFORMANCE SUMMARY

### PRIMARY OUTPUT MEASURE TARGET RANGE OUT-TURN ACHIEVED



Grant in aid 73%  
 EU income 3%  
 Other trading 18%  
 Broadband 6%  
**Total Income £98.0m**



Admin 17%  
 Other Expenditure 6%  
 Cairngorm 3%  
 Wave Energy Scotland 10%  
 Broadband 6%  
 Discretionary Spend 20%  
 Business Support 10%  
 Regional Significant Investments 28%  
**Total Expenditure £93.4m**

## PERFORMANCE ANALYSIS

HIE's performance measurement framework reflects the breadth of our remit and helps us determine the extent to which our support is delivering our objectives and our contribution to Scotland's Economic Strategy.

Overall, HIE's key measure out-turns reflected wider economic performance. Evidence from our Business Panel Survey in October 2019 showed increased costs and political and economic uncertainty as the main risks for businesses in the region. Continued uncertainty about Brexit affected business confidence and levels of private sector investment, constraining our ability to increase participation in international markets.

We are committed to supporting our clients to adopt the principles of Fair Work. However, our performance against this measure was impacted by COVID-19, which curtailed our ability to gather data towards the end of the year.

Our ability to support increased community capacity was impacted by a challenging internal and external funding environment.

A number of social enterprise projects generated substantial outputs, particularly in the second half of the year, delivering an increase in turnover (£4.5m) well above expectations.

Along with our key measures above, we monitor the progress of clients through a range of supporting and tracking measures. These measures contribute directly to the National Performance Framework, particularly to the outcomes of:

- A globally-competitive, entrepreneurial, inclusive and sustainable economy;
- Thriving and innovative businesses, with quality jobs and fair work for everyone; and
- Communities that are inclusive, empowered, resilient and safe.

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

We deploy a holistic and place-based approach which seeks investment opportunities that have the potential to deliver impact across our three priorities. The interconnection between investments across our three priorities is clear from the range of actions detailed in our annual accounts, with sectors playing a key role in business growth and regional attractiveness. It would therefore be inappropriate to assign results to particular priorities, with the exception of some of our work which generates outputs – such as turnover generated by community-owned assets, which can be assigned wholly to our *strong, capable and resourceful communities* priority.

As stated in our 2019-22 strategy, reaching all parts of our region and all sizes of businesses and communities is key to our vision. The following analysis illustrates the spread of our grant-in-aid (GIA) investment for 2019-20 which totalled £50.4m. Three major investments in infrastructure dominated: Stornoway Port Authority Deep Water Port, Inverness Campus Life Science Innovation Centre and Scrabster Harbour Trust, Ola Pier Redevelopment.

In 2019-20, the Outer Hebrides received the highest level of GIA per capita (£405), followed by Caithness and Sutherland (£112), influenced significantly by the major investments above.

HIE approved £29m to support over 300 third-party projects with a total investment value of £121m. The chart below provides an overview of this investment.

Whilst the majority of grants were awarded to account managed clients, many non-account managed businesses accessed both financial and non-financial assistance, particularly in relation to our international and innovation support programmes.

Our assistance to over 100 projects across the region, including inward investment, is expected to create or retain 646.75 FTE jobs with an average wage of £28,058. Of those, 80.5 FTEs will be distributed across our fragile areas with an average salary of £22,085.

The Argyll, Caithness and Sutherland and Inner Moray Firth areas had the highest number of jobs supported. The highest average wage levels were in Orkney and Moray at £44,632 and £43,494 respectively.

In terms of our sectors, universities, energy, and technology and advanced engineering (TAE) generated the highest wage levels whilst TAE, tourism, and food and drink delivered the highest number of jobs.

Support to social enterprises is expected to generate an increase in turnover in the social economy of £4.5m from 34 projects. Of this, 40% (£1.8m) is accrued from 14 projects in fragile areas, with the three largest in the Outer Hebrides; and £3.2m from 23 projects with account managed clients.

HIE's published measures relate to approvals made in each financial year. The forecast out-turns recorded reflect the expected result typically three years from the point of approval. The actual position is monitored through our account management and project management processes.

An assessment of actual performance has been carried out for projects where out-turns were due in the three-year period to March 2020.

For those projects where data has been captured, excluding outliers, actual performance was strong in relation to increases in business turnover at 103% and international sales at 94.5%. Actual increases in turnover in the social economy were 92.5% of forecast and 84.8% of expected jobs had materialised.

Available data indicates that actual performance in businesses is stronger in medium and large enterprises and in those cases where HIE GIA ranged from £250k-£1m. Actual performance in international sales was strongest in the food and drink sector at 158%.

For social enterprises, projects supported by GIA of £50-£100k performed best at 123%, with less variation in performance by size of organisation.

We progressed new approaches to measuring the value and long-term benefits of HIE's investments, carrying our pilot studies on investment in community assets and in strategic/sectoral infrastructure.

During 2020-21, findings from these pilots will be embedded in economic impact assessment work commissioned by HIE to support project appraisals. We will also consider linkages between these pilots and benefits realisation management, including evaluation.

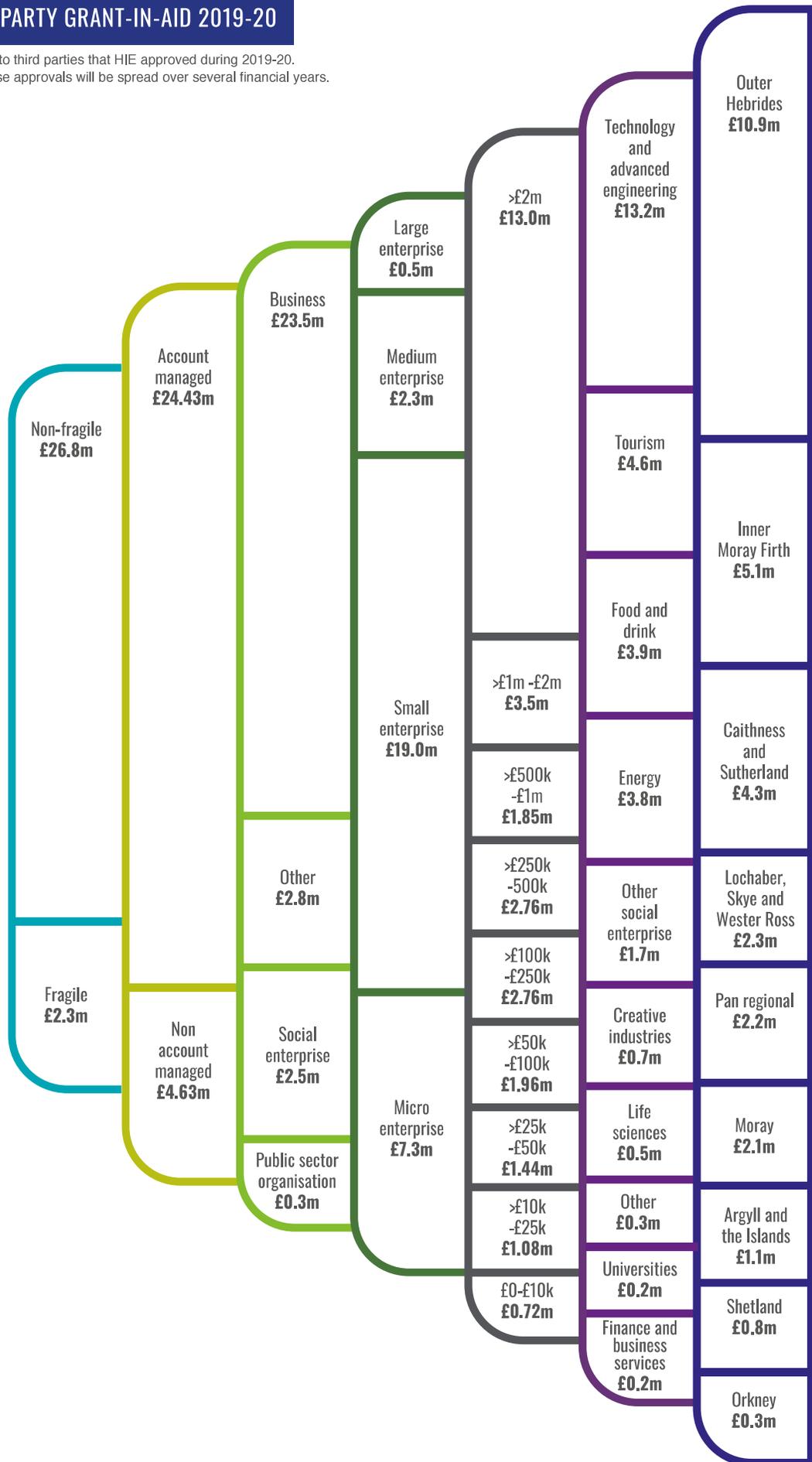
In partnership with the James Hutton Institute and Biomathematics and Statistics Scotland, we are developing a framework around the themes and dimensions of inclusive growth. This will be used to assess investment options in terms of both economic and inclusive growth outcomes and will be shared with enterprise and skills agency partners as part of our wider business transformation work.

Highest **AVERAGE WAGE LEVELS**  
of jobs we supported were in  
**ORKNEY (£44,632) and MORAY (£43,494).**

# ANALYSIS OF THIRD PARTY GRANT-IN-AID 2019-20

This table shows funding awards to third parties that HIE approved during 2019-20. Actual spend associated with these approvals will be spread over several financial years.

**£29.1m** investment approved in **304** third party projects and **256** clients





## SUCCESSFUL, PRODUCTIVE AND RESILIENT BUSINESSES

We support businesses and social enterprises to be dynamic and entrepreneurial, to target market opportunities at home and abroad, and use innovation to accelerate sustainable growth. We also help clients build resilience and sustain competitiveness to meet economic challenges.

Findings throughout 2019-20 from our 1,000-strong business panel helped inform our actions, including highlighting issues affecting companies across the region. While more than 80% reported good or steady performance through the year, and 75% were optimistic about their future, overall confidence in the economy remained low, affected by wider uncertainties around global economic conditions and the potential impacts of Brexit.

### BUSINESS CREATION AND GROWTH

#### INWARD INVESTMENT

Our actions helped secure five inward investment projects across the region, including four from existing investors.

- Glenmorangie Distillery, Inner Moray Firth – **20** FTE
- Imenco, Caithness and Sutherland – **5** FTE
- Manx Technology Group, Moray – **3** FTE
- North West Marine, Argyll and the Islands – **27** FTE
- Orbex, Moray – **28** FTE

The projects created or retained a total of 83 FTE (full-time equivalent) jobs. All pay more than the real living wage and 31 exceed the Scottish Government's high value jobs target of £40,000 pa.

### HIE'S ACCOUNT MANAGEMENT PORTFOLIO



We approved **£22.2m** to grow businesses and social enterprises across the region.

## ENTREPRENEURSHIP

Actions to stimulate entrepreneurship as a key driver of prosperity focused on companies with growth potential. A series of two-day masterclasses across the region benefited 68 clients, and we held workshops, lectures and meetings with international experts from Massachusetts Institute of Technology (MIT). We also took six entrepreneurs from the Highlands and Islands to the Entrepreneurship Development Programme at MIT in Boston.

We provided local access to 14 Entrepreneurial Academy workshops across all eight area geographies in our region. The events attracted 171 participants from 136 unique businesses. Almost two-thirds (65%) of delegates were women and just under a quarter (24%) were under 35 years old.

## INTERNATIONALISATION

2019-20 proved a challenging year for international trade, with the region's exporters affected both by uncertainties caused by Brexit and, latterly, restrictions imposed across the world in response to COVID-19.

Along with our enterprise and skills partners and industry bodies, we sought to mitigate Brexit impacts and identify opportunities. Actions included providing advice and support to businesses through the *Prepare for Brexit* website and helping develop products to meet the changing trading environment. Thirty companies from the region were each awarded a £4,000 Brexit support grant.

We collaborated with Scottish Development International throughout the year, helping 37 companies enter new markets and increase international sales. Ninety-two companies from across the region, made use of SDI's export advisory service, and 17 received Brexit advice.

Our International Highlands and Islands programme, supported by the European Regional Development Fund (ERDF), helped 103 companies build ambition and capacity to trade globally. We held 18 awareness and training events that drew 208 delegates to explore opportunities, including sessions on tourism and cultural heritage. Our Be Business Brave campaign encouraged more companies to consider exporting, and reached out both to HIE clients and non-account managed businesses.

In August 2019, HIE played a key role in showcasing Scotland to a global audience at Aqua Nor, the world's largest aquaculture trade show, held in Norway.

## INNOVATION

Our innovation service provided support ranging from light-touch advice to complex strategy development. We awarded research and development grants worth a total of £1.8m – and these levered in a further £3.5m in private investment.

Our *Innovate your Business* programme supported 139 businesses and we awarded 19 small innovation grants with a total value of £236,000. We helped 51 companies apply innovation to develop new products.

In the west of the region, our EU-funded Interreg Co-Innovate programme attracted 136 businesses to workshops, conducted 22 innovation audits and provided consultancy support to nine companies.

The Northern Innovation Hub (NIH) supported 64 Highland businesses to apply innovation. This included 18 life sciences and technology companies that took part in our Pathfinder Accelerator. Thirty-one young entrepreneurs were helped to grow their businesses through the NIH IMPACT30 programme.

With funding from the Scottish and UK governments through the Inverness and Highland City-Region Deal, NIH is targeting the sectors of creative industries; food and drink; life sciences and tourism. Young people and technology are cross-cutting themes.

Working with PA Consulting, HIE delivered new product development programmes in Forres and Inverness. Nineteen businesses and social enterprises were taken through the entire process of new product development, including market assessment and risk management. Each participant received support to develop and implement a three-month action plan.

We contributed to the development of the National Manufacturing Institute Scotland, part of the *Making Scotland's Future* strategy.

**NEARLY TWO-THIRDS**  
(65%) of the social enterprise projects we approved are in **FRAGILE AREAS.**



Our Customer Service pilot attracted  
**539 ENQUIRIES**  
in three months following launch in December 2019.

## LIFE SCIENCES

During the year, we supported 30 life sciences businesses through the Northern Innovation Hub life sciences programme. Our NEXUS and Pathfinder Accelerator initiatives have now benefited a total of 56 businesses.

Three Industrial Biotechnology Innovation Centre workshops were delivered in Argyll, Orkney and Moray.

At Inverness Campus, HIE provided ODx Innovations with laboratory and office space in Solasta House, where the company quickly created 30 high value jobs. ODx is a growing company developing antibiotics and a point-of-care diagnostic for urinary tract infections.

Corporate Health International, also based on Inverness Campus partnered with Medtronic to deliver Scotland's first healthcare innovation procurement partnership, focusing on colon capsule endoscopy. Over 500 patients took part in service evaluation in communities on the islands of Skye and Lewis and in Thurso, Ullapool, Fort William and Inverness, rather than in a hospital.

## CREATIVE INDUSTRIES

Through our XpoNorth programme, we delivered eight 'on-the-road' events to help creative businesses across the region meet and learn from industry bodies and specialist advisers. Through access to specialists and professional networks, we responded to 386 enquiries from 130 businesses.

The annual XpoNorth conference featured 50 festival partners and attracted a record 1,600 participants over two days in July 2019. With 63 seminar sessions and 60 music showcase slots, it helped forge creative partnerships and networks and raised awareness of industry trends and innovation.

We teamed up with Screen Scotland and the Canada Media Fund (CMF) to launch the £200,000 Canada – Scotland Co-development Incentive. Creators could access up to £25,000 to develop new digital media and television ideas for a live-action or animated drama or documentary, working in partnership with Canadian production companies. Web series and virtual or augmented reality projects were also eligible.



Collaboration fostered at  
**INVERNESS CAMPUS**  
enabled Aseptium and 4c Engineering to mobilise  
swiftly to make protective equipment for the NHS  
when COVID-19 struck.

#### FOOD AND DRINK

HIE, Scottish Funding Council and Scottish Enterprise agreed to invest £10m in the Scottish Aquaculture Innovation Centre, covering activity from August 2019 to July 2024. HIE's contribution of £2m is our largest investment in an innovation centre, and aims to increase SME innovation and engagement with academic institutions.

Over five years, we expect our joint investment will leverage a further £12.2m from other sources, including industry and academia, and generate £9.3m additional research and development income. We expect to create 220 new jobs in Scotland, including 100 in the Highlands and Islands.

As an outcome of a national aquaculture supply chain summit that HIE organised in April 2019, we supported the shellfish sector to develop an innovation programme that aims to increase capacity and productivity. Plans to deliver the programme were included in the Islands Deal bid to the UK and Scottish governments.



#### CASE STUDY

## NATURAL PACKAGING COULD CUT USE OF PLASTIC

**We awarded £270,000 to an international research project to develop plastic-free food packaging from food waste.**

Celtic Crustacean Collaboration is led by Argyll firm CuanTec, based at HIE's European Marine Science Park (EMSP) near Oban.

The company has developed a world-first method for biologically extracting a polymer, chitin, from waste langoustine shells and converting it to the base material for plastic-free food packaging.

The process is cost-efficient, environmentally sensitive and requires less energy and fewer chemicals than conventional processes.

HIE funding will help determine commercial viability through developing industrial-scale methods to extract and convert the polymer from the shells and other food waste sources.

The project is a collaboration with the Scottish Association for Marine Science (SAMS), Versatile Packaging in the Republic of Ireland and Northern Ireland firm, Kilkeel Seafoods. It was made possible through HIE's role as a delivery partner in the €14.7m EU Interreg VA Co-Innovate programme which supports innovation and cross-border research and development projects in parts of Scotland, Northern Ireland and the Republic of Ireland.



## A REGION WHICH IS WELL CONNECTED AND WELL PLACED TO MAXIMISE OPPORTUNITIES – CREATING THE CONDITIONS FOR GROWTH

The distinctive geography of the Highlands and Islands, with around 100 inhabited islands, dispersed communities and mountainous areas, is a great part of the region's attractiveness.

However, it also presents challenges for those who live, work and do business here. In addition, the region's potential in many areas is held back by a lack of appropriate infrastructure, housing and childcare provision, which are essential components in retaining and attracting talent.

HIE plays a key role in developing vital infrastructure to support economic and community growth in all parts of our region. Working with partners, we adopt a place-based approach to address challenges and develop opportunities to enhance competitiveness, talent and investment.

### DIGITAL

HIE continued to manage the Digital Scotland Superfast Broadband (DSSB) project in the Highlands and Islands, while also contributing to the Scottish Government's development of mobile infill and superfast broadband projects S4GI and R100.

By 31 March 2020, 82% of homes and business in the region were able to access broadband download speeds of 24Mbps or faster. The uptake rate for fibre broadband was 66%, more than three times the original target of 20%. Most recent rollout has been *Fibre to the Premises* (FTTP), offering higher speeds and greater future-proofing than fibre to cabinet.

### ENABLING INFRASTRUCTURE

Phase 1 of our £6.3m joint venture with Orkney Islands Council to create Orkney Research and Innovation Campus in Stromness drew close to completion. By March 2020, the campus supported around 140 jobs, with the European Marine Energy Centre, Heriot-Watt University, Robert Gordon University and Solo Energy all in occupancy. In September 2019, the newly-completed Robert Rendall Building hosted the launch of the Scottish Government's Arctic Policy Framework.

Development of phase 2 of the European Marine Science Park near Oban continued, with a planning application submitted for road and infrastructure upgrades. With phase one, Malin House, fully occupied, this will create capacity for new, innovative companies, including projects in the Argyll and Bute Rural Growth Deal.

We built five industrial units to support creation and expansion of local businesses at Balivanich in Benbecula, having identified demand through community consultation. At the end of 2019-20, one unit had been let and three more were under offer.

In Inner Moray Firth, we supported Inverness Harbour Trust to develop a new masterplan and provided finance to open up further sites at Inverness Airport Business Park, including a new hotel.

Other third party projects that we supported included a 10km all-ability mountain bike track being created by Nevis Range Development Company in Lochaber. HIE is contributing £122,000 to the £319,000 project.

In Caithness, we worked with Scrabster Harbour Trust on plans to redevelop St Ola Pier, and with Wick Harbour Authority, which is proposing to create high-water protection measures.

## TRANSPORT

We worked with partners to address key transport constraints affecting our region. Research in 2019-20 included Northern Isles internal ferry services, Wick air services, the West Highland Lines railway, and long-term options for the Corran Narrows ferry crossing in Lochaber. We also contributed to Transport Scotland's Strategic Transport Project Review, providing evidence and analysis to identify priority projects in the Highlands and Islands.

## ENERGY

Much progress in the region's energy sector was geared towards economic and social benefit from transition to net-zero carbon emissions. The region has a distinct competitive advantage through natural resources, infrastructure and supply chain expertise.

In Orkney, the European Marine Energy Centre launched the first phase of a £28.5m project to create a virtual energy system, working with Solo Energy, Aquatera, Doosan Babcock, Heriot-Watt University, Community Energy Scotland and Orkney Islands Council. ReFLEX Orkney aims to create a 'smart energy island', digitally linking local electricity, transport, and heat networks into one system, responsive to flexible demand.

Lerwick Port Authority saw the delivery of two more large oil and gas structures to Dales Voe for decommissioning by partners Veolia and Peterson. These followed the successful dismantling and disposal of the Buchan Alpha platform in 2017-18 and were a direct result of investment in upgrading the quayside by HIE and partners.

In March 2020, HIE approved £3m to help Scrabster Harbour Trust redevelop St Ola Pier to allow larger vessels alongside and provide laydown to accommodate an increase in traffic servicing West of Shetland oil and gas fields. This will also position the harbour to support operations and maintenance from anticipated offshore wind developments.

The £2.5bn, 84 turbine Beatrice Offshore Wind Farm officially opened in July 2019, representing one of Scotland's largest private sector investments. SSE Renewables chose Wick Harbour as their operations and maintenance base and invested over £20m in its redevelopment, creating 90 high value jobs.

HIE led the creation of the DeepWind Cluster – a partnership of industry, academia and the public sector – to develop a new offshore wind supply chain. The cluster is centred on the offshore wind farms in the Moray Firth and on the Aberdeenshire coast, taking in sites as far apart as Shetland and Ayrshire through a hub-and-spoke approach. It is one of eight clusters formed under the Offshore Wind Sector Deal, part of the UK Industrial Strategy.



## ACADEMIC, EDUCATION AND SKILLS INVESTMENT

By growing the university presence in the region, we are creating more opportunities for businesses to access expertise and test facilities to support innovation, research and development.

We worked with five Scottish Innovation Centres to extend their reach deeper into our region and continued to support the Glasgow School of Art to optimise its activities in the Highlands and Islands, including those taking place at its campus near Forres.

We helped the University of the Highlands and Islands (UHI) develop a stronger action plan to grow its Engineering, Technology and Manufacturing offer in both research and education, and to align national and regional economic priorities with development of its international strategy.

Our joint venture to establish Orkney Research and Innovation Campus in Stromness strengthened engagement with three universities – UHI, Heriot-Watt and Robert Gordon. This included support for a Chair in Energy Systems with Heriot-Watt, based in Orkney and delivering research and teaching activity across the whole university, including its Dubai and Malaysia campuses.

We ensured that the Highlands and Islands is well represented in national and regional skills alignment plans, including taking a leading role with Rural Skills and Aquaculture and contributing to the Scottish Future Skills Action Plan.

Work to position the Highlands and Islands as a key global location for research and innovation linked to remote and rural regions made good progress and we established links with Arctic and near Arctic regions that face similar challenges.

### Our Northern Innovation Hub

**CODING ACADEMY,**  
CodeClan Highlands, helped all seven graduates from its first cohort to secure long-term employment.



## TOURISM

HIE was part of a national tourism working group, chaired by the Cabinet Secretary, and contributed to the development of a new national tourism strategy, *Scotland Outlook 2030*, ensuring the distinct needs of the Highlands and Islands and rural areas are fully recognised.

We participated and supported wider engagement in consultations including the proposed development of a transient visitor levy, where we highlighted the need for a flexible destination-led approach and fully considered design and application process.

Through support to Wild Scotland and Sail Scotland, we invested £100,000 in developing the region's adventure tourism sector, helping to strengthen the Scottish Government's ambitions to make Scotland a world leader. Business Tourism Solutions, along with Lochaber Chamber of Commerce, was contracted to deliver the Adventure Tourism Business Growth programme, part of the Northern Innovation Hub.

Our *Tune into Tourism* initiative released six webinars in autumn 2019. These quickly received over 1,250 views across HIE's streaming platforms. Towards the end of 2019-20, we started planning a series of podcasts for the sector aimed at COVID-19 recovery.

HIE was part of the national steering group for Scotland's themed Year of Coasts and Waters, helping assess around 80 applications and awarding funding to 35 events.

Other key areas of focus included the cruise market and the role of Gaelic as a distinctive part of our region's offering to visitors.

## SPACE

The growth of the UK space industry presents a diverse range of opportunities for Scotland and the Highlands and Islands is well placed to benefit.

Plans for satellite launch sites in Sutherland, Shetland and the Outer Hebrides all made progress during 2019-20. Orbex, based at the Enterprise Park, Forres, was awarded £1.5m working capital by HIE to take forward research and manufacture of an innovative launch vehicle to put small satellites into orbit from Sutherland.

HIE submitted detailed plans for Space Hub Sutherland to the Highland Council in February 2020 (approved with conditions in August 2020). The proposed launch site, near Tongue, is expected to support the creation of 250 jobs in the Highlands and Islands, including 60 in Sutherland and Caithness.

## CAIRNGORM

HIE subsidiary Cairngorm Mountain (Scotland) Ltd (CMSL), continued to operate the visitor attraction during 2019-20 and HIE supported the business to install new outdoor play equipment and renovate bar and café areas. Late winter snow in February 2020, augmented by snow making equipment, led to a busy period for snowsports, even though the funicular railway remained out of action. However, the business had to be closed in March in line with government guidance on the coronavirus outbreak, and most staff were furloughed.

In August 2019, Audit Scotland published its Section 22 review of the circumstances that led HIE to establish CMSL to take over operations at Cairngorm after the previous operator was put into administration. Following this, Audit Scotland began a more detailed, Section 23 review.

While HIE's ambition is to reinstate the funicular, this will be dependent on the outcomes of an options appraisal and detailed business case that will be considered in 2020-21. A planning application was submitted in March 2020, and subsequently approved by the Cairngorms National Park Authority.

HIE also commissioned specialists to prepare a new masterplan to guide investment and development at Cairngorm over the next 30 years or more. Public engagement in February 2020 generated more than 1,600 responses from stakeholders, including local residents, business people and others with an interest in outdoor sports and the environment. The masterplan is due to be finalised during 2020, following further engagement with partner bodies and the wider public.





CASE STUDY

## SCIENCE SKILLS ACADEMY

**With Scottish Government funding through the Inverness and Highland City-Region Deal, we continued to develop the regional Science Skills Academy (SSA).**

SSA is playing a key role in engaging young people in science, technology, engineering and maths (STEM) including highlighting career opportunities.

HIE leads a partnership to deliver SSA that includes the Highland Council, the University of the Highlands and Islands, Skills Development Scotland, High Life Highland and NHS Highland.

The UK's first Newton Rooms – an innovative learning model adapted from Norway by SSA – ran successfully during the year in Thurso and Caol, by Fort William. Just under 2,000 pupils took part in activities in Thurso and a further 1,000 in Lochaber. A roadshow in Caithness and Sutherland attracted a further 390 pupils from seven schools.

A third Newton Room is planned for Dingwall and a presence in Inverness is being sought. SSA was also successful in winning a contract to deliver Destination Space – a UK-wide STEM activity that supports spaceports.

## GROWTH DEAL PARTNERSHIPS

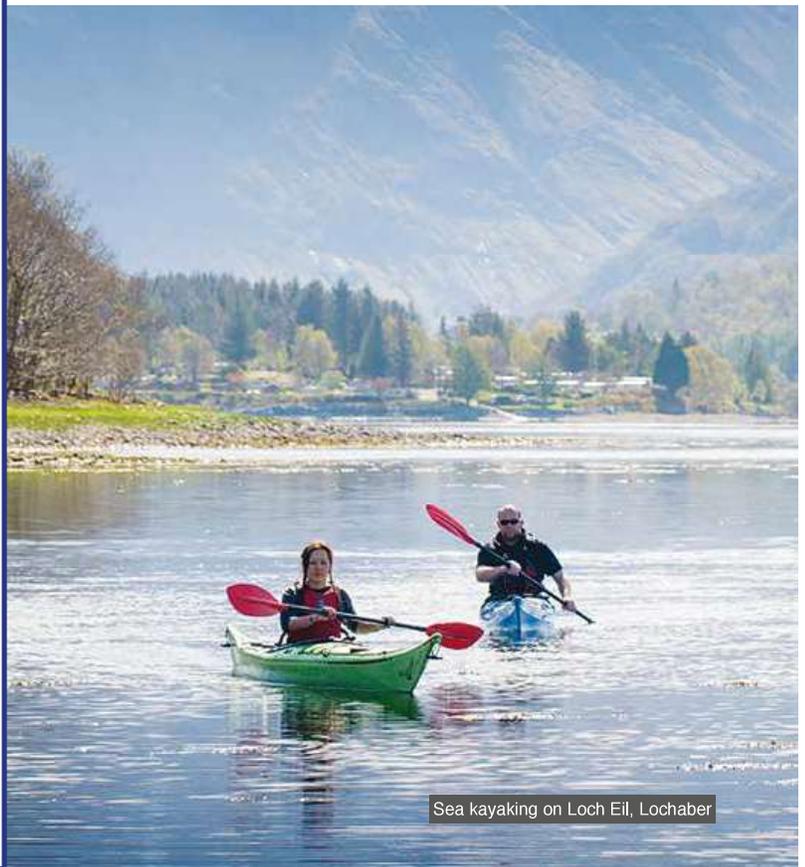
In October 2019, the Convention of the Highlands and Islands (COHI) focused on issues including population, climate emergency and regional transformational opportunities (RTOs). Following this, local authorities and HIE developed analysis of the demographic challenges facing the region, with a particular focus on the north and west coasts, which will be considered at a future meeting.

The RTO work was led by HIE and develops thinking on game-changers for the region, particularly those which would contribute to regional and national economic growth. There is a strong alignment between the opportunities identified and the strategic proposals contained within the growth deals across the region.

The Inverness and Highland City-Region Deal progressed well and includes two projects led by HIE: the Science Skills Academy and Northern Innovation Hub.

The Moray Growth Deal (£32.5m) and the Argyll and Bute Rural Growth Deal (£25m) both received formal commitment from the Scottish and UK Governments during the year. Partners continue to develop the plans, with HIE leading on a manufacturing innovation proposal for Moray and a key partner in the marine aquaculture programme in Argyll and Bute.

The Islands growth deal was under development, with a commitment expected during 2020-21.



Sea kayaking on Loch Eil, Lochaber

The official opening of community renewable energy system on Fair Isle



## STRONG, CAPABLE AND RESOURCEFUL COMMUNITIES

**Strong, capable and resourceful communities and social enterprises generate economic activity and social impacts and are key to attracting new talent to the region. They are vital for the social and economic growth of all parts of the Highlands and Islands.**

Our activities in 2019-20 focused on three complementary themes: HIE's influencing role; social enterprise capacity and innovation, and community ownership of assets.

### HARNESSING OUR EXPERIENCE

Having built up more than 50 years' knowledge and experience in community development, HIE has a key role in helping shape strategy, policy and legislation affecting social enterprises, communities and the rural economy. This proved particularly valuable during 2019-20 as we supported the establishment of the new development agency South of Scotland Enterprise, which has a very similar remit to HIE.

We provided evidence to inform the land reform debate in the Scottish Parliament on right-to-buy legislation, and contributed to developing the national Social Enterprise Plan 2020-23.

We submitted a response to Scottish Government consultation on housing, reflecting the essential role that adequate provision plays in ensuring that rural communities are sustainable and able to retain and attract population.

Accessible rural childcare services are another key factor in sustaining population and attracting talent to our region. We established an internal working group to examine issues in the childcare sector and define a role for HIE to help develop affordable and sustainable services.

We participated in several energy consultations at UK and Scottish levels, with a focus on opportunities for local energy schemes, and helped co-ordinate EU clean islands transition agendas for Scottish off-grid islands.

### COMMUNITY-LED DEVELOPMENT

Sixty-one successful applications were made from the Highlands and Islands to the Scottish Government's *Investing in Communities* programme; a high proportion compared to the rest of Scotland.

This included 29 projects supporting community-led, place-based working, maximising investment into the region from this Government programme. This long-term approach is part of the reason that communities across the region were successful in attracting £1.5m of European Social Fund support for *Aspiring Communities* projects.

### LOCAL ENERGY

Upgrading energy networks in our most remote areas is a key requirement for the vision of an inclusive Scotland. Such networks will help us manage the increasing heat and transport demands of a net-zero future and reduce the higher cost and demand for electricity, especially in the absence of natural gas supplies.

We completed an islands energy audit, providing evidence of the challenges faced by energy systems on islands where grid connections limit performance and resilience or do not exist at all. A significant finding was that the Knoydart peninsula and six islands – Canna, Eigg, Rum, Muck, Foula and Fair Isle – were identified as off-grid and with community-owned electricity generation systems that are generally aging and vulnerable. These communities have started a collaboration to share approaches to system maintenance, operation and decarbonisation.

Input from HIE and partners encouraged the Scottish Government to develop a new policy and set aside capital funding to improve the sustainability of off-grid electricity generation.

From 2016 to 2019, we helped 44 organisations to develop and fund plans for innovative energy systems. HIE investment of £157,000 helped lever in £5.9m.

Recognising that rural areas can make an important contribution to Scotland's target of achieving net-zero carbon emissions by 2045, we began identifying priority actions both within HIE and in collaboration with partners and clients. This work includes a new policy to support the region's businesses, social enterprises and communities to transition successfully to net-zero.

National strengthening communities conference 2020: panel with keynote speaker Aileen Campbell MSP, cabinet secretary for communities and local government (second left)



## SOCIAL ENTERPRISE

HIE staff contributed to the development of the Scottish Government Social Enterprise Plan 2020-23, including engaging with social enterprises and networks to seek input and raise awareness of the action plan and ensure regional priorities were reflected.

We supported the Social Enterprise in Schools awards organised by the Social Enterprise Academy. Pupils from seven schools from the Highlands and Islands were recognised for their success in developing social ventures. At the more immediate end of our spectrum of support for social enterprises, we supported three social enterprises to attend the national marketplace, seeking opportunities for increasing commercialisation.

The Social Enterprise World Forum, held in Ethiopia in October 2019, provided opportunities to meet and exchange best practice with international experts. Douglas Cowan, HIE's director of communities and place, was invited to chair a workshop on community-based social enterprises – transforming places and sharing prosperity.

## NETWORK FOR SOCIAL ENTREPRENEURS

As programme lead, HIE delivered the EU-funded Support Network for Social Entrepreneurs (SuNSE) and hosted an international event promoting entrepreneurship. Piloted successfully in Sutherland, SuNSE aims to support entrepreneurs to start and grow social businesses.

We helped establish three entrepreneurial start-up schools in Caithness and Sutherland, Wester Ross and Easter Ross.

## NATIONAL CONFERENCE

In May 2019, we delivered the second national Strengthening Communities conference in Aviemore, providing a unique forum to discuss issues affecting communities across Scotland and forge new networks and alliances.

The gathering attracted 265 representatives of community-driven organisations along with 35 marketplace organisations from different sectors and international speakers from three continents. It was opened by 30 young people from the Highlands and Finland, underlining the importance of the youth agenda in community development.

Cabinet Secretary for communities and local government Aileen Campbell delivered a keynote speech. We had excellent feedback and the delegates enjoyed workshops built around experiences of other communities across topics as broad as housing, community transport and culture and heritage, while also taking time to learn from others about good governance and organisational sustainability.

## COMMUNITY TOURISM

In January 2020, the first 15-strong cohort took part in the Community Tourism Leaders programme, developed in partnership with the Social Enterprise Academy to enable communities to benefit from opportunities in the tourism sector.

This initiative aims to help people across the Highlands and Islands and the South of Scotland to understand the modern tourism sector, consider the role they can play in a tourism destination and ensure that initiatives are market-led, sustainable and collaborative. Feedback was very positive and will inform delivery for the next cohort.

In a separate initiative, we established pilot projects in Northmavine, Shetland, and in the Uists to facilitate innovative and collaborative approaches to rural food tourism and explore new business ideas.

We also invested £200,000 to support the first phase of a planned £2.2m project to improve infrastructure on the island of Eigg. Our investment will improve water and electricity services and provide toilets and showers to attract more visitors, leading to a rise in turnover for the community trading company.

## CULTURE AND HERITAGE

An innovative collaboration with the University of St Andrews is part of our drive to nurture culture and heritage activity that is central to the social and economic wellbeing of rural communities. CUPIDO is an Interreg North Sea Region project supported by the European Regional Development Fund.

Through CUPIDO, a cohort of 16 cultural social enterprises are being supported to develop digital heritage projects that will enhance commercial growth and modernise the region's cultural offering.

We ran digital skills workshops to raise awareness of modern technologies and equip enterprises including heritage centres and museums with the ability to create and deliver content using digital media. This work will continue during 2020.

We continue to work with partners Skills Development Scotland and Comhairle nan Eilean Siar and key stakeholders, Ceolas, MG Alba and others to deliver opportunities aimed at developing Gaelic workplace skills using shared resource posts.

We supported and will continue to develop several initiatives that promote Gaelic in the community and Gaelic experiences offered to tourists. This is being delivered across most of the Highlands and Islands, with some early projects in Argyll and in the Outer Hebrides.

## COMMUNITY OWNERSHIP OF ASSETS

Throughout 2019, we continued to deliver the Scottish Land Fund (SLF) on behalf of the Scottish Government and the National Lottery.

SLF awarded £8.1m to 46 acquisition projects across Scotland during 2019-20, including £4.4m to 24 projects in the Highlands and Islands. At the year-end, we were supporting 238 pipeline projects and demand remained very strong.

To support investment in post-acquisition development, we delivered two intensive 2-day facilities management training courses (Oban and Harris) in partnership with DTAS.

Work is underway to develop and adopt long-term measures of impact for larger and more complex asset-based, community-led development. This is linked to a complementary workstream focusing on HIE's investment in infrastructure.



## CASE STUDY

# LEADING THE WAY TO NET-ZERO

**The 35-strong community of Foula, 20 miles west of mainland Shetland, signed up to the Clean Energy Transition Pledge in June 2019, committing to produce a decarbonisation plan within a year.**

Other signatories were HIE, Scottish Natural Heritage (now NatureScot) and Shetland Islands Council.

Foula Electricity Trust (FET) has been providing the island's electricity since 1982, currently using wind, hydro and solar energy backed up by diesel generators. Signing the pledge is a signal of islanders' commitment to transition to a net-zero future.

The off-grid island is one of six that HIE supported to apply successfully as a consortium to the EU Clean Islands Energy programme. During 2019-20, HIE also awarded funding to replace wind turbine heads and strengthen the island's hydro scheme.

HIE recognises that renewable energy options available to islands are abundant and that a resilient, affordable supply is a cornerstone of sustainable community living in rural areas.

Trust director Magnus Holbourn said: "We hope that what we do here on Foula can inspire other people to get behind a transition to low carbon living."

We expanded **BROADBAND** coverage including full fibre connections that could deliver **GIGABIT SPEEDS**, including rural communities such as **GRIMSAY** and **GREAT BERNERA**.

# FINANCIAL PERFORMANCE

## PURPOSE

The main purpose of this section is to summarise our performance against finance targets for financial year 2019 -20. The detailed results are contained in the financial statements on pages 58 to 119.

Our budget comprises Resource, Capital, Financial Transactions, Ring-Fenced Expenditure and Annually-Managed Expenditure. All these budgets are supplied by the Scottish Government and, in most cases, can be supplemented by income generated by HIE.

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. The Resource budget is supplemented by other forms of income (examples include European Union 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 expenditure. It also includes grants to third parties for similar categories of expenditure. In addition, loans that HIE makes usually score as capital too. The budget is supplemented by other forms of income (examples include European Union funding or sales of property).

Financial Transactions are funding that is available from Scottish Government to support investment in companies or the provision of loans. Unlike Resource or Capital, this funding must be repaid to the Scottish Government.

The budget for Ring-Fenced Expenditure 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 that cannot be controlled in-year, such as changes in pension liabilities arising from stock market movements. This budget cannot be used to support Resource or Capital.

We entered financial year 2019-20 with a challenging budget settlement that included a £0.9m (3.0%) reduction in our Resource budget. Our Capital budget also saw a reduction of £0.7m (2.7%) although this was offset by a Financial Transaction (FT) allocation of £1m. We secured significant in-year funding from the Scottish Government (SG), including:

- Resource Budget of £2.5m for the anticipated operating losses at our subsidiary Cairngorm Mountain (Scotland) Limited (CMSL) and a further £1m for wider Cairngorm spend.
- Resource budget of £4.5m to cover the estimated impact VAT liability associated with a revised partial recovery method backdated to 2014. The final settlement of this liability was significantly lower than estimated and in effect only £1.23m of this budget was required.
- Capital budget of £2.1m to support capital expenditure at Cairngorm.
- Capital budget of £10m to support marine energy research and development of our subsidiary Wave Energy Scotland (WES).
- Authority to exceed our Capital budget by up to £2.87m in order to fund a development at Nigg East Quay

For 2019-20, we achieved our financial targets as agreed with Scottish Government (SG). This out-turn included an authorised overspend of £2.43m against Capital budgets to accommodate the Nigg East Quay project. There was a £0.125m underspend against the £1m Financial Transactions Budget. The Resource budget showed an underspend of £4.03m. This comprised £3.27m relating to the additional allocation made available by SG to deal with backdated VAT liability, £0.175m relating to Cairngorm activity and £0.59m core HIE funding.

The final weeks of the financial year were overshadowed by the increasing impact of the COVID-19 pandemic, which included late changes to forecasts and the impact of remote working in the most crucial weeks of the financial year. In this context, the performance against financial targets is particularly commendable. The pandemic also has an impact on HIE's balance sheet due to the potential for reduction in the carrying value of loans and debtors. The impact remains uncertain, but reasonable value judgements were made in preparing the accounts.

CMSL recorded an operating loss before depreciation of £0.37m in its accounts which is in effect consolidated within the overall underspend of £0.175m against the budget available for Cairngorm in the Group accounts.

Annually-Managed Expenditure of £8.5m was £5.5m over budget, primarily due to increased provisions (the largest of which related to an increase in estimated costs relating to the funicular railway at Cairngorm) and a write down of various assets from historic cost to market valuation, while the Ring-Fenced budget was £4.2m underspent. The latter budget chiefly deals with depreciation on assets such as buildings or equipment plus profits on HIE's associate/subsidiary companies.

The table below (subject to final changes) summarises the outturn for financial year 2019-20. Our final budget was £76.5m and we spent £76.1m, resulting in an underspend of £0.4m.

## Summary out-turn

| FINANCIAL OUT-TURN 2019/20   | BUDGET        | SPEND         | (OVER) / UNDERSPEND |
|------------------------------|---------------|---------------|---------------------|
|                              | £'000         | £'000         | £'000               |
| Resource Budget              | 37,970        | 33,939        | 4,031               |
| Capital Budget               | 29,472        | 31,905        | (2,433)             |
| Financial Transactions       | 1,000         | 875           | 125                 |
| Ring-Fenced Resource         | 5,035         | 851           | 4,184               |
| Annually Managed Expenditure | 3,000         | 8,519         | (5,519)             |
| <b>TOTAL</b>                 | <b>76,477</b> | <b>76,089</b> | <b>388</b>          |

Note: Capital exceeded budget - this was approved in advance by SG

| FINANCIAL OUT-TURN 2018/19                  | BUDGET        | SPEND         | (OVER) / UNDERSPEND |
|---|---------------|---------------|---------------------|
|   | £'000         | £'000         | £'000               |
| Resource Budget                             | 32,277        | 34,175        | (1,898)             |
| Capital Budget                              | 31,690        | 31,608        | 82                  |
| Financial Transactions                      | 0             | 0             | 0                   |
| Ring-Fenced Resource                        | 5,000         | 2,115         | 2,885               |
| Annually Managed Expenditure                | 7,500         | 22,740        | (15,240)            |
| <b>TOTAL</b>                                | <b>76,467</b> | <b>90,638</b> | <b>(14,171)</b>     |
| Analysis of Resource Budget Out-turn:       |               |               |                     |
| HIE underspend                              |               |               | 98                  |
| Cairngorm Mountain (Scotland) Ltd overspend |               |               | (1,996)             |

Clearly, the financial performance above needs to be seen in the context of non-financial performance targets. Achieving financial targets is a means of delivering performance outcomes effectively and efficiently, and not an end in itself. This section should therefore be read in the context of the Performance Analysis section (p11) which describes the impacts that investment decisions and actions undertaken by HIE in financial year 2019-20 are expected to deliver over several years to come.

## STATEMENT OF FINANCIAL POSITION

Our statement of financial position summarises our assets and liabilities as at 31 March 2020. For HIE this showed a net deficit (due to liabilities exceeding assets) of £18.61m. This is slightly less than the £20.77m deficit at 31 March 2019. For the Group (including our subsidiaries such as Wave Energy Scotland) the comparative figures are £16.62m (2020) and £19.30m (2019). There were many variables that explain the movement in the position, noting that this improvement took place in a year in which HIE disposed of its most valuable fixed asset (the Centre for Health Science) to the University of the Highlands and Islands. The carrying value of the proceeds of this sale (£8.5m) has been 'banked' with the Scottish Government as a source of funding for the Business Case relating to Cairngorm.

A key movement that contributed to the improvement was a significant reduction in trade payables and other current liabilities at year-end (HIE £10.96m compared with £18.35m at 31 March 2019, Group £11.10m and £17.92m). The 2018-19 position had been affected by cashflow challenges that had eased for the 2019-20 year-end position and this is reflected in an increased cash balance at year-end (£5.07m for the Group, compared with £2.3m). Another positive movement was a reduction in retirement benefit obligation (HIE £41.98m compared with £47.43m, Group figures are the same). However, this position deteriorated in quarter 1 of 2020-21 as a result of the impact of COVID-19 on financial markets – albeit the funding position had recovered to its pre-Covid level at the time of writing. Overall, it can be seen that the retirement benefit obligation has – as in all recent years – a very significant impact on the overall statement of financial position. If this liability were set to one side, the remainder of the HIE statement of financial position would be positive by around £24m and the Group by £26m. Bad debt provisions increased from £0.43m to £1.33m for HIE and the Group.

The pensions provision is split between the HIE Scheme (£38.88m) and the four Local Government Pension Schemes (LGPSs) of which HIE is a member (£3.11m in total). The liability for the HIE Scheme will take decades to crystallise and therefore does not represent an immediate risk to HIE's cashflow. In addition, SG has provided written assurance of its willingness to stand behind the HIE pension scheme. For these reasons, the accounts have been prepared on a going concern basis. The liability for the LGPSs will crystallise more quickly since they are closed to new members. – However, there are guarantees in place from the Scottish Government that underwrite this risk.

## FUTURE OUTLOOK

The financial outlook for the Scottish public sector was challenging before the impact of the COVID-19 pandemic. Our baseline Resource budget for 2020-21 was reduced by £4m (13%) from £29.5m to £25.5m which required a thorough review of all existing legal commitments to enable a balanced budget to be set and left no headroom for new investments. In the light of the pandemic, the Board formally reviewed its risk appetite and agreed to set a 'deficit' Resource budget of £1m, which allowed HIE to make £1m available to facilitate a response to the challenges facing the region. Clearly the scale of investment available to HIE is insufficient to mount a comprehensive response to the crisis and we are working closely with SG and other agencies to ensure it forms part of the wider response, such as administering additional COVID-19-related funds on behalf of SG. In terms of capital, HIE's budget remained at £25.5m whilst its Financial Transaction budget increased from £1m to £2m. We set a Capital budget with a relatively modest over-commitment. This will be reviewed regularly during the year with a view to re-committing any slippage.

A key risk for HIE is inevitably the economic impact of the pandemic, which is likely to be significant and will affect HIE both in terms of its funding as a public-sector body and the expectations of it regarding the recovery phase. The impact of Brexit is also uncertain, and much will depend on the outcome of negotiations with the European Union prior to the end of the transition phase.

More specifically, HIE faces the following principal financial risks in 2020-21.

- Costs associated with Cairngorm mountain
- Financial implications of Space Hub Sutherland
- Possible loss of rental and loan income arising from the impact of the pandemic on tenants etc
- Potential reduction in European Union income
- Impact of a revised VAT regime

The funicular railway at Cairngorm is a financial risk that is certain to require significant investment. Most of the cost is likely to be incurred in 2020-21 and 2021-22. We have developed a business case, aligned to the Treasury best practice approach. Discussions are still ongoing and we hope these will be concluded imminently, at which point a decision will be reached. We have provided for the estimated cost in the accounts.

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

## MEDIUM-TERM RISKS

In the medium-term, the largest value financial risk is the status of the HIE Pension Scheme. At April 2018 (the latest formal actuarial valuation) the technical provisions deficit stood at £31m. It must be emphasised that this is an estimate that looks far into the future and there is no immediate threat to HIE's cashflow. The key action required is the agreement of a Pensions Recovery Plan to address the deficit over a prolonged time period. A recovery plan has been agreed with the Board and signed off by the Trustees of the HIE Pension Scheme. This plan was submitted to the Pensions Regulator alongside the formal valuation and the Regulator raised no questions regarding the plan. The deficit is monitored closely and HIE will act to accelerate the recovery plan if required. In 2019-20 we made a contribution of £0.58m towards the Recovery Plan. We were also able to make an additional contribution of £0.57m towards the Recovery Plan that had previously been profiled into 2020-21. The Scottish Government has previously indicated that it will stand behind the Scheme and this is another measure that mitigates the risk.

HIE's activities at Cairngorm mountain seem likely to remain a risk in the medium term. HIE is working closely with the Scottish Government on this. HIE's involvement in Space Hub Sutherland may also be a medium-term risk if the Board decides to proceed with the project.

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

## EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION

At the end of June 2020 HIE substantially agreed the settlement of the VAT compliance review with HMRC. The statement of financial position has been updated to reflect the settlement.

During July 2020 we received further clarity in relation to the cost of the funicular solution. The provision in the accounts for the funicular solution has been updated to reflect revised costs.

In July 2020 the government updated the advice in relation to McCloud pension adjustment. The pension disclosure has been updated to include the new advice.

In August 2020 planning permission was given for Space Hub Sutherland. The asset under construction value for Space Hub Sutherland within non-current assets has been updated to reflect the planning permission being awarded.

## 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<br>2019-20 | PERFORMANCE<br>2018-19 |
|--|------------------------|------------------------|
| "In line with government policy, HIE aim to pay all invoices promptly - target 10 days | 78%                    | 77%                    |
| Note: excludes items under dispute or where other terms are agreed with a supplier"    |                        |                        |



## PUBLIC INTEREST REPORTING

### INFORMATION REQUEST PROCESSING

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

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

In 2019-20, HIE received 118 information enquiries.

|  | 2020       | 2019       |
|--|------------|------------|
| Freedom of Information (Scotland) Act 2002 (FOISA):          | 113        | 100        |
| Environmental Information (Scotland) Regulations 2004 (EIR): | 4          | 37         |
| Data Protection Act 1998 (Subject Access Request)            | 1          | 1          |
| <b>Total</b>   | <b>118</b> | <b>138</b> |

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

| INFORMATION REQUEST HANDLING PERFORMANCE   | 2020    | 2019    |
|--|---------|---------|
| Average time to fully respond and close a request for information:                                     | 13 Days | 18 Days |
| Percentage of requests requiring a response which received a response within the statutory timescales: | 95%     | 86%     |
| Percentage of requests which received a late response:   | 5%      | 12%     |
| Percentage of requests requiring a response fully or partially disclosed:                              | 100%    | 92%     |
| Percentage of requests which were vexatious:   | 0%      | 0%      |
| Percentage of requests which were withdrawn:   | 2%      | 2%      |
| Percentage of requests not held:   | 15%     | 0%      |

## FOISA EXEMPTIONS AND EIR EXCEPTIONS APPLIED TO REQUESTS FOR INFORMATION

| SECTION OF ACT (FOISA)    | DESCRIPTION OF EXEMPTION   | 2019/20 | 2018/19 |
|---------------------------|--|---------|---------|
| 30 (b) or (c)             | Prejudice effective conduct of public affairs / free or frank exchange of advice | 3       | 3       |
| 33 (1) (b)                | Prejudice commercial activities  | 14      | 12      |
| 38 (1) (b)                | Breach of data protection principles / third party personal data                 | 11      | 27      |
| 36 (2)                    | Confidentiality of communications  | 0       | 3       |
| 27                        | Information intended for future publication                                      | 1       | 0       |
| 25                        | Information otherwise accessible   | 2       | 0       |
| SECTION OF ACT (EIR)      |  |         |         |
| EIR regulation 10 (5) (e) | Confidentiality of commercial information  | 1       | 15      |
| EIR regulation 10 (4) (d) | Material in the course of completion   | 1       | 0       |
| EIR regulation 11 (2)     | Breach of data protection principles / third party personal data                 | 1       | 0       |

| NUMBER OF REQUESTS FOR REVIEWS:                       | 2020      | 2019      |
|---|-----------|-----------|
| Freedom of Information (Scotland) Act 2002            | 8         | 4         |
| Environmental Information (Scotland) Regulations 2004 | 2         | 11        |
| <b>Total</b>  | <b>10</b> | <b>15</b> |

| NUMBER OF APPEALS TO THE OFFICE OF THE SCOTTISH INFORMATION COMMISSIONER: | 2020 | 2019 |
|---|------|------|
|   | 2    | 2    |

The Scottish Information Commissioner has asked all Scottish public authorities to provide FOI and EIR statistics on a quarterly basis. HIE has provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering the year 2019-20.

### CUSTOMER SERVICE

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

### COMPLAINTS

We take all complaints seriously and have an effective, easy to use complaints procedure. Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. During the period from 1 April 2019 – 31 March 2020, a total of 12 were dealt with through frontline resolution with just one requiring an investigation.

|                              | FRONTLINE RESOLUTION | INVESTIGATION | SPSO |
|------------------------------|----------------------|---------------|------|
| 1 April 2019 – 31 March 2020 | 12                   | 1             | 1    |

When a complaint cannot be resolved internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO. One complaint was considered by the SPSO during 2019-20 which was not upheld by the SPSO.



## HIE - ASPIRING TO MAKE A DIFFERENCE



HIE is an outward-looking, forward thinking, customer-focused organisation whose staff are empowered to use their talents, skills and knowledge to build a successful and competitive region where more people want to live, work, study and invest.

The strength of HIE's culture is evidenced by a committed workforce passionate about the Highlands and Islands and identifying with our aim to make a positive difference.

### OUR PEOPLE VALUES

HIE is accredited as a Living Wage employer and supports national initiatives ranging from the Social Impact Pledge to encouraging volunteering, engaging in the Digital Public Services agenda, meeting the Investors in People standard, developing the young workforce, and adopting Fair Work principles. HIE has won awards as a family friendly employer from Family Friendly Working Scotland, Carers Scotland and Working Families UK.



## MAKING A DIFFERENCE – KEY THINGS THE HR FUNCTION NEEDS TO DELIVER

- HR needs to understand what's important to the organisation, so that employees understand how their efforts connect, or align, with HIE's purpose and values.
- Recruiting and retaining the best talent by being recognised as an employer of choice.
- Focus on employee strengths and make every effort to understand what candidates and employees do best and put them into roles where they can play to their strengths as much as possible.
- Measure, reward and recognise the right things through effective performance management

## OUR PEOPLE AGENDA

To make this difference, the focus of our People Agenda has been on the following seven key areas:

### Talent attraction and retention

HIE's headcount currently stands at 300. We continue to review our strategic resource requirements alongside efforts to develop the workforce of the future. We are working to ensure that the organisation remains an employer of choice.

HIE has featured in best practice case studies produced by Working Families UK to promote flexible working approaches to other employers. In 2020, the organisation won Best Public Sector Employer at the Family Friendly Working Scotland awards, going on to become an award sponsor.

We raised awareness of inter-generational working, working with Age Positive Scotland and supporting employees to take up opportunities to extend working life beyond traditional retirement ages. We increased the numbers of young people we employ aged 30 and under and launched a pilot scheme to provide a modern apprentice opportunity for a care-experienced young person.

### Diversity and inclusion

Over 30% of HIE staff have agreed flexible working arrangements and all employees can work flexibly on an informal basis.

HIE has a suite of family-friendly and flexible working policies, backed up by practical support, to help employees balance the demands of work and home, including caring responsibilities. Almost all roles in HIE can be carried out from a flexible location. Our gender pay gap is continuing to narrow, particularly for women in higher grades. Women on average earn more than men at director level.

HIE is recognised as a Disability Confident employer. As well as aiming to meet the needs of employees, we consider those caring for disabled dependents, including flexible working arrangements and time off to support treatment and therapy.

### Engagement

Our Staff Forum is instrumental in helping articulate our values and consulting on policies. We also continue to work collaboratively with our recognised trade union, PCS, and our local representative.

A project team, sponsored by HR directors has been working across the Enterprise and Skills Strategic Board agencies to align and collaborate. Immediate benefits have been derived from sharing best practice, reciprocal agreements and protocols and joint approaches to improve quality, consistency and cost-effectiveness.

Over the last year we developed internal communications channels to raise awareness across the organisation of people issues, opportunities and support. We introduced *People Matters*, an online publication for employees and received excellent feedback. Along with an internal Yammer social media platform, we enhanced our intranet to provide better access to information, support and online learning. Yammer has also been used to facilitate groups for the staff forum, carers, working women in business and young people. Drop-in HR clinic sessions run on a monthly basis for all staff.

## Performance, development and growth

Ongoing coaching and regular review and feedback continued. Learning and development opportunities including corporate induction, line management training, team development, facilitation skills, mental health awareness, dignity at work and further education/professional development opportunities.

HIE's Leadership Team emphasised the importance of performance review and development planning in supporting employees. Corporate objectives introduced to HIE's process included living the values, consequence management and dignity at work.

We offer an annual opportunity for staff to apply for the Young Scotland Programme (YSP) and were pleased that this year HIE employees were part of the winning team in the group presentation round.

## Recognising and rewarding and excellence

HIE works with the Scottish Government Finance Pay Policy Unit and our recognised trade union PCS to agree our remit for pay and benefits within guidelines. As part of the most recent pay award, a new same grade line management allowance was introduced to recognise employees managing others at the same grade.

We take an innovative approach to providing and promoting flexible opportunities, including 27 weeks paid maternity leave and three weeks paid paternity leave. We offer 10 paid Keeping in Touch days for employees on maternity or adoption leave, have increased employer-supported community volunteering to three days a year, and enable time off to research and access carer resources.

## Health and wellbeing

HIE aims to help employees achieve an optimum balance between work and home life, and promotes health and wellbeing opportunities. We recognise the variety of caring responsibilities held by our employees and have supported the establishment of peer networks for carers

As well as supporting the Mentally Healthy Workplace initiative, members of the HR team have been trained and participated in local delivery of suicide intervention and prevention awareness

## Leadership and management capability

Management capability has been enhanced through support to new line managers as part of their induction. Twice a year, the prestigious Cook Conversations bring together exceptional individuals and future leaders to challenge and shape participants' outlook and development. HIE supports a place on each of the two programmes as well as in-house alumni events.

# SUSTAINABILITY AND ENVIRONMENT REPORT

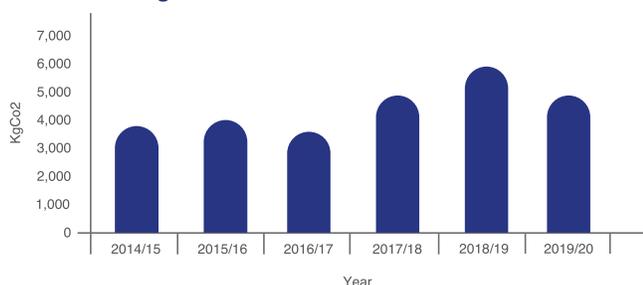
HIE is committed to reducing our carbon emissions. We have operated an internal carbon management plan since March 2011. We are a signatory to the joint climate change declaration and encourage our clients to reduce their carbon consumption.

We are working actively to creating the conditions for a competitive and low carbon region and recognise the potential that rural parts of Scotland have to make a significant contribution to the Scottish Government's target of transition to a net-zero economy by 2045.

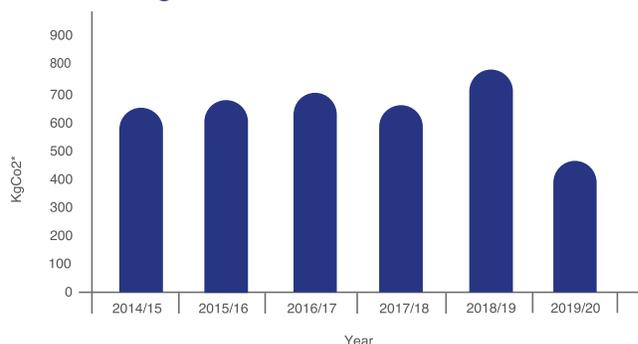
| WASTE AND WATER                    |   | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|------------------------------------|---|---------|---------|---------|---------|---------|---------|
| Non-financial Indicators (KgCO2e)* | Total greenhouse emissions from general waste | 3,946   | 4,233   | 3,811   | 5,183   | 6,344   | 5,326   |
|                                    | Measurable greenhouse emissions from water    | 653     | 688     | 707     | 666     | 782     | 460     |
| Non-financial Indicators           | General Waste (kg)                            | 13,615  | 9,222   | 9,051   | 8,801   | 10,817  | 9,081   |
|                                    | Recycled Waste(kg)                            | 26,563  | 25,670  | 22,280  | 16,520  | 18,167  | 14,997  |
|                                    | Measurable Consumption (m3)                   | 1,897   | 2,000   | 2,054   | 1,937   | 2,272   | 1,337   |
| Financial Indicators (£'s)         | Disposal Cost                                 | 48,518  | 51,849  | 54,852  | 47,266  | 27,705  | 14,969  |
|                                    | Measurable Water Cost                         | 37,414  | 25,850  | 38,548  | 18,156  | 15,814  | 10,596  |

\* Although we reduced our general waste by a third between 2014/15 and 2019/20, the recorded impact, expressed as KgCO2e, rose. This is due to a change in the conversion factor used by the UK Department for Environment, Food and Rural Affairs (DEFRA) to calculate impact. In 2014/15, the calculation was done by multiplying the weight of general waste by a factor of just under 290. In 2019/20, the DEFRA multiplier had been increased to almost 587.

Greenhouse gas emissions from waste



Greenhouse gas emissions from water



## PERFORMANCE COMMENTARY

HIE has seen around a 15% decrease in carbon emitted relating to general waste. We have also seen around a 15% decrease in recycled waste produced by the organisation, this is mostly attributed to a reduction in the destruction of our historic paper files compared to previous years .

HIE had expected the comparatively high recycling figure to continue in the reported financial year. However this work has now regularised and we would expect this trend to continue downwards next year. The significant saving on the cost of disposal is due to HIE agreeing a new contract with our waste supplier for Inverness Campus premises An Lòchran as well as not having as many waste uplifts in the reported financial year.

HIE has seen a drop in our reported water consumption, this is due to our water provider over-estimating usage at our Auchtertyre office. This has now been rectified and we would expect the water consumption to remain at a similar level next year.

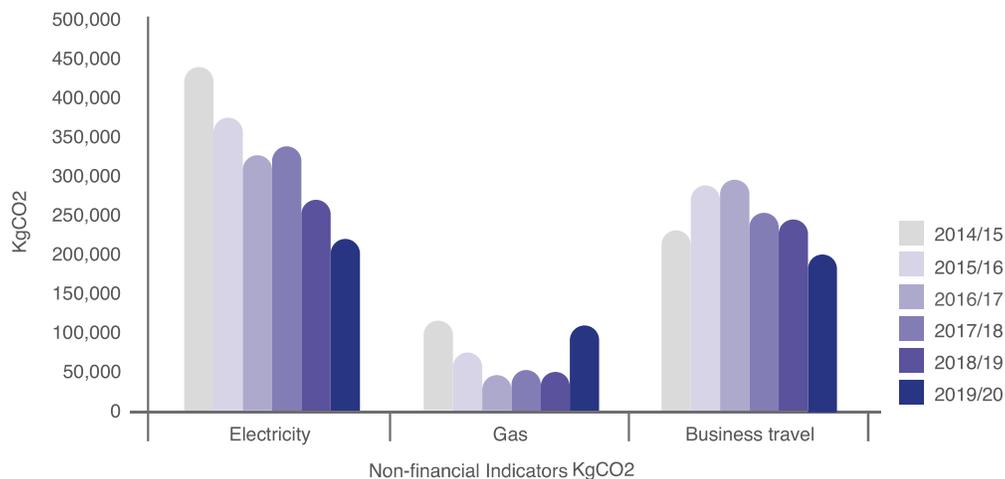
## CONTROLLABLE IMPACTS COMMENTARY

HIE receives a detailed monthly report from our waste provider outlining the type of waste and weight that is produced each month. The weight of the waste is measured by improved weighing technology in the disposal vehicles. This continues to eliminate the risk of human error in the reports provided. The accurate reporting allows us to continue to set reasonable targets to work towards for future years and helps to identify possible cost/carbon savings that can be made caused previously

HIE has recently changed water supplier and we are looking at installing automatic water meters at all premises, this will reduce the inaccuracy in reporting that over/under estimating has. The increased accuracy in reporting will allow for conversation to be had with the supplier to ensure we are following best practices.

| UTILITIES AND BUSINESS TRAVEL    |                 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|----------------------------------|-----------------|---------|---------|---------|---------|---------|---------|
| Non-financial indicators (KgCO2) | Electricity     | 436,151 | 369,654 | 324,639 | 337,080 | 267,803 | 218,258 |
|                                  | Gas             | 108,616 | 72,274  | 45,940  | 54,269  | 50,267  | 104,560 |
|                                  | Business travel | 227,952 | 286,437 | 292,376 | 248,049 | 245,274 | 200,239 |
| Related energy consumption (kWh) | Electricity     | 889,687 | 806,224 | 792,634 | 966,262 | 953,442 | 860,708 |
|                                  | Gas             | 587,113 | 390,672 | 225,139 | 277,008 | 234,684 | 488,163 |
| Financial indicators (£'s)       | Electricity     | 104,674 | 108,677 | 117,113 | 120,675 | 107,546 | 102,628 |
|                                  | Gas             | 23,705  | 15,865  | 14,971  | 14,459  | 14,563  | 22,288  |
|                                  | Business travel | 692,167 | 732,738 | 700,263 | 694,228 | 672,018 | 600,977 |

#### Greenhouse gas emissions from buildings and business travel



#### PERFORMANCE COMMENTARY

Electricity usage has seen a reduction in comparison with previous years.

There has been a further 20% reduction over the previous year in carbon emitted from our electricity consumption. The related electricity cost has seen a saving of 5%.

Greater accuracy in reporting of usage has helped HIE identify future cost/carbon savings. As an example, HIE will now be monitoring utility data at our largest office on a monthly basis and this will help us to drive down costs and usage for the premises throughout the coming financial year by giving early warning of increases and allow us take action as necessary to address issues causing any unnecessary increase.

Business travel has also seen a carbon reduction of around 20%, with a cost saving of around 10%. This is a significant reduction on the previous financial year and we would expect this trend to continue into 2020-21 due to a significantly reduced travel budget as a result of less travel due to COVID-19.

Gas has seen a spike in kWh produced and carbon emitted, this was due to the supplier providing poor estimated usage. We now provide the gas supplier with our own reading so that we have accurate data.

C Wright *Charlotte Wright*  
 Chief executive and accountable officer  
 Highlands and Islands Enterprise

Targets for the coming financial year will continue to challenge HIE to seek new initiatives as we move towards meeting the Scottish governments Net Zero target for 2045.

#### CONTROLLABLE IMPACTS COMMENTARY

Highlands and Islands Enterprise (HIE) recognises the importance of managing its carbon footprint and is committed to reducing its emissions and continuing to move towards a low carbon region. This is a key priority for HIE and is embedded in the operating plan of the organisation which is reviewed on a regular basis by our Board as well as the Senior Management Team.

HIE monitors carbon emitted throughout the organisation and will work with employees to help generate ideas for new initiatives that will help achieve future carbon reductions.

Our relationship with suppliers has been a key factor in HIE continuing to meet its sustainability targets. HIE will continue to work with suppliers to learn from best practice elsewhere to help ensure we continue to deliver future reductions.

Date 24 September 2020

# ACCOUNTABILITY REPORT

## CORPORATE GOVERNANCE REPORT DIRECTORS' REPORT

### Board

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

### Board membership

- Prof L D Crerar CBE (Chair to 29 February 2020)\*
- Mr A Dodds CBE (Deputy Chair to 29 February 2020; Acting Chair from 01 March 2020)\*
- Ms C Wright (Chief Executive)
- Ms A Bryan
- Mr A Campbell
- Mr P Crerar CBE
- Ms A Gray
- Mr R McIntosh CBE
- Prof D MacRae OBE
- Ms F Newton MBE
- Ms A B Oldfield
- Mr C Ross
- Ms M Gibson (Shadow board member until 17 December 2019)

\*Prof Crerar's term as chair of HIE ended on 29 February 2020. Alistair Dodds took on the role of acting chair from 1 March, and was appointed as chair on 1 May.

### Leadership team

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

### Leadership team membership

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

\*Charlotte Wright undertook extended leave from April 2019 until May 2020. During that period, Carroll Buxton took on the role of Interim Chief Executive and Interim Accountable Officer, including attendance at HIE Board meetings. Charlotte Wright resumed the role of accountable office from 21st April 2020.

### Register of Board members' interests

Highlands and Islands Enterprise supports the highest standards of corporate governance and has in place

codes of conduct both for Board members and staff. In compliance with the Ethical Standards in Public Life etc. (Scotland) Act 2000, the HIE Code of Conduct for Board Members is published on our website, together with details of company directorships and other significant interests held by Board members. [www.hie.co.uk/about-hie/who-we-are/board-members/default.html](http://www.hie.co.uk/about-hie/who-we-are/board-members/default.html)

### Performance report

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

These matters are:

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

### Funding

Highlands and Islands Enterprise primary source of funding is Grant in Aid from the Scottish Government. The budget allocation for 2020-21 is £58.1m and together with in year budget revisions and funds generated by Highlands and Islands Enterprise from the use or sale of assets, European income and other partner contributions are deemed adequate for HIE to continue for the foreseeable future.

### Financial Instruments

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

### Retirement benefits

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme unless they opt out. Further details are provided in the Remuneration and staff Report and in notes 1 and 18 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 2020 was Gordon Smail, Audit Director, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £137,970 (2019 - £136,160). There were no fees payable to Audit Scotland for non-audit work during the year (2019 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 Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed and disclose and explain any material departures in the financial statements and
- prepare the financial statements on a going concern basis.

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

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

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

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

## GOVERNANCE STATEMENT FOR 2019/20

### SCOPE OF RESPONSIBILITY

In year I was on a period of extended leave. During this time, interim arrangements were in place for HIE Chief Executive and Accountable Officer roles, which ensured clarity on governance and roles and responsibilities.

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

As accountable officer, I have specific responsibility in relation to:

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

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. An element of my responsibility as accountable officer is to ensure HIE's internal control systems comply with the requirements of the SPFM. No written authorities have been provided to the accountable officer in 2019-20.

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

### GOVERNANCE FRAMEWORK

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

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

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

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

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

It also makes recommendations for strengthening existing controls and communicating lessons learned. HIE took part in the National Fraud Initiative for 2018-19 which concluded in 2019-20, which further enhances our consideration of the control environment. The results of this exercise were received in-year and a review undertaken. Additionally, in-year HIE had signed up to a one-year fraud prevention partnership with NHS Scotland Counter Fraud Services to give access to a wide resource of preventative fraud information and training for staff.

In year the Covid19 pandemic presented HIE with unprecedented challenges both for our economy and how we operate as an organisation.

As part of our response we quickly established a new working environment and identified areas where HIE's internal control and governance arrangements required to be adapted. This included a move to remote working and changes to risk reporting, risk appetite and agile and proportionate decision making to enable us to meet the needs of our communities and businesses.

HIE has been, and continues to, work closely with Scottish Government and other Partners to ensure appropriate solutions can be delivered to deal with hardship, resilience and recovery of our businesses and communities.

### ENTERPRISE AND SKILLS STRATEGIC BOARD

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

and to create the best conditions for delivering inclusive and sustainable growth.

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

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

HIE continues to work with our partner agencies on progressing these missions, taking the lead on business creation and growth. The actions are reflected in our 2019-22 strategy and operating plan.

Aligned to the Strategic Board objectives, we have been collaborating with our partners as part of the Business Support Programme in creating a new client delivery environment. During the year, particular emphasis was on establishing a target operating model to streamline the system of business support and working on projects such as making it easier for businesses to access public sector business support in Scotland through [www.FindBusinessSupport.gov.scot](http://www.FindBusinessSupport.gov.scot), new governance arrangements for products and services, and creation of new insights-driven data environment .

## OPERATION OF THE BOARD AND SUB-COMMITTEES

At 31 March 2020, the Board of Highlands and Islands Enterprise comprised the acting chair, nine non-executive members and the interim chief executive. To December 2019 the Board also included one shadow member, as a development opportunity.

The Board chair term ended in February 2020 and temporary arrangements were in place until recruitment of a new chair in May 2020.

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

The Board met in full as planned six times in year.

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
- The Board is supported by the Risk and Assurance Committee and the Remuneration Committee. Additional Board sub-groups have been created to specifically consider issues related to Cairngorm Mountain.

## RISK AND ASSURANCE COMMITTEE

The Risk and Assurance Committee comprises a chair and three non-executive members. 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 normally attend these meetings. The shadow Board member also attended the meetings (to December 2019)

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:

- Mr A Dodds CBE (chair) (to February 2020)
- Prof D MacRae OBE (chair) (from February 2020)
- Ms A B Oldfield
- Mr A Campbell

The chair of the Risk and Assurance Committee took on the role of the Board Chair in February 2020 and therefore temporary arrangements were in place. Following appointment of the HIE Chair in May 2020, Risk and Assurance Committee membership was reviewed, including confirmation of the appointment of the Chair.

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

## REMUNERATION COMMITTEE

The Remuneration Committee has been set up to review and agree the reward arrangements of HIE's chief executive and the HIE executive directors, in line with Scottish Government pay policy. The committee met once in year, with further information circulated for final sign-off.

The members of the committee during the year were:

- Mr P Crerar CBE (Interim Chair from 01 March 2020)
- Prof D MacRae OBE (Chair to 29 February 2020)
- Mr A Dodds CBE
- Prof L Crerar CBE (Appointment ended 29 February 2020)

The chair of the Remuneration Committee took on the role of the Risk and Assurance Committee Chair in February 2020 and therefore temporary arrangements were in place. Following appointment of the Board Chair in May 2020, and subsequent confirmation of Risk and Assurance Committee Chair, membership of the Remuneration Committee was reviewed, including confirmation of the appointment of the Chair.

## CAIRNGORM SUB-GROUP

A sub-group of the Board meets to specifically consider issues related to the operations at Cairngorm. The Cairngorm Sub-Group met 23 times in year to consider governance issues and to make recommendations for improvement. The sub-group reports on its activity to the full Board.

The Sub-Group comprises a chair and four non-executive members. The HIE chief executive and key senior staff would normally attend these meetings and non-executives who are not members are also invited to attend.

The members of this sub-group during the year were:

- Prof L Crerar CBE (Chair) (to February 2020)
- Mr A Dodds CBE (Chair) (from February 2020)
- Prof D MacRae OBE
- Mr P Crerar CBE
- Mr C Ross
- Ms F Newton MBE

## SPACE HUB SUTHERLAND SUB-GROUP

A sub-group of the Board meets to specifically consider issues related to the Space Hub Sutherland project. The Space Sub-Group met 23 times in year to advise on governance matters and make recommendations for improvement. The sub-group reports on its activity to the full Board.

The Sub-Group comprises a chair and four non-executive members. The HIE chief executive and key senior staff would normally attend these meetings and non-executives who are not members are also invited to attend.

The members of this sub-group during the year were:

- Prof L Crerar CBE (Chair) (to February 2020)
- Mr A Dodds CBE (Chair) (from February 2020)
- Prof D MacRae OBE
- Mr P Crerar CBE
- Mr C Ross
- Ms F Newton MBE

## OPERATION OF GOVERNANCE COMMITTEES

### Health and Safety Committee

The Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation, report on issues related to health and safety and to implement improvement plans as appropriate. 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 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 its governance environment for information management, information and systems security and fraud is appropriate.

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

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

## STRATEGIC AND OPERATIONAL FRAMEWORK

### Strategy and planning

Highlands and Islands Enterprise's three-year strategy sets out our ambition to develop sustainable and inclusive growth, in each and every part of the region.

Our operating plan 2019/20 focused on the short to medium term actions that need to be taken to build the vibrant economy that will deliver our objectives.

Throughout the year, we continued to work with our partners to deliver for the region and for Scotland.

The plan details our areas of focus under each of our organisational priorities which are interdependent. Taken together, these actions will help deliver the longer-term ambitions in our three-year strategy.

# BEST VALUE

## POLICY DEVELOPMENT, APPRAISAL, RESOURCE ALLOCATION AND IMPLEMENTATION

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

## LEADERSHIP, ACCOUNTABILITY AND GOVERNANCE

- regional vision aligned to national strategy
- support South of Scotland Steering Group
- integrate economic and community development
- deliver national initiatives such as WES
- publish approvals

## OVERARCHING STRATEGIC DIRECTION

Scotland's Economic Strategy | Enterprise and Skills Strategic Board | National Performance Framework Programme for Government | Economic Action Plan | National Council of Rural Advisers

## REVIEW, EVALUATION AND BENEFITS REALISATION

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

## RESPONSIVENESS, CONSULTATION AND JOINT WORKING

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

## BUSINESS IMPROVEMENT

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

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

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

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

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

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

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

Importantly, we keep an eye on both the short-term and long-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.

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

We strive to develop our understanding of risk in relation to project management and to source and manage funding and other resources in a way which maximises our impact. Above

all, we aim to increase transparency and accountability in all we do so that we truly represent the changing needs of our clients.

## PERFORMANCE MANAGEMENT

HIE has a corporate reporting framework which is in place to consider organisational performance throughout the year. This was discussed by the Board at each Board meeting.

## CORPORATE GOVERNANCE

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

## DECISION-MAKING

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

## RISK MANAGEMENT ARRANGEMENTS

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

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

The strategy identifies responsibilities of the Board, the Risk and Assurance Committee and executive staff. It also details the process of risk categorisation and approval and review process for the risk register by the Risk and Assurance Committee and the Board. In year the risk management arrangements were subject to review which has resulted in changes to the process, including updated risk appetite statements, with effect from April 2020.

Implementation of the strategy includes:

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

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

Key risks as identified at the end of 2019-20 are included in full in the Performance Summary, Principal risks and uncertainties, p10.

## SIGNIFICANT RISKS

### Impact on regional economy from the COVID-19 pandemic

Supporting the Highlands and Islands economy dealing with the unprecedented challenges as a result of the COVID-19 pandemic is a top priority for HIE. We are actively engaged in shaping solutions to deal with current hardship and resilience needs for our businesses and communities and in shaping recovery.

### Financial and budget

Budgetary challenges, including access to and replacement of EU funding and reduction in budget allocations, requires a rigorous approach to resource prioritisation and new approaches to interventions and investments. In addition, the recent COVID-19 challenges to our clients are putting an additional strain on HIE budget capacity.

### Cairngorm Mountain

HIE is long-term owner and custodian of Cairngorm Mountain. This comes with responsibilities to ensure there are effective arrangements in place to manage and maintain the mountain environment and provide a stable operating environment.

Following the unexpected closure of the funicular railway and the operating company going into administration, the HIE Board took the decision to create an operating subsidiary. Significant activity has been and continues to be undertaken to ensure appropriate governance is in place for Cairngorm Mountain (Scotland) Ltd. At the end of March 2020, the operating company had to close the resort as a result of the impact of COVID-19 measures. In addition, HIE has been progressing a detailed options appraisal and business case for the solution to the funicular, and a masterplan for Cairngorm ensuring future plans support optimising regional benefits.

The Cairngorm programme of activity is considered high risk and there are significant financial implications for HIE in funding the operating subsidiary and in meeting costs associated with a solution for the funicular railway. The HIE Board formed a sub-group to support our activity and decision-making relating to this programme.

In-year, HIE received a final report from Audit Scotland, prepared under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 on Cairngorm mountain and the funicular railway. A further review has been undertaken in-year under section 23 of the Act. We will ensure agreed action points are implemented.

## Space opportunities

Successful delivery of a vertical launch site for small satellites in Sutherland and realising the potential significant benefits for the region and for Scotland are significantly challenging. This is a high risk and complex project and we have put in place robust governance and project management arrangements, including access to additional expertise as required. A sub-group of the HIE Board has met to provide advice and oversight of Space Hub Sutherland. We are also actively engaging with the Scottish Government on ensuring decisions on national space Infrastructure are considered at Scottish level

## Cyber security

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

## Business transformation programme

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

## HUMAN RIGHTS

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

## PREVENTION OF FRAUD, CORRUPTION AND BRIBERY

Our fraud liaison officer is the key contact with the NHS Counter Fraud Services with whom we had a one-year support contract. This contract supports our fraud prevention plan and provides updates on relevant legislative changes. They also supported a training programme to increase staff awareness of fraud, bribery and corruption.

We align to the Scottish Government's Scottish Public Finance Manual which provides clear guidance on the approach to, and methodology for counter fraud, anti-corruption and bribery.

## FAIR WORK CONDITIONALITY

HIE will apply fair work conditions to financial assistance over £100k from April 2020. These conditions reflect the three mandatory elements of the refreshed Scottish Business Pledge and we will work with Scottish Government towards extending the criteria in due course.

## NON-DORMANT GROUP COMPANIES

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

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

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

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 a HIE Board sub-group. An internal control checklist and annual assurance statement was provided for CMSL which highlighted no issues.

## KEY FINANCIAL LIABILITIES

HIE is working to ensure we have arrangements in place to address key areas of financial liability around pension and VAT.

## 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 HIEs governance, performance and internal control frameworks normally meets weekly
- The Board, which has responsibility for receiving, monitoring and commenting on regular management reports on governance matters, performance outcomes and risk management

- The work of the Risk and Assurance Committee, as delegated by the Board, which includes ongoing review of the external assurance functions and internal assessments on governance, risk and best value
- The work of the business improvement and internal audit team, who submit regular reports which include the independent and objective opinion on the adequacy and effectiveness of the systems of internal control, together with recommendations for improvement
- Other assurance undertaken in year, through procured arrangements
- Comments made by the external auditors in their management letters and other reports

As part of HIE's internal control 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. Each business unit and subsidiary completed an internal control checklist which is used to identify any control issues which should be brought to the attention of the accountable officer. Information provided is used to complete an organisational internal control checklist and certificate of assurance for HIE. We also received assurance from the EIS chief information officer for IT services that they were not aware of any issues.

During 2017-18 we identified opportunities to improve the control environment relating to VAT accounting. We worked with our tax advisers and HMRC throughout 2018-19 and 2019-20 and have developed a new VAT recovery method for HIE. Appropriate accruals and provisions have been included in the accounts to reflect any liabilities which may rise from the new VAT recovery method.

#### **Data security and information security (IS) assurance**

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

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

We have an agreed programme of IS assurance work with our partners, and for HIE specific activity. This has identified specific reviews and actions to be taken. Reviews were undertaken in year, specifically following up on action taken to address recommendations made in reviews undertaken in 2018/19 and Service Transition arrangements. Areas for improvement have been identified and prioritised action plans developed to take forward the required activity.

#### **INTERNAL AUDIT**

HIE has a business improvement and internal audit team which is independent of any operational group. The director of business improvement and internal audit reports directly to me.

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 of business improvement and internal audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. Opportunities to learn lessons and enhance effective project delivery arrangements for complex projects were noted during the year.
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings
- Supported HIE in developing appropriate and fit for purpose governance arrangements for key investments and complex projects

As part of HIE's internal audit programme of assurance reviews, improvement opportunities have been noted including for the controls around the counter-fraud environment, governance processes and communication for priority projects.

#### **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 2020 and on the regularity of transactions reflected in the accounts.

#### **REVIEW OF EFFECTIVENESS AND CONCLUSION**

As accountable officer, I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2020 and to the date of signature of the accounts.

# Remuneration and staff report

## SECTION 1 – GENERAL INFORMATION

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

### REMUNERATION COMMITTEE

HIE's remuneration committee reviews annually the broad policy framework for the remuneration of the HIE Chief Executive and the HIE Executive Directors. This is set within pay policy guidelines and recommendations are approved by HIE's Scottish Government sponsor team.

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. The cost to HIE for contributions to the pension fund for Mr A Dodds CBE and Prof L Crerar CBE was nil (2019 - nil).

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2020 £59,904 (2019 - £60,559) was paid to these former members.

## COMMITTEE MEMBERSHIP

Mr P Crerar CBE (Interim Chair from 01 March 2020)  
 Prof D MacRae OBE (Chair to 29 February 2020)  
 Mr A Dodds CBE  
 Prof L Crerar CBE (Appointment ended 29 February 2020)

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

### REMUNERATION OF BOARD MEMBERS

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2020.

Mr A Dodds CBE was acting Chairman from 01 March 2020 to 30 April 2020 and was appointed as Chairman on 01 May 2020. Professor L Crerar's appointment as Chairman ended on 29 February 2020,

The remuneration of HIE Board members for the year ended 31 March 2020 was as follows:

|  | 2020<br>£000 | 2019<br>£000 | APPOINTMENT<br>EXPIRES |
|--|--------------|--------------|------------------------|
| Prof L Crerar CBE (Chair to 29 February 2020)                            | 40-45        | 35-40        | 29 February 2020       |
| Mr A Dodds CBE (Acting Chair from 01 March 2020, Chair from 01 May 2020) | 10-15        | 10-15        | 30 April 2023          |
| Ms A Bryan   | 10-15        | 10-15        | 31 March 2022          |
| Mr A Campbell  | 10-15        | 5-10         | 31 August 2021         |
| Mr P Crerar CBE  | 10-15        | 10-15        | 31 March 2022          |
| Ms A Gray  | 10-15        | 10-15        | 31 March 2022          |
| Prof D MacRae OBE  | 10-15        | 10-15        | 31 March 2020          |
| Mr R McIntosh CBE  | 10-15        | 10-15        | 31 March 2022          |
| Ms F Newton MBE  | 10-15        | 5-10         | 31 August 2021         |
| Ms A B Oldfield  | 10-15        | 10-15        | 31 March 2022          |
| Mr C Ross  | 10-15        | 5-10         | 31 August 2021         |
| Mr W Swann   | nil          | 0-5          | 30 June 2018           |
| Ms M Gibson (Shadow)   | 5-10         | 0-5          | 17 December 2019       |
| Ms I Mctaggart   | nil          | 0-5          | 30 June 2018           |
| Mr D MacDonald   | nil          | 0-5          | 30 June 2018           |

## REMUNERATION OF MEMBERS OF THE HIE LEADERSHIP TEAM

The contracts of members of the HIE Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highland and Islands Enterprise Superannuation scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS) and D Cowan who is a member of the Strathclyde Local Government Pension Scheme (LGPS).

The ordinary members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 25.9% of the employees' pensionable salary throughout the year. C Wright contributes 9.9% of pensionable salary to the Highland Council LGPS while D Cowan contributes 9.4% of pensionable salary to the Strathclyde LGPS. HIE contributes 30.1% to all members of the Highland Council LGPS and 33.6% towards the Strathclyde LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. Further information about the pension funds can be found in the Notes to the accounts (note 18).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2020 was as follows:

|   | 2019-20 |                         |                     |                     |         | 2018-19  |                         |                     |                     |         |
|---|---------|-------------------------|---------------------|---------------------|---------|----------|-------------------------|---------------------|---------------------|---------|
|   | SALARY  | BONUS<br>(FOR<br>18/19) | BENEFITS<br>IN KIND | PENSION<br>BENEFITS | TOTAL   | SALARY   | BONUS<br>(FOR<br>17/18) | BENEFITS<br>IN KIND | PENSION<br>BENEFITS | TOTAL   |
|   | £000    | £000                    | £000                | £000                | £000    | £000     | £000                    | £000                | £000                | £000    |
| C Wright                                | 85 - 90 | -                       | -                   | 33+                 | 120-125 | 110 -115 | -                       | -                   | 34+                 | 145-150 |
| C Buxton                                | 110-115 | -                       | -                   | 80                  | 190-195 | 85- 90   | -                       | -                   | 17                  | 105-110 |
| D Cowan                                 | 95-100  | -                       | -                   | 54+                 | 145-150 | 85 -90   | -                       | -                   | 30+                 | 115-120 |
| D J Oxley                               | 90-95   | -                       | -                   | 27                  | 115-120 | 85-90    | -                       | -                   | 36                  | 120-125 |
| N Kenton                                | 90-95   | -                       | -                   | 21                  | 110-115 | 85-90    | -                       | -                   | 20                  | 100-105 |
| S Dunbar                                | 75-80   | -                       | -                   | 20                  | 95-100  | 70-75    | -                       | -                   | 39                  | 110-115 |
| K Moncrieff                             | 75-80   | -                       | -                   | 38                  | 110-115 | 70-75    | -                       | -                   | 48                  | 120-125 |
| R Hunter (appointed<br>1 May 2019)      | 60-65   | -                       | -                   | 13                  | 70- 75  | -        | -                       | -                   | -                   | -       |
| Full year equivalent                    | 65-70   | -                       | -                   | 17                  | 80-85   | -        | -                       | -                   | -                   | -       |
| M Johnson (appointed<br>1 October 2019) | 35-40   | -                       | -                   | 1                   | 40-45   | -        | -                       | -                   | -                   | -       |
| Full year equivalent                    | 75-80   | -                       | -                   | 20                  | 95-100  | -        | -                       | -                   | -                   | -       |

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

Note: In line with Government guidance on pay restraint there were no Performance Related Pay payments in 2019/20 or 2018/19.

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

The banded salary of the most highly paid director in Highland and Islands Enterprise in the financial year 2020 was £110k-£115k (2019 £110k-£115k). This was 2.7 times (2019 2.8 times) the median salary of the workforce, which was £41,400 (2019 £40,588). In 2019/20, remuneration (excluding the highest paid director) ranged from £18k to £95k (2018/19 £17k to £84k).

No employee received remuneration in excess of the highest paid director in 2020 or 2019.

|                               | 2019/20       | 2018/19    |
|-------------------------------|---------------|------------|
| Highest Paid Director's Total | £110k - £115k | £110-£115k |
| Median Total Remuneration     | 41,400        | 40,588     |
| Ratio                         | 2.7           | 2.8        |

Retirement benefits of members of HIE Leadership Team:

|                                      | ACCRUED PENSION AT AGE 65 AS AT 31/3/20 AND RELATED LUMP SUM | REAL INCREASE IN PENSION AND RELATED LUMP SUM AT AGE 65 | CETV AT 31/3/20 | CETV AT 31/3/19 | REAL INCREASE IN CETV |
|--------------------------------------|--|---|-----------------|-----------------|-----------------------|
|                                      | Bandings of £5,000   | Bandings of £2,500                                      | £000            | £000            | £000                  |
| C Wright                             | 50-55<br>Lump sum 90-95                                      | 2.5-5<br>Lump sum 0-2.5                                 | 936             | 832             | 76                    |
| C Buxton                             | 25-30<br>Lump sum 80-85                                      | 2.5-5<br>Lump sum 12.5-15                               | 751             | 571             | 161                   |
| D Oxley                              | 15-20<br>Lump sum 50-55                                      | 0-2.5<br>Lump sum 5-7.5                                 | 467             | 383             | 69                    |
| D Cowan                              | 35-40<br>Lump Sum 55-60                                      | 2.5-5<br>Lump Sum 2.5-5                                 | 681             | 576             | 82                    |
| N Kenton                             | 0-5<br>Lump sum 5-10   | 0-2.5<br>Lump sum 2.5-5                                 | 61              | 35              | 20                    |
| S Dunbar                             | 25-30<br>Lump sum 85-90                                      | 0-2.5<br>Lump sum 5-7.5                                 | 799             | 675             | 103                   |
| K Moncrieff                          | 25-30<br>Lump sum 75-80                                      | 0-2.5<br>Lump sum 5-7.5                                 | 624             | 594             | 11                    |
| R Hunter (appointed 1 May 2019)      | 15-20<br>Lump sum 50-55                                      | 2.5-5<br>Lump sum 0-2.5                                 | 430             | 377             | 40                    |
| M Johnson (appointed 1 October 2019) | 15-20<br>Lump sum 50-55                                      | 0-2.5<br>Lump sum 0-2.5                                 | 440             | 450             | -26                   |

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

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

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

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

LGPS benefits accrue at one-eightieth of pensionable salary plus three-eightieth lump sum payable for service to 31 March 2009 with benefits from 1 April 2009 accruing at one-sixtieth with lump sum by commutation. Automatic lump sum service ceased accruing on 31 March 2009.

### SECTION 3 - OTHER INFORMATION

#### Retirement Benefits - Cash equivalent transfer values

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

#### Real increase in CETV

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

## Staff Report

### STAFF NUMBERS AND COST - GROUP

|                              | GROUP     |       |        | GROUP     |       |        |
|------------------------------|-----------|-------|--------|-----------|-------|--------|
|                              | 2020      |       |        | 2019      |       |        |
|                              | Permanent | Other | Total  | Permanent | Other | Total  |
|                              | UK Staff  | Staff | Staff  | UK Staff  | Staff | Staff  |
|                              | £000      | £000  | £000   | £000      | £000  | £000   |
| Wages and salaries           | 8,469     | 3,468 | 11,937 | 8,151     | 3,250 | 11,401 |
| Voluntary severance packages | -         | -     | -      | -         | -     | -      |
| Social security costs        | 1,009     | 326   | 1,335  | 981       | 327   | 1,308  |
| Other pension costs          | 2,930     | 686   | 3,616  | 3,405     | 732   | 4,137  |
| Contract/temporary staff     | -         | 258   | 258    | -         | 154   | 154    |
|                              | 12,408    | 4,738 | 17,146 | 12,537    | 4,463 | 17,000 |
| Board members' remuneration  | 522       | -     | 522    | 369       | -     | 369    |
|                              | 12,930    | 4,738 | 17,668 | 12,906    | 4,463 | 17,369 |

The average number of employees was as follows:

|                                  | GROUP     |       |       | GROUP     |       |       |
|----------------------------------|-----------|-------|-------|-----------|-------|-------|
|                                  | 2020      |       |       | 2019      |       |       |
|                                  | Permanent | Other | Total | Permanent | Other | Total |
|                                  | UK Staff  | Staff | Staff | UK Staff  | Staff | Staff |
| Senior management                | 53        | 22    | 75    | 52        | 21    | 73    |
| Operational staff                | 19        | 70    | 89    | 51        | 73    | 124   |
| Administration and support staff | 149       | 40    | 189   | 113       | 65    | 178   |
|                                  | 221       | 132   | 353   | 216       | 159   | 375   |

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

## STAFF NUMBERS AND COST - HIE

|                              | HIE           |              |               | HIE           |              |               |
|------------------------------|---------------|--------------|---------------|---------------|--------------|---------------|
|                              | 2020          |              |               | 2019          |              |               |
|                              | Permanent     | Other        | Total         | Permanent     | Other        | Total         |
|                              | UK Staff      | Staff        | Staff         | UK Staff      | Staff        | Staff         |
|                              | £000          | £000         | £000          | £000          | £000         | £000          |
| Wages and salaries           | 7,765         | 2,586        | 10,351        | 7,454         | 2,943        | 10,397        |
| Voluntary severance packages | -             | -            | -             | -             | -            | -             |
| Social security costs        | 929           | 269          | 1,198         | 903           | 303          | 1,206         |
| Other pension costs          | 2,861         | 657          | 3,518         | 3,341         | 725          | 4,066         |
| Contract/temporary staff     | -             | 258          | 258           | -             | 154          | 154           |
|                              | <b>11,555</b> | <b>3,770</b> | <b>15,325</b> | <b>11,698</b> | <b>4,125</b> | <b>15,823</b> |
| Board members' remuneration  | 504           | -            | 504           | 369           | -            | 369           |
|                              | <b>12,059</b> | <b>3,770</b> | <b>15,829</b> | <b>12,067</b> | <b>4,125</b> | <b>16,192</b> |

The average number of employees was as follows:

|                                  | HIE        |           |            | HIE        |           |            |
|----------------------------------|------------|-----------|------------|------------|-----------|------------|
|                                  | 2020       |           |            | 2019       |           |            |
|                                  | Permanent  | Other     | Total      | Permanent  | Other     | Total      |
|                                  | UK Staff   | Staff     | Staff      | UK Staff   | Staff     | Staff      |
| Senior management                | 52         | 16        | 68         | 51         | 15        | 66         |
| Operational staff                | 19         | 45        | 64         | 51         | 14        | 65         |
| Administration and support staff | 136        | 14        | 150        | 101        | 57        | 158        |
|                                  | <b>207</b> | <b>75</b> | <b>282</b> | <b>203</b> | <b>86</b> | <b>289</b> |

## COMPENSATION AND EXIT PACKAGES

No staff (2019: 0) left under voluntary severance terms between 1st April 2019 and 31 March 2020. The total cost of lump sum payments to staff was £0 (2019: £0).

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* | 4    | 5      | 9     |
| Other employees  | 103  | 190    | 293   |

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

## SICKNESS ABSENCE

Highlands and Islands Enterprise Staff:

The attendance record for HIE employees for the year to 31 March 2020 was 1,861 (2019 1,327) days sick leave out of a total of 61,751 (2019 61,970) possible working days representing a lost time through sickness rate of 3.01% (2019 2.14%).

## 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 2019/20.

| 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. 2% of the total paid facility time hours was spent on trade union activities.

## STAFF POLICIES IN RESPECT OF DISABLED PERSONS

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

Getting the right people for your business (7 criteria)

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

### Keeping and developing your people (6 criteria)

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

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

## DIVERSITY AND INCLUSION

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

HIE has a suite of family friendly and flexible working policies that help set the context and tone for our approach, backed up by practical support, tools, facilities and resources to help all our employees balance the demands of work and home, whether that's for childcare, foster care, eldercare, young people, pre-retirement, as community volunteers etc.

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 have also adopted the "Happy to Talk Flexible Working" strapline which is featured on our website recruitment pages and for specific job adverts.

Our equal pay audit demonstrates that HIE's gender pay gap is continuing to narrow particularly for women in higher grades. Women on average earn more than men at Director level. HIE's employment equality outcomes have been refreshed to look at how we can further advance and support equality of opportunity for all employees. HIE is recognised as a Disability Confident employer, and as such has reached the 2nd level of the Government's Disability Confident Scheme. We are in the process of reviewing the criteria associated with the next and top level of the Scheme, to seek accreditation as Disability Confident Leader.

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

# Parliamentary Accountability Report and Audit Report

## PARLIAMENTARY ACCOUNTABILITY REPORT

The results for the year to 31 March 2020 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

## Sources of finance

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

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2020 (excluding non-cash costs) was as follows:

| <b>SOURCES OF FINANCE 2019-2020</b>  |                        |                     |                |
|--|------------------------|---------------------|----------------|
|  | <b>Original Budget</b> | <b>Final Budget</b> | <b>Actual</b>  |
|  | <b>£000</b>            | <b>£000</b>         | <b>£000</b>    |
| <b>Expenditure</b>   |                        |                     |                |
| Operations   | 50,500                 | 70,253              | 77,392         |
| Management and administration  | 16,500                 | 16,994              | 16,004         |
| <b>Total Expenditure</b>   | <b>67,000</b>          | <b>87,247</b>       | <b>93,396</b>  |
| <b>Income</b>  |                        |                     |                |
| Grant in Aid allocation*   | 56,000                 | 68,442              | 71,312         |
| European Union   | 3,200                  | 3,465               | 3,344          |
| Business receipts  | 7,800                  | 15,340              | 23,333         |
| <b>Total Income</b>  | <b>67,000</b>          | <b>87,247</b>       | <b>97,989</b>  |
| <b>Net authorised over/(under) spend</b>   | <b>-</b>               | <b>-</b>            | <b>(4,593)</b> |
| <b>Cash budget outturn</b>   |                        |                     |                |
| Revenue expenditure  |                        | 37,870              | 37,870         |
| Capital expenditure  |                        | 29,472              | 32,342         |
| Financial Transactions   |                        | 1,000               | 875            |
| <b>Net spend</b>   |                        | <b>68,342</b>       | <b>71,087</b>  |
| The group outturn against the elements of the budget allocation from the Scottish Government was as follows: |                        |                     |                |
| <b>Resource Budget outturn</b>   |                        |                     |                |
| Resource DEL   |                        | 37,970              | 33,939         |
| Capital DEL  |                        | 29,472              | 31,905         |
| Financial Transactions   |                        | 1,000               | 875            |
| Non-cash DEL cost including depreciation, provisions, property revaluation                                   |                        | 5,035               | 851            |
| <b>Total Resource budget</b>   |                        | <b>73,477</b>       | <b>67,570</b>  |
| Non-cash AME cost including pension, provisions, property revaluation  |                        | 3,000               | 8,519          |
| <b>Total funding provision</b>   |                        | <b>76,477</b>       | <b>76,089</b>  |

\*The number quoted in the actual column represents the Grant In Aid made available by the Scottish government. HIE may not have fully drawn down the full allocation

## SOURCES OF FINANCE

### Expenditure

HIE spent £93.4 million during the year.

### Income

The Scottish Government made £71.3 million of grant in aid available to HIE. At the year-end HIE had an underspend of £4.6 million. The main element of the underspend related to lower VAT settlement with HMRC.

HIE received an additional £23.3 million in business receipts during the year. The largest element of the additional business receipts related to the sale of the Centre for Health Science to the University of Highlands and Islands

### Cash Budget Outturn

HIE drew down £71.1 million of grant in aid of £71.3 million made available by the Scottish Government.

An additional £2.9 million of capital cash budget was provided by the government post spring budget review. This additional funding was drawn down in full.

Funding for financial transactions was has a restricted use. HIE did not draw down £0.1 million of funding as we were unable to utilise the funding during the year

## Resource Budget Outturn

The resource outturn of £33.9m was £4.1million lower than the budget. The main element of the underspend related to lower VAT settlement with HMRC.

The capital expenditure out turn of £31.9 million was £2.4 million higher than budget. The Scottish Government agreed HIE could over spend capital by up to £2.9million. The overspend of £2.4million is £0.5 million lower than the agreed overspend value

The non-cash resource outturn was £0.9 million, £4.1 million under the provision set by the Scottish Government.

The Annually Managed Expenditure was £8.5 million against a budget of £3.0 million. The main elements of the overspend related to an additional provision for debts and higher property write-downs as a result of the current economic environment. In addition a further provision for the cairngorm funicular railway works also impacted the AME overspend.

The Resource Budget for 2020/21 of £58.1 million awarded by the Scottish Government comprises Grant-in-Aid and 'non-cash' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

## LOSSES AND CLAIMS WAIVED

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

### LOSSES AND CLAIMS WAIVED

|   | GROUP       |       | HIE         |       |
|---|-------------|-------|-------------|-------|
|   | No of cases | £000  | No of cases | £000  |
| Financial Asset losses (losses arising from the disposal of financial assets) | -           | -     | -           | -     |
| Claims Waived   | 7           | 1,445 | 7           | 1,445 |

In the year to 31 March 2020 there was Nil (2019 - 0) financial asset loss which exceeded £250,000.

|  | 2020 |
|--|------|
|  | £000 |
|  | 0    |

In the year to 31 March 2020 there was 1 (2019 - 1 case) claims waived which exceeded £250,000.

|                       | 2020  |
|-----------------------|-------|
|                       | £000  |
| Port of Ardersier Ltd | 1,111 |
|                       | 1,111 |

Highlands and Islands Enterprise continues to pursue all outstanding debts.

## FEES AND CHARGES

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

C Wright *Charlotte Wright*  
Chief executive and accountable officer  
Highlands and Islands Enterprise

Date 24 September 2020

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

### REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

#### Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Highlands and Islands Enterprise and its group for the year ended 31 March 2020 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group and Highlands and Islands Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity and the Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2019/20 Government Financial Reporting Manual (the 2019/20 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2020 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

#### Basis for opinion

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

#### Emphasis of matter: Valuations of land and buildings

I draw attention to Note 1 Accounting policies in the financial statements, Critical accounting estimates and judgements, which describes the effects of material uncertainties, caused by Covid-19, declared in the valuation report for land and buildings. My opinion is not modified in respect of this matter.

#### Conclusions relating to going concern basis of accounting

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

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

#### Risks of material misstatement

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

## **Responsibilities of the Accountable Officer for the financial statements**

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

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

## **Other information in the annual report and accounts**

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

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

## **REPORT ON REGULARITY OF EXPENDITURE AND INCOME**

### **Opinion on regularity**

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

### **Responsibilities for regularity**

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

## REPORT ON OTHER REQUIREMENTS

### Opinions on matters prescribed by the Auditor General for Scotland

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

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

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

### Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

### Conclusions on wider scope responsibilities

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

## USE OF MY REPORT

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

*Gordon Smail*

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

24 September 2020

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE**
**STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2020**

|   |       | Group           |                 | HIE             |                 |
|---|-------|-----------------|-----------------|-----------------|-----------------|
|   |       | 2020            | 2019            | 2020            | 2019            |
|   | Notes | £000            | £000            | £000            | £000            |
| <b>Expenditure</b>  |       |                 |                 |                 |                 |
| Operating expenditure   | 4     | 75,857          | 69,668          | 76,639          | 68,870          |
| Net management expenditure on staff costs   | 5     | 12,912          | 13,099          | 12,059          | 12,259          |
| Other management expenditure  | 5     | 6,716           | 20,664          | 5,694           | 20,831          |
| Depreciation and amortisation   | 5     | 1,309           | 1,208           | 1,232           | 1,150           |
|   |       | <b>96,794</b>   | <b>104,639</b>  | <b>95,624</b>   | <b>103,110</b>  |
| <b>Income</b>   |       |                 |                 |                 |                 |
| Income from activities  | 3     | (4,292)         | (3,737)         | (4,294)         | (3,701)         |
| Other income  | 3     | (16,701)        | (21,320)        | (15,465)        | (19,608)        |
|   |       | <b>(20,993)</b> | <b>(25,057)</b> | <b>(19,759)</b> | <b>(23,309)</b> |
| <b>Net operating expenditure from activities</b>  |       | <b>75,801</b>   | <b>79,582</b>   | <b>75,865</b>   | <b>79,801</b>   |
| <b>Net operating expenditure</b>  |       | <b>75,801</b>   | <b>79,582</b>   | <b>75,865</b>   | <b>79,801</b>   |
| Interest payable and similar charges  | 7     | 262             | 65              | 254             | 64              |
| Amounts written off financial assets measured at amortised cost                                 | 10    | -               | -               | -               | -               |
| Share of (profits)/losses in equity accounted investees   | 10    | (471)           | 1,180           | -               | -               |
| Income from investments   | 6     | -               | -               | -               | -               |
| Interest receivable   | 6     | (298)           | (118)           | (298)           | (118)           |
| Other finance charges/(income)  | 6     | 1,131           | 992             | 1,131           | 992             |
| <b>Net expenditure after interest</b>   |       | <b>76,425</b>   | <b>81,701</b>   | <b>76,952</b>   | <b>80,739</b>   |
| Taxation  | 8     | 213             | (69)            | 213             | (69)            |
| <b>Net expenditure after taxation</b>   |       | <b>76,638</b>   | <b>81,632</b>   | <b>77,165</b>   | <b>80,670</b>   |
| Minority interests  |       | (6)             | 1               | -               | -               |
| <b>Net expenditure</b>  |       | <b>76,632</b>   | <b>81,633</b>   | <b>77,165</b>   | <b>80,670</b>   |
| <b>Other comprehensive expenditure/(Income)</b>   |       |                 |                 |                 |                 |
| <b>Items that will not be reclassified to net expenditure</b>                                   |       |                 |                 |                 |                 |
| Net (gains)/losses on revaluation of property, plant and equipment                              |       | (34)            | (1,480)         | (34)            | (1,480)         |
| Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee |       | -               | -               | -               | -               |
| Actuarial (gains)/losses recognised in retirement benefit scheme                                | 18    | (5,996)         | 6,114           | (5,996)         | 6,114           |
| <b>Items that may be reclassified to net expenditure</b>  |       |                 |                 |                 |                 |
| (Gains)/ losses in revaluation of available for sales assets                                    | 11    | -               | -               | -               | -               |
| Reclassification to net expenditure in the year   |       | -               | -               | -               | -               |
| <b>Other comprehensive expenditure/(income) for the year</b>                                    |       | <b>(6,030)</b>  | <b>4,634</b>    | <b>(6,030)</b>  | <b>4,634</b>    |
| <b>Total comprehensive net expenditure/(Income) for the year</b>                                |       | <b>70,602</b>   | <b>86,267</b>   | <b>71,135</b>   | <b>85,304</b>   |

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2020**

|  |       | GROUP           |                 | HIE             |                 |
|--|-------|-----------------|-----------------|-----------------|-----------------|
|  |       | 2020            | 2019            | 2020            | 2019            |
|  | Notes | £000            | £000            | £000            | £000            |
| <b>Non-current assets</b>  |       |                 |                 |                 |                 |
| Property, plant and equipment  | 9     | 31,186          | 33,554          | 30,497          | 32,920          |
| Intangible Assets  |       | -               | -               | -               | -               |
| Financial Assets   | 10    | 2,243           | 1,683           | 2,931           | 2,345           |
| Receivables due over 1 year  |       | -               | 49              | -               | 49              |
| Investment in associate  | 10    | 1,087           | 616             | -               | -               |
| <b>Total non-current assets</b>  |       | <b>34,516</b>   | <b>35,902</b>   | <b>33,428</b>   | <b>35,314</b>   |
| <b>Current assets</b>  |       |                 |                 |                 |                 |
| Inventories  |       | 16              | 18              | -               | -               |
| Trade and other receivables  | 12    | 10,246          | 14,393          | 13,322          | 15,225          |
| Cash and cash equivalents  | 13    | 5,065           | 2,286           | 868             | 811             |
| Assets classified as held for sale   | 14    | 3,316           | 9,579           | 3,316           | 9,579           |
| <b>Total current assets</b>  |       | <b>18,643</b>   | <b>26,276</b>   | <b>17,506</b>   | <b>25,615</b>   |
| <b>Total assets</b>  |       | <b>53,159</b>   | <b>62,178</b>   | <b>50,934</b>   | <b>60,929</b>   |
| <b>Current liabilities</b>   |       |                 |                 |                 |                 |
| Trade payables and other current liabilities                               | 15    | (11,101)        | (17,918)        | (10,958)        | (18,347)        |
| Taxation   | 15    | (409)           | (433)           | (321)           | (326)           |
| Provisions   | 16    | (12,933)        | (14,116)        | (12,933)        | (14,116)        |
| <b>Total current liabilities</b>   |       | <b>(24,443)</b> | <b>(32,467)</b> | <b>(24,212)</b> | <b>(32,789)</b> |
| <b>Non-current assets plus net current assets less current liabilities</b> |       | <b>28,716</b>   | <b>29,711</b>   | <b>26,722</b>   | <b>28,140</b>   |
| <b>Non-current liabilities</b>   |       |                 |                 |                 |                 |
| Trade payables and other liabilities                                       | 17    | (1,670)         | (1,585)         | (1,670)         | (1,481)         |
| Provisions   | 16    | (1,680)         | -               | (1,680)         | -               |
| Retirement benefit obligation  | 18    | (41,984)        | (47,430)        | (41,984)        | (47,430)        |
| <b>Total non-current liabilities</b>                                       |       | <b>(45,334)</b> | <b>(49,015)</b> | <b>(45,334)</b> | <b>(48,911)</b> |
| <b>Assets less liabilities</b>   |       | <b>(16,618)</b> | <b>(19,304)</b> | <b>(18,612)</b> | <b>(20,771)</b> |
| <b>Tax Payers' Equity</b>  |       |                 |                 |                 |                 |
| Revaluation reserve  |       | 1,877           | 1,883           | 1,877           | 1,883           |
| Government grant reserve   |       | -               | -               | -               | -               |
| Other reserve  |       | 5               | 15              | 2               | 12              |
| Pension reserve  |       | (41,984)        | (47,430)        | (41,984)        | (47,430)        |
| Minority Interests   |       | 392             | 398             | -               | -               |
| General reserve  |       | 23,092          | 25,830          | 21,493          | 24,764          |
|  |       | <b>(16,618)</b> | <b>(19,304)</b> | <b>(18,612)</b> | <b>(20,771)</b> |

C Wright *Charlotte Wright*  
 Chief executive and accountable officer  
 Highlands and Islands Enterprise

Date 24 September 2020

The Accountable Officer authorised these financial statements for issue on 24 September 2020

**GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE**
**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2020**

|   |       | Group           |                 | HIE             |                 |
|---|-------|-----------------|-----------------|-----------------|-----------------|
|   |       | 2020            | 2019            | 2020            | 2019            |
|   | Notes | £000            | £000            | £000            | £000            |
| <b>Cash flow from operating activities</b>                                |       |                 |                 |                 |                 |
| Profit/(loss) before taxation   | 19    | (76,813)        | (80,932)        | (77,340)        | (79,971)        |
| Share of Associates profit/(loss)   | 10    | (471)           | 1,180           | -               | -               |
| Depreciation  | 5     | 1,309           | 1,208           | 1,232           | 1,149           |
| Surplus on disposal of assets   | 3     | 1,519           | 223             | 1,519           | 224             |
| Amortisation of Intangibles   |       | -               | -               | -               | -               |
| Dividend income   | 6     | -               | -               | -               | -               |
| Interest income   | 6     | (298)           | (118)           | (298)           | (118)           |
| Interest expense  | 7     | 262             | 64              | 254             | 64              |
|   |       | <b>(74,492)</b> | <b>(78,375)</b> | <b>(74,633)</b> | <b>(78,652)</b> |
| (Increase)/decrease in trade and other receivables                        |       | 3,021           | (5,726)         | 775             | (7,220)         |
| Provision for irrecoverable debts and losses                              |       | 905             | (93)            | 905             | (93)            |
| (Increase)/decrease in inventories  |       | 2               | (18)            | -               | -               |
| Increase/(decrease) in trade and other payables                           |       | (6,345)         | 18,140          | (6,897)         | 19,173          |
| (Increase)/decrease in long term debtors                                  |       | 48              | (48)            | 48              | (48)            |
| Movement in pension provision   |       | (581)           | 1,305           | (581)           | 1,305           |
| Investments written off, net of provision                                 |       | 290             | 1,215           | 567             | 2,110           |
| Loss/(profit) on sale of property, plant and equipment                    |       | (123)           | (21)            | (133)           | (22)            |
| Loss/(profit) on sale of assets classified as held for sale               |       | (1,387)         | (195)           | (1,378)         | (194)           |
| Surplus of investments  |       | 1               | (37)            | -               | -               |
| Revaluation of assets property plant and equipment                        |       | 6,112           | 5,412           | 6,112           | 5,407           |
| Movement in risk premium  |       | -               | -               | -               | -               |
| Movement in deferred income   |       | (129)           | 87              | (25)            | (17)            |
| <b>Cash outflow from operating activities</b>                             |       | <b>(72,678)</b> | <b>(58,354)</b> | <b>(75,240)</b> | <b>(58,251)</b> |
| Taxes paid  |       | -               | -               | -               | -               |
| <b>Net cash outflow from operating activities</b>                         |       | <b>(72,678)</b> | <b>(58,354)</b> | <b>(75,240)</b> | <b>(58,251)</b> |
| <b>Net cash outflow from operating activities - Continuing operations</b> |       | <b>(72,678)</b> | <b>(58,354)</b> | <b>(75,240)</b> | <b>(58,251)</b> |

|   |           |               |                |               |                |
|---|-----------|---------------|----------------|---------------|----------------|
| <b>Cash flows from investing activities</b>                       |           |               |                |               |                |
| Payments to acquire shares  |           | -             | -              | -             | (461)          |
| Payments for the construction of property                         |           | (6,692)       | (6,836)        | (6,692)       | (6,836)        |
| Payments for tenants Improvements                                 |           | (51)          | (62)           | (51)          | (62)           |
| Payments to acquire plant and equipment                           |           | (1,181)       | (1,883)        | (1,050)       | (1,192)        |
| Purchase of assets classified as held for sale                    |           | -             | -              | -             | -              |
| Proceeds from sale of plant, property and equipment               |           | 392           | 51             | 392           | 44             |
| Proceeds from sale of assets classified as held for sale          |           | 10,289        | 693            | 10,290        | 655            |
| Receipts from sale of shares                                      |           | -             | -              | -             | -              |
| Loans advanced  | 10        | (1,050)       | (794)          | (1,350)       | (1,494)        |
| Loans repaid  | 10        | 417           | 715            | 417           | 679            |
| Interest received   |           | 301           | 129            | 301           | 129            |
| Dividends received  |           | -             | -              | -             | -              |
| <b>Net cash from investing activities</b>                         |           | <b>2,425</b>  | <b>(7,987)</b> | <b>2,257</b>  | <b>(8,538)</b> |
| <b>Net cash from investing activities - Continuing operations</b> |           | <b>2,425</b>  | <b>(7,987)</b> | <b>2,257</b>  | <b>(8,538)</b> |
| <b>Cash flows from financing activities</b>                       |           |               |                |               |                |
| Grant in aid  |           | 73,294        | 66,299         | 73,294        | 66,299         |
| Debenture loan repayments   |           | -             | -              | -             | -              |
| Interest paid   | 7         | (262)         | (65)           | (254)         | (64)           |
| <b>Net cash from financing activities</b>                         |           | <b>73,032</b> | <b>66,234</b>  | <b>73,040</b> | <b>66,235</b>  |
| <b>Net cash from financing activities - Continuing operations</b> |           | <b>73,032</b> | <b>66,234</b>  | <b>73,040</b> | <b>66,235</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>       | <b>13</b> | <b>2,779</b>  | <b>(107)</b>   | <b>57</b>     | <b>(554)</b>   |
| <b>Cash and cash equivalents at beginning of period</b>           | <b>13</b> | <b>2,286</b>  | <b>2,393</b>   | <b>811</b>    | <b>1,365</b>   |
| <b>Cash and cash equivalents at end of period</b>                 | <b>13</b> | <b>5,065</b>  | <b>2,286</b>   | <b>868</b>    | <b>811</b>     |
| <b>Cash and cash equivalents - Continuing operations</b>          |           | <b>5,065</b>  | <b>2,286</b>   | <b>868</b>    | <b>811</b>     |
|   |           | <b>5,065</b>  | <b>2,286</b>   | <b>868</b>    | <b>811</b>     |

**GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY  
FOR THE YEAR ENDED 31 MARCH 2020**

|   | Revaluation<br>reserve | Other<br>reserve | Pension<br>reserve | Government<br>grant<br>reserve | Minority<br>Interest | General<br>reserve | Total<br>reserves |
|---|------------------------|------------------|--------------------|--------------------------------|----------------------|--------------------|-------------------|
|   | £000                   | £000             | £000               | £000                           | £000                 | £000               | £000              |
| <b>Balance at 31 March 2018</b>                                 | <b>397</b>             | <b>136</b>       | <b>(39,019)</b>    | <b>-</b>                       | <b>398</b>           | <b>38,927</b>      | <b>839</b>        |
| IFRS 9 Adoption adjustment                                      |                        |                  |                    |                                |                      | (175)              | (175)             |
| IFRS 9 Investment reclassification                              |                        | (115)            |                    |                                |                      | 115                | -                 |
| <b>Balance at 31 March 2018</b>                                 | <b>397</b>             | <b>21</b>        | <b>(39,019)</b>    | <b>-</b>                       | <b>398</b>           | <b>38,867</b>      | <b>664</b>        |
| <b>Changes in taxpayers' equity for 2018-19</b>                 |                        |                  |                    |                                |                      |                    |                   |
| Net gain/(loss) on revaluation of property, plant and equipment | 1,486                  | (6)              |                    |                                |                      |                    | 1,480             |
| Net gain/(loss) on revaluation of intangible assets             |                        |                  |                    |                                |                      |                    | -                 |
| Net gain/(loss) on investments                                  |                        |                  |                    |                                |                      |                    | -                 |
| Grants received in year   |                        |                  |                    |                                |                      |                    | -                 |
| Release of reserves to the I&E                                  |                        |                  |                    |                                |                      |                    | -                 |
| Equity accounted investees                                      |                        |                  |                    |                                |                      |                    | -                 |
| Transfers between reserves (IAS19)                              |                        |                  | (2,297)            |                                |                      | 2,297              | -                 |
| Actuarial Gain/(loss)   |                        |                  | (6,114)            |                                |                      |                    | (6,114)           |
| Retained Surplus/Deficit  |                        |                  |                    |                                |                      | (81,633)           | (81,633)          |
| <b>Total recognised income and expense for 2017-18</b>          | <b>1,486</b>           | <b>(6)</b>       | <b>(8,411)</b>     | <b>-</b>                       | <b>-</b>             | <b>(79,336)</b>    | <b>(86,267)</b>   |
| Grant from Scottish Government                                  |                        |                  |                    |                                |                      | 66,299             | 66,299            |
| <b>Balance at 31 March 2019</b>                                 | <b>1,883</b>           | <b>15</b>        | <b>(47,430)</b>    | <b>-</b>                       | <b>398</b>           | <b>25,830</b>      | <b>(19,304)</b>   |
| <b>Changes in taxpayers' equity for 2019-20</b>                 |                        |                  |                    |                                |                      |                    |                   |
| Net gain/(loss) on revaluation of property, plant and equipment | 34                     | (10)             |                    |                                |                      | 10                 | 34                |
| Net gain/(loss) on revaluation of intangible assets             |                        |                  |                    |                                |                      |                    | -                 |
| Net gain/(loss) on investments                                  |                        |                  |                    |                                |                      |                    | -                 |
| Grants received in year   |                        |                  |                    |                                |                      |                    | -                 |
| Release of reserves to the I&E                                  |                        |                  |                    |                                |                      |                    | -                 |
| Equity accounted investees                                      |                        |                  |                    |                                |                      |                    | -                 |
| Transfers between reserves                                      | (40)                   |                  | (550)              |                                |                      | 590                | -                 |
| Actuarial Gain/(loss)   |                        |                  | 5,996              |                                |                      |                    | 5,996             |
| Retained Surplus/Deficit  |                        |                  |                    |                                |                      | (6) (76,632)       | (76,638)          |
| <b>Total recognised income and expense for 2019-20</b>          | <b>(6)</b>             | <b>(10)</b>      | <b>5,446</b>       | <b>-</b>                       | <b>(6)</b>           | <b>(76,032)</b>    | <b>(70,608)</b>   |
| Grant from Scottish Government                                  |                        |                  |                    |                                |                      | 73,294             | 73,294            |
| <b>Balance at 31 March 2020</b>                                 | <b>1,877</b>           | <b>5</b>         | <b>(41,984)</b>    | <b>-</b>                       | <b>392</b>           | <b>23,092</b>      | <b>(16,618)</b>   |

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 £2k (2019 £12k) and the share of equity accounted investee reserves £3k (2019 £3k).

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

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

## HIGHLANDS AND ISLANDS ENTERPRISE STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2020

|   | Revaluation<br>reserve | Other<br>reserve | Pension<br>reserve | Government<br>grant<br>reserve | General<br>reserve | Total<br>reserves |
|---|------------------------|------------------|--------------------|--------------------------------|--------------------|-------------------|
|   | £000                   | £000             | £000               | £000                           | £000               | £000              |
| <b>Balance at 31 March 2018</b>                                 | <b>397</b>             | <b>133</b>       | <b>(39,019)</b>    | <b>-</b>                       | <b>36,898</b>      | <b>(1,591)</b>    |
| IFRS 9 Adoption adjustment                                      | -                      | -                |                    |                                | (175)              | (175)             |
| IFRS 9 Investment reclassification                              |                        | (115)            |                    |                                | 115                | -                 |
| <b>Revised Balance at 31 March 2018</b>                         | <b>397</b>             | <b>18</b>        | <b>(39,019)</b>    | <b>-</b>                       | <b>36,838</b>      | <b>(1,766)</b>    |
| <b>Changes in taxpayers' equity for 2018-19</b>                 |                        |                  |                    |                                |                    |                   |
| Net gain/(loss) on revaluation of property, plant and equipment | 1,486                  | (6)              |                    |                                |                    | 1,480             |
| Net gain/(loss) on revaluation of intangible assets             |                        |                  |                    |                                |                    | -                 |
| Net gain/(loss) on investments                                  |                        |                  |                    |                                |                    | -                 |
| Grants received in year   |                        |                  |                    |                                |                    | -                 |
| Release of reserves to the I&E                                  |                        |                  |                    |                                |                    | -                 |
| Equity accounted investees                                      |                        |                  |                    |                                |                    | -                 |
| Transfers between reserves (IAS19)                              |                        |                  | (2,297)            |                                | 2,297              | -                 |
| Actuarial Gain/(loss)   |                        |                  | (6,114)            |                                |                    | (6,114)           |
| Retained Surplus/Deficit  |                        |                  |                    |                                | (80,670)           | (80,670)          |
| <b>Total recognised income and expense for 2018-19</b>          | <b>1,486</b>           | <b>(6)</b>       | <b>(8,411)</b>     | <b>-</b>                       | <b>(78,373)</b>    | <b>(85,304)</b>   |
| Grant from Scottish Government                                  |                        |                  |                    |                                | 66,299             | 66,299            |
| <b>Balance at 31 March 2019</b>                                 | <b>1,883</b>           | <b>12</b>        | <b>(47,430)</b>    | <b>-</b>                       | <b>24,764</b>      | <b>(20,771)</b>   |
| <b>Changes in taxpayers' equity for 2019-20</b>                 |                        |                  |                    |                                |                    |                   |
| Net gain/(loss) on revaluation of property, plant and equipment | 34                     | (10)             |                    |                                | 10                 | 34                |
| Net gain/(loss) on revaluation of intangible assets             |                        |                  |                    |                                |                    | -                 |
| Net gain/(loss) on investments                                  |                        |                  |                    |                                |                    | -                 |
| Grants received in year   |                        |                  |                    |                                |                    | -                 |
| Release of reserves to the I&E                                  |                        |                  |                    |                                |                    | -                 |
| Equity accounted investees                                      |                        |                  |                    |                                |                    | -                 |
| Transfers between reserves                                      | (40)                   |                  | (550)              |                                | 590                | -                 |
| Actuarial Gain/(loss)   |                        |                  | 5,996              |                                |                    | 5,996             |
| Retained Surplus/Deficit  |                        |                  |                    |                                | (77,165)           | (77,165)          |
| <b>Total recognised income and expense for 2019-20</b>          | <b>(6)</b>             | <b>(10)</b>      | <b>5,446</b>       | <b>-</b>                       | <b>(76,565)</b>    | <b>(71,135)</b>   |
| Grant from Scottish Government                                  |                        |                  |                    |                                | 73,294             | 73,294            |
| <b>Balance at 31 March 2020</b>                                 | <b>1,877</b>           | <b>2</b>         | <b>(41,984)</b>    | <b>-</b>                       | <b>21,493</b>      | <b>(18,612)</b>   |

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 £2k (2019 £12k).

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

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

# NOTES TO THE ACCOUNTS

## 1. Accounting policies

### BASIS OF PREPARATION

The financial statements have been prepared in accordance with the 2019-20 Government Financial Reporting Manual (FReM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

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

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

- property (note 9)
- financial assets (note 10)
- assets classified as held for sale (note 14)
- financial commitments (note 21)

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

### GOING CONCERN

The financial statements for the year ended 31 March 2020 show net liability position of £18.6m (Group £16.6m net liabilities). The position of net liabilities has arisen due to the HIE pension fund and Local Government Pension Scheme deficits. Net current liabilities will be funded by the Scottish Government as they arise. The financial statements have therefore been prepared on a going concern basis.

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

### BASIS OF CONSOLIDATION

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

#### (a) Subsidiaries

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

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

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

#### (b) Associates and joint arrangements

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

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

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

The Group's investments include goodwill identified on acquisition, net of any accumulated impairment losses. The Group accounts include the Group's share of the profit and equity movements of equity accounted investees, after adjustments to align the accounting policies of those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its

interest in an equity accounted investee, the carrying amount of that interest, including any long term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

### **(c) Other**

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

## **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of the accounts in conformity with IFRS requires the Board and 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:

### **COVID-19**

The recent Coronavirus (COVID-19) outbreak has created widescale distress and turbulence around the world. There is a large degree of uncertainty as to how this outbreak will affect the wider global economy and its sub-markets. We are already witnessing signs of the issue affecting aspects of the UK Economy. Although it may take some time for the effects of the Coronavirus outbreak to become evident within the performance of the market, there is likely to be a period, at least in the short term, during which there will be a perception of instability in the market. This perception might affect value of the property Values. It will be some time before reliable post-Coronavirus transactional evidence is available to assess how the UK market reacts to this perception of uncertainty.

### **(a) Retirement benefit obligations**

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

- The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations.
- The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long-term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions.
- The actuary of the Highland and Islands Enterprise superannuation scheme estimates the longevity of current and future pensioners using the Vita Club CMI 2016 tables. This differs from the VitaCurves tables used by the actuary for the local government pension funds.

### **(b) Fair value of financial instruments**

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

### **(c) Held-to-maturity investments**

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

factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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

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

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

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

#### **(e) EU Income**

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

#### **(f) Property**

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

A material uncertainty has been declared in the valuation report. This is due to market uncertainties caused by COVID-19. Market uncertainty is defined as 'where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted.'

The valuation report has been used to inform the measurement of assets in these financial statements. Although the valuer has reported on the basis of material valuation uncertainty, 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 2020 and can be relied upon.

#### **ACCOUNTING FOR GRANT-IN-AID**

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

#### **EUROPEAN UNION FUNDING AND OTHER GRANTS**

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

#### **INCOME**

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

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

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

#### **EXPENDITURE**

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

## PROPERTY, PLANT AND EQUIPMENT

HIE has 4 categories of property, plant and equipment:

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

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

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

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

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

- Buildings – structure: 15-60 years
- Buildings – engineering: 15-45 years
- Buildings – specialist engineering: 15-45 years
- Plant and equipment: 3-40 years
- Tenants' improvements: 10 years
- IT equipment: 4 years

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

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

Deficits arising on revaluation are charged to the Statement of Comprehensive Net Expenditure, although this is first offset against any revaluation reserve in respect of that property.

Surpluses on revaluation are credited to a revaluation reserve after eliminating any accumulated deficit originally charged to the Statement of Comprehensive Net Expenditure in accordance with IAS 16.

## FINANCIAL ASSETS - EQUITY

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

## 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 5 years.

## **ASSETS CLASSIFIED AS HELD FOR SALE**

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

## **IRRECOVERABLE INCOME**

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

## **LEASE COMMITMENTS**

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

## **RESEARCH EXPENDITURE**

All research expenditure is charged in the year it occurs.

## **INSURANCE**

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

## **TAXATION**

The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2018 have been agreed with the relevant tax authorities.

## **EMPLOYEE BENEFITS**

### **Retirement Benefits**

Most staff are members of the Highlands and Islands Enterprise superannuation scheme or local government pension funds. The Highlands and Islands Enterprise superannuation scheme is a defined benefits scheme based on career average salary. In 2019/20 Spence and Partners were appointed as actuary for the scheme replacing Hymans Robertson. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.

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

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

Additional information is disclosed in note 18.

### Short term employee benefits

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

### TRADE RECEIVABLES AND PAYABLES

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

### CASH AND CASH EQUIVALENTS

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

### PROVISIONS

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

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

### ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

#### ■ IFRS 16 – Leases

IFRS 16 replaces IAS 17 – Leases and largely removes the distinction between operating and finance leases for lessees by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a result of the current COVID-19 response implementation of IFRS 16 has been deferred to 1 April 2021. If IFRS 16 had been adopted the effect would have been to increase leased assets and financial liabilities by £10.844m as at 31 March 2020. In addition, expenditure would have been reduced by £1.224m and depreciation charges would have increased by £1.235m.

#### ■ IAS 28 – Investments in Associates and Joint Ventures

An amendment to long term interests in associates and joint ventures clarifies that a company applies IFRS9 Financial Instruments to long term interests in associates or joint ventures that form part of the net investment in the associate or joint venture. We do not expect this to have any impact on the consolidated accounts.

#### ■ IAS 19 Employee Benefits – Plan amendment, curtailment or settlement

This amendment specifies how pension expenses are determined when changes to a defined benefit pension plan occur. The impact on the consolidated accounts has not been determined.

## 2. Segmental Information

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

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2019 and 2020 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

|   | 2020          | 2019          |
|---|---------------|---------------|
|   | £000          | £000          |
| <b>Expenditure</b>                              |               |               |
| <b>Block A</b>                                  |               |               |
| Discretionary spend                             | 18,787        | 19,918        |
| Priority Investment                             | 26,010        | 18,830        |
| Business support                                | 8,801         | 6,064         |
| Cairngorm Mountain (Scotland) Limited           | 2,925         | 1,996         |
| WES   | 9,532         | 10,290        |
| <b>Total Block A</b>                            | <b>66,055</b> | <b>57,098</b> |
| <b>Block B</b>                                  |               |               |
| Management, staff and administration cost       | 16,004        | 15,442        |
| <b>Total Block B</b>                            | <b>16,004</b> | <b>15,442</b> |
| <b>Total Gross Expenditure</b>                  | <b>82,059</b> | <b>72,541</b> |
| <b>Income</b>                                   |               |               |
| Loan repayments                                 | 417           | 679           |
| Equity sales                                    | 0             | 15            |
| Property sales                                  | 10,682        | 699           |
| Property rental                                 | 2,774         | 3,266         |
| Loan interest / dividend                        | 298           | 118           |
| Scottish Government Grant                       | 519           | 1,741         |
| UK Space Agency                                 | 650           | 0             |
| <b>Total other income</b>                       | <b>15,340</b> | <b>6,518</b>  |
| <b>Net expenditure funded by core SG income</b> | <b>66,719</b> | <b>66,023</b> |

|   |                 |                 |
|---|-----------------|-----------------|
|   |                 |                 |
| <b>Other income and expenditure not funded through Grant In Aid</b> |                 |                 |
| <b>Expenditure</b>  |                 |                 |
| European Funds - ERDF   | 3,344           | 3,534           |
| Broadband   | 5,986           | 7,846           |
| Digital Communities (formerly CBS)                                  | 26              | 399             |
| Scottish Land Fund (SLF)  | 420             | 414             |
| City Region Deal - Science Skills Academy                           | 528             | 413             |
| City Region Deal - Northern Innovation Hub                          | 957             | 818             |
| Knowledge Exchange Placement Programme (KEPP)                       | 0               | 8               |
| Cyber Essentials Accreditation                                      | 0               | 2               |
| Orkney the Brand  | 76              | 86              |
|   | <b>11,337</b>   | <b>13,520</b>   |
| <b>Income</b>   |                 |                 |
| European Funds - ERDF   | 3,344           | 3,534           |
| Broadband   | 5,986           | 7,846           |
| Digital Communities (formerly CBS)                                  | 26              | 399             |
| Scottish Land Fund (SLF)  | 420             | 414             |
| City Region Deal - Science Skills Academy                           | 528             | 413             |
| City Region Deal - Northern Innovation Hub                          | 957             | 818             |
| Knowledge Exchange Placement Programme (KEPP)                       | 0               | 8               |
| Cyber Essentials Accreditation                                      | 0               | 2               |
| Orkney the Brand  | 76              | 86              |
| Other income  | 0               | 241             |
|   | <b>11,337</b>   | <b>13,761</b>   |
| <b>Financial position (I&amp;E)</b>                                 | <b>66,719</b>   | <b>65,782</b>   |
| <b>Reconciliation to Group net operating cost before taxation:</b>  |                 |                 |
| <b>Financial position (I&amp;E)</b>                                 | <b>(66,719)</b> | <b>(65,782)</b> |
| Pension (IAS19)   | (550)           | (2,297)         |
| Depreciation  | (1,308)         | (1,208)         |
| Provisions and charges  | (6,443)         | (10,705)        |
| Timing differences  | 3               | 1,901           |
| Property cost of sales  | (9,163)         | (475)           |
| Capital revaluation and additions                                   | 2,450           | 2,350           |
| Taxation provision and charges                                      | 4,466           | (4,213)         |
| HIE Ventures Limited  | -               | -               |
| Associate companies   | 471             | (1,180)         |
| Consolidation adjustments   | 368             | (92)            |
| <b>Group net operating cost before taxation</b>                     | <b>(76,425)</b> | <b>(81,701)</b> |

### 3. Income from operating activities

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

|   | GROUP         |               | HIE           |               |
|---|---------------|---------------|---------------|---------------|
|   | 2020          | 2019          | 2020          | 2019          |
|   | £000          | £000          | £000          | £000          |
| <b>Income from Activities</b>                 |               |               |               |               |
| Property rentals                              | 2,774         | 3,462         | 2,775         | 3,462         |
| Gain/(loss) on financial assets at fair value | -             | -             | -             | -             |
| Surplus/(loss) on disposal of property        | 1,519         | 223           | 1,519         | 224           |
| Surplus/(loss) on disposal of investments     | (1)           | 52            | -             | 15            |
|   | <b>4,292</b>  | <b>3,737</b>  | <b>4,294</b>  | <b>3,701</b>  |
| <b>Other Income</b>                           |               |               |               |               |
| Other European contributions                  | 3,351         | 3,676         | 3,351         | 3,676         |
| Scottish Government receipts                  | 6,138         | 9,170         | 6,138         | 9,170         |
| Other external income                         | 7,212         | 8,474         | 5,976         | 6,762         |
|   | <b>16,701</b> | <b>21,320</b> | <b>15,465</b> | <b>19,608</b> |

## 4. Expenditure on operating activities

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

|   | Priority Investments | Business Support | Growth Investment | Tourism Attraction Operator | Total         | 2019          |
|---|----------------------|------------------|-------------------|-----------------------------|---------------|---------------|
|   | £000                 | £000             | £000              | £000                        | £000          | £000          |
| Highlands and Islands Enterprise          | 33,118               | 14,703           | 18,338            | -                           | 66,159        | 59,908        |
| Cairngorm Mountain (Scotland) Limited     | -                    | -                | -                 | 1,366                       | 1,366         | 553           |
| Community Broadband                       | 33                   | -                | -                 | -                           | 33            | 411           |
| Wave Energy Scotland                      | 8,299                | -                | -                 | -                           | 8,299         | 8,796         |
| Orkney Research and Innovation Campus LLP | -                    | -                | -                 | -                           | -             | -             |
| HIE Ventures Limited                      | -                    | -                | -                 | -                           | -             | -             |
| <b>Group</b>                              | <b>41,450</b>        | <b>14,703</b>    | <b>18,338</b>     | <b>1,366</b>                | <b>75,857</b> | <b>69,668</b> |
| 2019                                      | 36,530               | 13,586           | 19,062            | 553                         | 69,731        |               |

|   | Priority Investments | Business Support | Growth Investment | Tourism Attraction Operator | Total         | 2019          |
|---|----------------------|------------------|-------------------|-----------------------------|---------------|---------------|
|   | £000                 | £000             | £000              | £000                        | £000          | £000          |
| Highlands and Islands Enterprise          | 43,565               | 14,703           | 18,338            | -                           | 76,606        | 68,459        |
| Cairngorm Mountain (Scotland) Limited     | -                    | -                | -                 | -                           | -             | -             |
| Community Broadband                       | 33                   | -                | -                 | -                           | 33            | 411           |
| Wave Energy Scotland                      | -                    | -                | -                 | -                           | -             | -             |
| Orkney Research and Innovation Campus LLP | -                    | -                | -                 | -                           | -             | -             |
| HIE Ventures Limited                      | -                    | -                | -                 | -                           | -             | -             |
| <b>Highlands and Islands Enterprise</b>   | <b>43,598</b>        | <b>14,703</b>    | <b>18,338</b>     | <b>-</b>                    | <b>76,639</b> | <b>68,870</b> |
| 2019                                      | 36,285               | 13,586           | 19,062            | -                           | 68,933        |               |

Expenditure includes grants of £25,732,428 (2019 - £20,419,474) of which £561,917 (2019- £1,238,300) were made to the public sector and £25,170,510 (2019 - £19,181,174) to the private sector.

Property revaluation and management costs of £4,208,763 (2019 - £4,167,020) are included within Business Support expenditure above.

## 5a. ADMINISTRATION AND MANAGEMENT CHARGES BY ORGANISATION

|                                       | GROUP  |           |
|---------------------------------------|--------|-----------|
|                                       | 2020   | 2019      |
|                                       | £000   | £000      |
|                                       |        | *restated |
| Highlands and Islands Enterprise      | 18,708 | 33,216    |
| Cairngorm Mountain (Scotland) Limited | 698    | 251       |
| Wave Energy Scotland Limited          | 1,517  | 1,469     |
| Former LECs                           | -      | -         |
| HIE Ventures Limited                  | 14     | 35        |
| Continuing operations                 | 20,937 | 34,971    |

\*restated to reflect late adjustment

## 5b. ADMINISTRATION AND MANAGEMENT CHARGES

|   | GROUP  |        | HIE    |        |
|---|--------|--------|--------|--------|
|   | 2020   | 2019   | 2020   | 2019   |
|   | £000   | £000   | £000   | £000   |
| <b>Continuing operations</b>  |        |        |        |        |
| Staff and board member salaries                                     | 13,493 | 11,794 | 12,640 | 10,954 |
| IAS 19 adjustment in respect of service costs and curtailments      | (581)  | 1,305  | (581)  | 1,305  |
|   | 12,912 | 13,099 | 12,059 | 12,259 |
| Travel and subsistence - board members                              | 90     | 18     | 14     | 18     |
| Travel and subsistence - staff                                      | 623    | 792    | 623    | 708    |
| Accommodation   | 954    | 1,387  | 918    | 1,351  |
| Hospitality – board members   | 2      | 9      | 2      | 9      |
| Hospitality – staff   | 38     | 36     | 38     | 36     |
| Audit fees  | 155    | 143    | 138    | 138    |
| Operating lease rentals – equipment                                 | 34     | 16     | 21     | 16     |
| Equipment and furnishings   | 62     | 58     | 62     | 58     |
| Provision for irrecoverable debts and losses and write off of debts | 693    | 185    | 693    | 185    |
| Movement in Investment provisions and write off of investments      | 351    | 1,467  | 621    | 2,097  |
| Investment fair value adjustments                                   | (61)   | (253)  | (54)   | 11     |
| Other provisions  | 498    | 13,794 | 498    | 13,794 |
| Other administration costs  | 3,277  | 3,012  | 2,120  | 2,409  |
|   | 6,716  | 20,664 | 5,694  | 20,830 |
| Depreciation of fixed assets  | 1,309  | 1,208  | 1,232  | 1,149  |
| Total administration and management charges                         | 20,937 | 34,971 | 18,958 | 34,238 |

Fees chargeable for audit services provided by Audit Scotland amounted to £137,970 (2019 - £136,160).

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

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

|   | GROUP   |         | HIE     |         |
|---|---------|---------|---------|---------|
|   | 2020    | 2019    | 2020    | 2019    |
|   | £000    | £000    | £000    | £000    |
| <b>Investment income</b>                          |         |         |         |         |
| Dividends received                                | -       | -       | -       | -       |
| <b>Interest receivable</b>                        |         |         |         |         |
| Loan interest receivable                          | (263)   | (108)   | (263)   | (108)   |
| Bank interest receivable                          | (35)    | (10)    | (35)    | (10)    |
| Other Interest receivable                         | -       | -       | -       | -       |
|   | (298)   | (118)   | (298)   | (118)   |
| <b>Other finance (income) / charges</b>           |         |         |         |         |
| Interest income on retirement benefit assets      | (2,824) | (2,919) | (2,824) | (2,919) |
| Interest on retirement benefit scheme obligations | 3,955   | 3,911   | 3,955   | 3,911   |
|   | 1,131   | 992     | 1,131   | 992     |

## 7. INTEREST PAYABLE

|       | GROUP |      | HIE  |      |
|-------|-------|------|------|------|
|       | 2020  | 2019 | 2020 | 2019 |
|       | £000  | £000 | £000 | £000 |
| Other | 262   | 65   | 254  | 64   |
|       | 262   | 65   | 254  | 64   |

## 8. TAXATION

|  | GROUP      |             | HIE        |             |
|--|------------|-------------|------------|-------------|
|  | 2020       | 2019        | 2020       | 2019        |
|  | £000       | £000        | £000       | £000        |
| <b>Current tax</b>                                 |            |             |            |             |
| Current tax on profits for the year                | -          | -           | -          | -           |
| Adjustment in respect of prior years               | -          | -           | -          | -           |
| <b>Total current tax</b>                           | -          | -           | -          | -           |
| <b>Deferred tax</b>                                |            |             |            |             |
| Current year                                       | 81         | (136)       | 81         | (136)       |
| Adjustment in respect of previous periods          | 141        | 53          | 141        | 53          |
| Effect of changes in tax rates                     | (9)        | 14          | (9)        | 14          |
| <b>Total deferred tax</b>                          | <b>213</b> | <b>(69)</b> | <b>213</b> | <b>(69)</b> |
| Tax per statement of comprehensive net expenditure | <b>213</b> | <b>(69)</b> | <b>213</b> | <b>(69)</b> |
| Factors affecting tax charge for the period        |            |             |            |             |
| Net expenditure after interest                     | 76,425     | 81,765      | 76,952     | 80,953      |
| Tax on loss at 19% (2019 19%)                      | (14,521)   | (15,535)    | (14,621)   | (15,381)    |
| Tax under/(over) provided in previous years        | 141        | 53          | 141        | 53          |
| Nontaxable income and disallowable expenditure     | 14,602     | 15,399      | 14,702     | 15,245      |
| Effect of changes in Tax Rates                     | (9)        | 14          | (9)        | 14          |
| Revaluation  | -          | -           | -          | -           |
| <b>Current tax charge</b>                          | <b>213</b> | <b>(69)</b> | <b>213</b> | <b>(69)</b> |

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

## 9. Property Plant and Equipment

At 31 March 2020, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, Chartered Surveyors.

### 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    |
| <b>Cost or valuation</b> |   |                                     |                           |                          |                      |              |                     |         |
| At 1 April 2018          | 33,215  | 3,400                               | 231                       | 36,846                   | 1,227                | 652          | 5,687               | 44,412  |
| Additions                | 1,743   | 405                                 | 4,718                     | 6,866                    | 62                   | 205          | 1,677               | 8,810   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Disposals                | (21)  | -                                   | -                         | (21)                     | -                    | -            | (82)                | (103)   |
| Reclassifications        | (9,514)   | -                                   | -                         | (9,514)                  | -                    | -            | 8                   | (9,506) |
| Revaluations             | (773)   | (327)                               | -                         | (1,100)                  | -                    | -            | -                   | (1,100) |
| Impairment               | -   | -                                   | (3,164)                   | (3,164)                  | -                    | -            | -                   | (3,164) |
| At 31 March 2019         | 24,650  | 3,478                               | 1,785                     | 29,913                   | 1,289                | 857          | 7,290               | 39,349  |
| <b>Depreciation</b>      |   |                                     |                           |                          |                      |              |                     |         |
| At 1 April 2018          | -   | -                                   | -                         | -                        | 1,218                | 472          | 3,301               | 4,991   |
| Charged in year          | 248   | 90                                  | -                         | 338                      | 11                   | 141          | 705                 | 1,195   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | 13                  | 13      |
| Disposals                | -   | -                                   | -                         | -                        | -                    | -            | (74)                | (74)    |
| Reclassifications        | -   | -                                   | -                         | -                        | -                    | -            | 8                   | 8       |
| Revaluations             | (248)   | (90)                                | -                         | (338)                    | -                    | -            | -                   | (338)   |
| At 31 March 2019         | -   | -                                   | -                         | -                        | 1,229                | 613          | 3,953               | 5,795   |
| <b>Net Book Value</b>    |   |                                     |                           |                          |                      |              |                     |         |
| At 31 March 2019         | 24,650  | 3,478                               | 1,785                     | 29,913                   | 60                   | 244          | 3,337               | 33,554  |
| At 1 April 2019          | 24,650  | 3,478                               | 1,785                     | 29,913                   | 1,289                | 857          | 7,290               | 39,349  |
| Additions                | 1,780   | 16                                  | 4,896                     | 6,692                    | 51                   | 584          | 598                 | 7,925   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Disposals                | (208)   | -                                   | -                         | (208)                    | (21)                 | (225)        | (28)                | (482)   |
| Reclassifications        | (864)   | -                                   | (1,785)                   | (2,649)                  | -                    | -            | -                   | (2,649) |
| Revaluations             | (1,613)   | (16)                                | -                         | (1,629)                  | -                    | -            | -                   | (1,629) |
| Impairment               | -   | -                                   | (4,721)                   | (4,721)                  | -                    | -            | -                   | (4,721) |
| At 31 March 2020         | 23,745  | 3,478                               | 175                       | 27,398                   | 1,319                | 1,216        | 7,860               | 37,793  |

## Depreciation

|                   |       |      |   |              |       |       |       |              |
|-------------------|-------|------|---|--------------|-------|-------|-------|--------------|
| At 1 April 2019   | -     | -    | - | -            | 1,229 | 613   | 3,953 | <b>5,795</b> |
| Charged in year   | 235   | 48   | - | <b>283</b>   | 13    | 231   | 773   | <b>1,300</b> |
| Write down        | -     | -    | - | -            | -     | -     | 9     | <b>9</b>     |
| Disposals         | -     | -    | - | -            | (19)  | (169) | (26)  | <b>(214)</b> |
| Reclassifications | -     | -    | - | -            | -     | -     | -     | -            |
| Revaluations      | (235) | (48) | - | <b>(283)</b> | -     | -     | -     | <b>(283)</b> |
| At 31 March 2020  | -     | -    | - | -            | 1,223 | 675   | 4,709 | <b>6,607</b> |

## Net Book Value

|                  |               |              |            |               |           |            |              |               |
|------------------|---------------|--------------|------------|---------------|-----------|------------|--------------|---------------|
| At 31 March 2020 | <b>23,745</b> | <b>3,478</b> | <b>175</b> | <b>27,398</b> | <b>96</b> | <b>541</b> | <b>3,151</b> | <b>31,186</b> |
| At 1 April 2019  | 24,650        | 3,478        | 1,785      | 29,913        | 60        | 244        | 3,337        | 33,554        |
| At 1 April 2018  | 33,215        | 3,400        | 231        | 36,846        | 9         | 180        | 2,386        | 39,421        |

## 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                 | 24,043  | 3,478                               | 1,785                     | 29,306                   | 60                   | 244          | 3,233               | 32,843        |
| Finance leased        | 607   | -                                   | -                         | 607                      | -                    | -            | 104                 | 711           |
| <b>Net Book Value</b> |   |                                     |                           |                          |                      |              |                     |               |
| At 31 March 2019      | <b>24,650</b>                                     | <b>3,478</b>                        | <b>1,785</b>              | <b>29,913</b>            | <b>60</b>            | <b>244</b>   | <b>3,337</b>        | <b>33,554</b> |
| Owned                 | 23,475  | 3,478                               | 175                       | 27,128                   | 96                   | 541          | 3,047               | 30,812        |
| Finance leased        | 270   | -                                   | -                         | 270                      | -                    | -            | 104                 | 374           |
| <b>Net Book Value</b> |   |                                     |                           |                          |                      |              |                     |               |
| At 31 March 2020      | <b>23,745</b>                                     | <b>3,478</b>                        | <b>175</b>                | <b>27,398</b>            | <b>96</b>            | <b>541</b>   | <b>3,151</b>        | <b>31,186</b> |
| At 1 April 2019       | 24,650  | 3,478                               | 1,785                     | 29,913                   | 60                   | 244          | 3,337               | 33,554        |
| At 1 April 2018       | 33,215  | 3,400                               | 231                       | 36,846                   | 9                    | 180          | 2,386               | 39,421        |

## 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    |
| <b>Cost or valuation</b> |   |                                     |                           |                          |                      |              |                     |         |
| At 1 April 2018          | 33,215  | 3,400                               | 233                       | 36,848                   | 1,227                | 653          | 5,610               | 44,338  |
| Additions                | 1,743   | 405                                 | 4,718                     | 6,866                    | 62                   | 205          | 987                 | 8,120   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Disposals                | (21)  | -                                   | -                         | (21)                     | -                    | -            | (9)                 | (30)    |
| Reclassifications        | (9,514)   | -                                   | -                         | (9,514)                  | -                    | -            | -                   | (9,514) |
| Revaluations             | (773)   | (327)                               | -                         | (1,100)                  | -                    | -            | -                   | (1,100) |
| Impairment               | -   | -                                   | (3,164)                   | (3,164)                  | -                    | -            | -                   | (3,164) |
| At 31 March 2019         | 24,650  | 3,478                               | 1,787                     | 29,915                   | 1,289                | 858          | 6,588               | 38,650  |
| <b>Depreciation</b>      |   |                                     |                           |                          |                      |              |                     |         |
| At 1 April 2018          | -   | -                                   | -                         | -                        | 1,219                | 473          | 3,235               | 4,927   |
| Charged in year          | 267   | 71                                  | -                         | 338                      | 11                   | 141          | 646                 | 1,136   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | 13                  | 13      |
| Disposals                | -   | -                                   | -                         | -                        | -                    | -            | (8)                 | (8)     |
| Reclassifications        | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Revaluations             | (267)   | (71)                                | -                         | (338)                    | -                    | -            | -                   | (338)   |
| At 31 March 2019         | -   | -                                   | -                         | -                        | 1,230                | 614          | 3,886               | 5,730   |
| <b>Net Book Value</b>    |   |                                     |                           |                          |                      |              |                     |         |
| At 31 March 2019         | 24,650  | 3,478                               | 1,787                     | 29,915                   | 59                   | 244          | 2,702               | 32,920  |
| At 1 April 2019          | 24,650  | 3,478                               | 1,787                     | 29,915                   | 1,289                | 858          | 6,588               | 38,650  |
| Additions                | 1,780   | 16                                  | 4,896                     | 6,692                    | 51                   | 584          | 466                 | 7,793   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Disposals                | (208)   | -                                   | -                         | (208)                    | (21)                 | (225)        | (28)                | (482)   |
| Reclassifications        | (862)   | -                                   | (1,787)                   | (2,649)                  | -                    | -            | -                   | (2,649) |
| Revaluations             | (1,613)   | (16)                                | -                         | (1,629)                  | -                    | -            | -                   | (1,629) |
| Impairment               | -   | -                                   | (4,721)                   | (4,721)                  | -                    | -            | -                   | (4,721) |
| At 31 March 2020         | 23,747  | 3,478                               | 175                       | 27,400                   | 1,319                | 1,217        | 7,026               | 36,962  |
| <b>Depreciation</b>      |   |                                     |                           |                          |                      |              |                     |         |
| At 1 April 2019          | -   | -                                   | -                         | -                        | 1,230                | 614          | 3,886               | 5,730   |
| Charged in year          | 235   | 48                                  | -                         | 283                      | 13                   | 231          | 696                 | 1,223   |
| Write down               | -   | -                                   | -                         | -                        | -                    | -            | 9                   | 9       |
| Disposals                | -   | -                                   | -                         | -                        | (19)                 | (169)        | (26)                | (214)   |
| Reclassifications        | -   | -                                   | -                         | -                        | -                    | -            | -                   | -       |
| Revaluations             | (235)   | (48)                                | -                         | (283)                    | -                    | -            | -                   | (283)   |
| At 31 March 2020         | -   | -                                   | -                         | -                        | 1,224                | 676          | 4,565               | 6,465   |
| <b>Net Book Value</b>    |   |                                     |                           |                          |                      |              |                     |         |
| At 31 March 2020         | 23,747  | 3,478                               | 175                       | 27,400                   | 95                   | 541          | 2,461               | 30,497  |
| At 1 April 2019          | 24,650  | 3,478                               | 1,787                     | 29,915                   | 59                   | 244          | 2,702               | 32,920  |
| At 1 April 2018          | 33,215  | 3,400                               | 233                       | 36,848                   | 8                    | 180          | 2,375               | 39,411  |

**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                 | 24,043  | 3,478                               | 1,787                     | 29,308                   | 59                   | 244          | 2,701               | 32,312        |
| Finance leased        | 607   | -                                   | -                         | 607                      | -                    | -            | 1                   | 608           |
| <b>Net Book Value</b> |   |                                     |                           |                          |                      |              |                     |               |
| At 31 March 2019      | <b>24,650</b>                                     | <b>3,478</b>                        | <b>1,787</b>              | <b>29,915</b>            | <b>59</b>            | <b>244</b>   | <b>2,702</b>        | <b>32,920</b> |
| Owned                 | 23,477  | 3,478                               | 175                       | 27,130                   | 95                   | 541          | 2,461               | 30,227        |
| Finance leased        | 270   | -                                   | -                         | 270                      | -                    | -            | -                   | 270           |
| <b>Net Book Value</b> |   |                                     |                           |                          |                      |              |                     |               |
| At 31 March 2020      | <b>23,747</b>                                     | <b>3,478</b>                        | <b>175</b>                | <b>27,400</b>            | <b>95</b>            | <b>541</b>   | <b>2,461</b>        | <b>30,497</b> |
| At 1 April 2019       | 24,650  | 3,478                               | 1,787                     | 29,915                   | 59                   | 244          | 2,702               | 32,920        |
| At 1 April 2018       | 33,215  | 3,400                               | 233                       | 36,848                   | 8                    | 180          | 2,375               | 39,411        |

**Reconciliation of profit on sales:**

|                             | GROUP        |            |
|-----------------------------|--------------|------------|
|                             | 2020         | 2019       |
|                             | £000         | £000       |
| Sales value of disposals    | 10,681       | 706        |
| Net book value of disposals | (9,162)      | (482)      |
| Profit on sales             | <b>1,519</b> | <b>224</b> |

**Analysis of fund of asset additions:**

|                  | GROUP        |              | HIE          |              |
|------------------|--------------|--------------|--------------|--------------|
|                  | 2020         | 2019         | 2020         | 2019         |
|                  | £000         | £000         | £000         | £000         |
| Government Grant | 7,925        | 7,627        | 7,793        | 6,937        |
| EU               | 0            | 1,183        | 0            | 1,183        |
| Total            | <b>7,925</b> | <b>8,810</b> | <b>7,793</b> | <b>8,120</b> |

## 10. Financial Assets

### FINANCIAL ASSETS - GROUP

|   | 2020 | 2019 |
|---|------|------|
|   | £000 | £000 |
| <b>Financial assets at fair value through profit and loss</b> |      |      |
| Unlisted equity shares  | 20   | 195  |

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 | Total |
|  | £000              | £000                  | £000  | £000  |
| <b>Amortised cost</b>                    |                   |                       |       |       |
| At 1 April 2019                          | 2,773             | 6,369                 | 9,142 | 8,876 |
| Additions                                | -                 | 1,050                 | 1,050 | 793   |
| Repayments                               | -                 | (417)                 | (417) | (716) |
| Disposals                                | -                 | -                     | -     | -     |
| Fair value adjustment                    | -                 | 56                    | 56    | 189   |
| Reclassification                         | -                 | -                     | -     | -     |
| Written off                              | -                 | (881)                 | (881) | -     |
| At 31 March 2020                         | 2,773             | 6,177                 | 8,950 | 9,142 |
| <b>Diminution in value</b>               |                   |                       |       |       |
| At 1 April 2019                          | 2,773             | 4,435                 | 7,208 | 5,740 |
| Additions                                | -                 | 111                   | 111   | 1,635 |
| Disposals                                | -                 | -                     | -     | -     |
| Released                                 | -                 | (122)                 | (122) | (158) |
| Reclassification                         | -                 | -                     | -     | -     |
| Risk premium                             | -                 | 182                   | 182   | (9)   |
| Written off                              | -                 | (881)                 | (881) | -     |
| At 31 March 2020                         | 2,773             | 3,725                 | 6,498 | 7,208 |
| <b>Net book value</b>                    |                   |                       |       |       |
| At 31 March 2020                         | -                 | 2,452                 | 2,452 | 1,934 |
| At 1 April 2019                          | -                 | 1,934                 | 1,934 |       |
| <b>Analysis of loans and receivables</b> |                   |                       |       |       |
| Due within 1 year                        | -                 | 229                   | 229   | 446   |
| Due over 1 year                          | -                 | 2,223                 | 2,223 | 1,488 |

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.

## FINANCIAL ASSETS - HIE

|   |  |  | 2020 | 2019 |
|---|--|--|------|------|
|   |  |  | £000 | £000 |
| <b>Financial assets at fair value through profit and loss</b> |  |  |      |      |
| Unlisted equity shares  |  |  | 649  | 770  |

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 | Total |
|  | £000              | £000                  | £000  | £000  |
| <b>Amortised cost</b>                    |                   |                       |       |       |
| At 1 April 2019                          | 2,773             | 7,089                 | 9,862 | 8,857 |
| Additions                                | -                 | 1,350                 | 1,350 | 1,494 |
| Repayments                               | -                 | (417)                 | (417) | (680) |
| Disposals                                | -                 | -                     | -     | -     |
| Fair value adjustment                    | -                 | 56                    | 56    | 189   |
| Converted to unlisted equity shares      | -                 | (600)                 | (600) | -     |
| Written off                              | -                 | (881)                 | (881) | -     |
| At 31 March 2020                         | 2,773             | 6,597                 | 9,370 | 9,860 |
| <b>Diminution in value</b>               |                   |                       |       |       |
| At 1 April 2019                          | 2,773             | 5,065                 | 7,838 | 5,740 |
| Additions                                | -                 | 111                   | 111   | 1,635 |
| Disposals                                | -                 | -                     | -     | -     |
| Released                                 | -                 | (121)                 | (121) | (157) |
| Reclassification                         | -                 | -                     | -     | -     |
| Risk premium                             | -                 | (88)                  | (88)  | 621   |
| Written off                              | -                 | (881)                 | (881) | -     |
| At 31 March 2020                         | 2,773             | 4,086                 | 6,859 | 7,839 |
| <b>Net book value</b>                    |                   |                       |       |       |
| At 31 March 2020                         | -                 | 2,511                 | 2,511 | 2,021 |
| At 1 April 2019                          | -                 | 2,021                 | 2,021 | -     |
| <b>Analysis of loans and receivables</b> |                   |                       |       |       |
| Due within 1 year                        | -                 | 229                   | 229   | 446   |
| Due over 1 year                          | -                 | 2,282                 | 2,282 | 1,575 |

During the year HIE converted £600k of loan provided to Cairngorm Mountain (Scotland) Limited to £600k of Ordinary Shares.

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

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

**DETAILS OF SUBSIDIARY UNDERTAKINGS: ALL HELD BY HIGHLANDS AND ISLANDS ENTERPRISE UNLESS INDICATED.**

**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 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 2020.

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 Ski area

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

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

### Limited by Guarantee

| Name of company                                 | Country of incorporation | Accounting period end 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.

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

### Limited by Shares

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

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

### Limited Liability Partnerships

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

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

|                  | Non<br>Current<br>assets | Current<br>assets | Total<br>assets | Current<br>liabilities | Non<br>current<br>liabilities | Total<br>liabilities | Revenue | Expenses | Profit/<br>(Loss) |
|------------------|--------------------------|-------------------|-----------------|------------------------|-------------------------------|----------------------|---------|----------|-------------------|
| As at March 2018 | 46                       | 2,306             | 2,352           | (1,440)                | (19)                          | (1,459)              | 638     | (10,808) | (10,171)          |
| As at March 2019 | 634                      | 5,258             | 5,892           | (5,061)                | (123)                         | (5,184)              | 2,185   | (10,896) | (8,711)           |
| As at March 2020 | 688                      | 6,297             | 6,985           | (5,436)                | (523)                         | (5,959)              | 1,305   | (10,803) | (9,498)           |

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

|                  | Non<br>current<br>assets | Current<br>assets | Total<br>assets | Current<br>liabilities | Non<br>current<br>liabilities | Total<br>liabilities | Revenue | Expenses | Profit/<br>(Loss) |
|------------------|--------------------------|-------------------|-----------------|------------------------|-------------------------------|----------------------|---------|----------|-------------------|
| As at March 2018 | 8,035                    | 2,878             | 10,913          | (1,841)                | (4,897)                       | (6,738)              | 2,794   | (2,965)  | (171)             |
| As at March 2019 | 7,320                    | 2,313             | 9,633           | (4,315)                | (3,550)                       | (7,865)              | 3,586   | (7,097)  | (3,511)           |
| As at March 2020 | 7,843                    | 2,621             | 10,464          | (4,613)                | (3,290)                       | (7,903)              | 3,640   | (3,563)  | 77                |

|  |  |  |  |  |  |  |  |  |         |
|--|--|--|--|--|--|--|--|--|---------|
| Movements in carrying amount of investment in equity accounted investees |  |  |  |  |  |  |  |  |         |
|  |  |  |  |  |  |  |  |  | £000    |
| Carrying amount as at 1 April 2018                                       |  |  |  |  |  |  |  |  | 1,796   |
| Share of reserves  |  |  |  |  |  |  |  |  | -       |
| Share of net profit/(Loss)   |  |  |  |  |  |  |  |  | (1,180) |
| Carrying amount as at 31 March 2019                                      |  |  |  |  |  |  |  |  | 616     |
| Carrying amount as at 1 April 2019                                       |  |  |  |  |  |  |  |  | 616     |
| Share of net profit/(Loss)   |  |  |  |  |  |  |  |  | 471     |
| Carrying amount as at 31 March 2020                                      |  |  |  |  |  |  |  |  | 1,087   |

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

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

## SIGNIFICANT HOLDINGS

| Name of company                         | Activity                                    | Percentage of voting rights | Holding as at 31 March 2020   | Share value paid<br>£000 | Original loan capital<br>£000 |
|---|---|-----------------------------|---|--------------------------|-------------------------------|
| Balcas Limited                          | Production of renewable wood pellet fuel    | Nil                         | 29,811 cumulative convertible participating redeemable preferred shares | 2,000                    |                               |
| Inverness Airport Business Park Limited | Construction and operation of Business park | 25%                         | 500 class 'C' ordinary shares   | -                        | 1,423                         |
|   |   |                             | 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 34 other businesses      |   |                             |   | 1,250                    | 6,819                         |
|   |   |                             |   | <b>4,991</b>             | <b>9,942</b>                  |

## 11. Fair Value and impairments

Revaluations to fair value and impairment charges for the year.

| <b>FAIR VALUE AND IMPAIRMENTS</b>  |   |                            |              |              |
|------------------------------------|---|----------------------------|--------------|--------------|
| <b>GROUP</b>                       |   |                            |              |              |
|                                    | <b>Statement of comprehensive net expenditure</b> | <b>Revaluation reserve</b> | <b>Total</b> | <b>2019</b>  |
|                                    | <b>£000</b>                                       | <b>£000</b>                | <b>£000</b>  | <b>£000</b>  |
| <b>Revaluations to fair value</b>  |   |                            |              |              |
| Property, plant and equipment      | 1,380   | (34)                       | 1,346        | 2,248        |
| Equity accounted investees         |   |                            | -            | -            |
| Financial assets                   | (61)  | -                          | (61)         | (253)        |
|                                    | <b>1,319</b>                                      | <b>(34)</b>                | <b>1,285</b> | <b>1,995</b> |
| <b>Impairments</b>                 |   |                            |              |              |
| Property, plant and equipment      | 4,721   | -                          | 4,721        | 3,164        |
| Assets classified as held for sale |   | -                          | -            | -            |
| Financial assets                   | (351)   | -                          | (351)        | (1,626)      |
|                                    | <b>4,370</b>                                      | <b>-</b>                   | <b>4,370</b> | <b>1,538</b> |
| <b>HIE</b>                         |   |                            |              |              |
|                                    | <b>Statement of comprehensive net expenditure</b> | <b>Revaluation reserve</b> | <b>Total</b> | <b>2019</b>  |
|                                    | <b>£000</b>                                       | <b>£000</b>                | <b>£000</b>  | <b>£000</b>  |
| <b>Revaluations to fair value</b>  |   |                            |              |              |
| Property, plant and equipment      | 1,380   | (34)                       | 1,346        | 2,248        |
| Financial assets                   | (54)  | -                          | (54)         | 12           |
|                                    | <b>1,326</b>                                      | <b>(34)</b>                | <b>1,292</b> | <b>2,260</b> |
| <b>Impairments</b>                 |   |                            |              |              |
| Property, plant and equipment      | 4,721   | -                          | 4,721        | 3,164        |
| Assets classified as held for sale |   | -                          | -            | -            |
| Financial assets                   | (621)   | -                          | (621)        | (2,256)      |
|                                    | <b>4,100</b>                                      | <b>-</b>                   | <b>4,100</b> | <b>908</b>   |

## 12. TRADE AND OTHER RECEIVABLES

|                                 | Note | GROUP   |        | HIE     |        |
|---------------------------------|------|---------|--------|---------|--------|
|                                 |      | 2020    | 2019   | 2020    | 2019   |
|                                 |      | £000    | £000   | £000    | £000   |
| Trade receivables               |      | 8,925   | 10,135 | 8,922   | 10,099 |
| Impairment for bad debts        |      | (1,333) | (428)  | (1,333) | (428)  |
|                                 |      | 7,592   | 9,707  | 7,589   | 9,671  |
| Taxation recoverable            |      | 469     | 370    | 469     | 355    |
| Accrued income and prepayments  |      | 1,956   | 3,870  | 1,838   | 3,611  |
| Owed by subsidiary undertakings |      | -       | -      | 3,197   | 1,142  |
| Loans and other receivables     | 10   | 229     | 446    | 229     | 446    |
|                                 |      | 10,246  | 14,393 | 13,322  | 15,225 |

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

|   |  | GROUP  |        | HIE    |        |
|---|--|--------|--------|--------|--------|
|   |  | 2020   | 2019   | 2020   | 2019   |
|   |  | £000   | £000   | £000   | £000   |
| Balances with other central government bodies |  | 907    | 419    | 907    | 404    |
| Balances with local authorities               |  | 536    | 315    | 536    | 315    |
| Balances with NHS bodies                      |  | -      | -      | -      | -      |
| Balances with similar public bodies           |  | 326    | 78     | 326    | 76     |
|   |  | 1,769  | 812    | 1,769  | 795    |
| Balances with bodies external to government   |  | 8,477  | 13,581 | 11,553 | 14,430 |
|   |  | 10,246 | 14,393 | 13,322 | 15,225 |

### 13. CASH AND CASH EQUIVALENTS

|   | GROUP |       | HIE  |       |
|---|-------|-------|------|-------|
|   | 2020  | 2019  | 2020 | 2019  |
|   | £000  | £000  | £000 | £000  |
| Balance at 1 April                              | 2,286 | 2,393 | 811  | 1,365 |
| Net change in cash and cash equivalent balances | 2,779 | (107) | 57   | (554) |
| Balance as at 31 March                          | 5,065 | 2,286 | 868  | 811   |

|                         | GROUP |       | HIE  |      |
|-------------------------|-------|-------|------|------|
|                         | 2020  | 2019  | 2020 | 2019 |
|                         | £000  | £000  | £000 | £000 |
| Group and HIE funds     | 4,442 | 1,476 | 245  | 1    |
| Other scheme funds held | 623   | 810   | 623  | 810  |
|                         | 5,065 | 2,286 | 868  | 811  |

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

|                              | GROUP |      | HIE  |      |
|------------------------------|-------|------|------|------|
|                              | 2020  | 2019 | 2020 | 2019 |
|                              | £000  | £000 | £000 | £000 |
| Community Broadband Scotland | 623   | 668  | 623  | 668  |
| KEPP                         | -     | 142  | -    | 142  |
|                              | 623   | 810  | 623  | 810  |

## 14. 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<br>Buildings | Plant and<br>equipment | Financial<br>Assets | Total        |
|---|-----------------------|------------------------|---------------------|--------------|
|   | £000                  | £000                   |                     |              |
| As at 1 April 2018                            | 525                   | -                      | -                   | 525          |
| Transfers to/(from) assets held for resale    | 9,514                 | -                      | -                   | 9,514        |
| Other costs associated with sale of assets    | (30)                  | -                      | -                   | (30)         |
| Disposals of non current assets held for sale | (430)                 | -                      | -                   | (430)        |
| Impairment recognised on re-measurement       | -                     | -                      | -                   | -            |
| <b>At 31 March 2019</b>                       | <b>9,579</b>          | <b>-</b>               | <b>-</b>            | <b>9,579</b> |
|   | Land and<br>Buildings | Plant and<br>equipment | Financial<br>Assets | Total        |
|   | £000                  | £000                   |                     |              |
| As at 1 April 2019                            | 9,579                 | -                      | -                   | 9,579        |
| Transfers to/(from) assets held for resale    | 2,649                 | -                      | -                   | 2,649        |
| Other costs associated with sale of assets    | (48)                  | -                      | -                   | (48)         |
| Disposals of non current assets held for sale | (8,864)               | -                      | -                   | (8,864)      |
| Impairment recognised on re-measurement       | -                     | -                      | -                   | -            |
| <b>At 31 March 2020</b>                       | <b>3,316</b>          | <b>-</b>               | <b>-</b>            | <b>3,316</b> |

During the year it was decided 3 assets (2019 - 3) 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<br>Buildings | Plant and<br>equipment | Financial<br>Assets | Total        |
|---|-----------------------|------------------------|---------------------|--------------|
|   | £000                  | £000                   |                     |              |
| As at 1 April 2018                            | 525                   | -                      | -                   | 525          |
| Transfers to/(from) assets held for resale    | 9,514                 | -                      | -                   | 9,514        |
| Other costs associated with sale of assets    | (30)                  | -                      | -                   | (30)         |
| Disposals of non current assets held for sale | (430)                 | -                      | -                   | (430)        |
| Impairment recognised on re-measurement       | -                     | -                      | -                   | -            |
| <b>At 31 March 2019</b>                       | <b>9,579</b>          | <b>-</b>               | <b>-</b>            | <b>9,579</b> |
|   | Land and<br>Buildings | Plant and<br>equipment | Financial<br>Assets | Total        |
|   | £000                  | £000                   |                     |              |
| As at 1 April 2019                            | 9,579                 | -                      | -                   | 9,579        |
| Transfers to/(from) assets held for resale    | 2,649                 | -                      | -                   | 2,649        |
| Other costs associated with sale of assets    | (48)                  | -                      | -                   | (48)         |
| Disposals of non current assets held for sale | (8,864)               | -                      | -                   | (8,864)      |
| Impairment recognised on re-measurement       | -                     | -                      | -                   | -            |
| <b>At 31 March 2020</b>                       | <b>3,316</b>          | <b>-</b>               | <b>-</b>            | <b>3,316</b> |

During the year it was decided 3 assets (2019 - 3) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

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

|                                 | GROUP         |               | HIE           |               |
|---------------------------------|---------------|---------------|---------------|---------------|
|                                 | 2020          | 2019          | 2020          | 2019          |
|                                 | £000          | £000          | £000          | £000          |
| Trade payables                  | 5,655         | 11,431        | 4,056         | 8,920         |
| Accruals and deferred income    | 5,127         | 5,865         | 4,689         | 5,586         |
| Prepaid rental income           | 319           | 622           | 319           | 622           |
| Owed to subsidiary undertakings | -             | -             | 1,894         | 3,219         |
|                                 | <b>11,101</b> | <b>17,918</b> | <b>10,958</b> | <b>18,347</b> |
| Taxation and social security    | 409           | 433           | 321           | 326           |
| Corporation tax                 | -             | -             | -             | -             |
|                                 | <b>409</b>    | <b>433</b>    | <b>321</b>    | <b>326</b>    |

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

|   | GROUP         |               | HIE           |               |
|---|---------------|---------------|---------------|---------------|
|   | 2020          | 2019          | 2020          | 2019          |
|   | £000          | £000          | £000          | £000          |
| Balances with other central government bodies | 1,634         | 758           | 1,546         | 651           |
| Balances with local authorities               | 52            | 117           | 52            | 117           |
| Balances with similar public bodies           | 300           | 116           | 300           | 85            |
|   | <b>1,986</b>  | <b>991</b>    | <b>1,898</b>  | <b>853</b>    |
| Balances with bodies external to government   | 9,524         | 17,360        | 9,381         | 17,820        |
|   | <b>11,510</b> | <b>18,351</b> | <b>11,279</b> | <b>18,673</b> |

## 16. PROVISIONS

|                              | GROUP        |                    |               | HIE          |                    |               |
|------------------------------|--------------|--------------------|---------------|--------------|--------------------|---------------|
|                              | Tax          | Construction costs | Total         | Tax          | Construction costs | Total         |
|                              | £000         | £000               |               | £000         | £000               |               |
| As at 1 April 2018           | 321          | -                  | 321           | 321          | -                  | 321           |
| Increase during the year     | 4,214        | 9,581              | 13,795        | 4,214        | 9,581              | 13,795        |
| Released during the year     | -            | -                  | -             | -            | -                  | -             |
| Reversed during the year     | -            | -                  | -             | -            | -                  | -             |
| Recognised on re-measurement | -            | -                  | -             | -            | -                  | -             |
| <b>At 31 March 2019</b>      | <b>4,535</b> | <b>9,581</b>       | <b>14,116</b> | <b>4,535</b> | <b>9,581</b>       | <b>14,116</b> |

### Analysis of loans and receivables

|                   |       |       |        |       |       |        |
|-------------------|-------|-------|--------|-------|-------|--------|
| Due within 1 year | 4,535 | 9,581 | 14,116 | 4,535 | 9,581 | 14,116 |
| Due over 1 year   | -     | -     | -      | -     | -     | -      |

|                              | GROUP     |                    |               | HIE       |                    |               |
|------------------------------|-----------|--------------------|---------------|-----------|--------------------|---------------|
|                              | Tax       | Construction costs | Total         | Tax       | Construction costs | Total         |
|                              | £000      | £000               |               | £000      | £000               |               |
| As at 1 April 2019           | 4,535     | 9,581              | 14,116        | 4,535     | 9,581              | 14,116        |
| Increase during the year     | -         | 4,962              | 4,962         | -         | 4,962              | 4,962         |
| Released during the year     | (4,465)   | -                  | (4,465)       | (4,465)   | -                  | (4,465)       |
| Reversed during the year     | -         | -                  | -             | -         | -                  | -             |
| Recognised on re-measurement | -         | -                  | -             | -         | -                  | -             |
| <b>At 31 March 2020</b>      | <b>70</b> | <b>14,543</b>      | <b>14,613</b> | <b>70</b> | <b>14,543</b>      | <b>14,613</b> |

### Analysis of loans and receivables

|                   |    |        |        |    |        |        |
|-------------------|----|--------|--------|----|--------|--------|
| Due within 1 year | 70 | 12,863 | 12,933 | 70 | 12,863 | 12,933 |
| Due over 1 year   | -  | 1,680  | 1,680  | -  | 1,680  | 1,680  |

### Tax provision

This provision relates to the treatment of reverse charge VAT on composite invoices. We are currently in discussion with HMRC to agree if these invoices need to be fully reverse charged

### Construction cost

This provision relates to works required in relation to the cairngorm funicular railway. Final costs for the works have not been fully identified. The works are expected to take place over 2 years.

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

|                                 | GROUP        |              | HIE          |              |
|---------------------------------|--------------|--------------|--------------|--------------|
|                                 | 2020         | 2019         | 2020         | 2019         |
|                                 | £000         | £000         | £000         | £000         |
| Deferred income – other schemes | 300          | 429          | 300          | 325          |
| Deferred tax                    | 1,370        | 1,156        | 1,370        | 1,156        |
|                                 | <b>1,670</b> | <b>1,585</b> | <b>1,670</b> | <b>1,481</b> |

## 18. Retirement Benefit Obligation

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

HIE also have staff in the LGPS between Highland, Orkney and Strathclyde which are all now closed schemes. In 2019-20 there were 29 HIE employees in the LGPS. HIE has no active members in the Shetland Islands Pension fund which is also a closed scheme.

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

Benefits in the HIE scheme for service prior to 1st August 2014 are a pension of  $1/80 \times \text{final pensionable salary} \times \text{pensionable service}$  up to and including 31st July 2014.

From 1st August 2014 a pension of  $1/80 \times \text{pensionable salary}$  for each year of service accrues. The LGPS is also a defined benefit scheme, the assets of which are held in independently administered funds. This was a final pensionable salary scheme until 31st March 2015 then changed to a Career Average Revalued Earnings (CARE) scheme on 1st April 2015.

Benefits in the LGPS from 1st April 2015 accrue at  $1/49$  of pensionable salary for each year of service.

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

### HIGHLANDS AND ISLANDS ENTERPRISE SUPERANNUATION SCHEME

The valuation at 31st March 2020, indicated a potential deficit of £38.9 million in the HIE pension fund. In December 2013 HIE, with agreement of the HIE Pension Fund Trustees and Scottish Government implemented a recovery plan to address the shortfall. The plan was updated in December 2018 to:

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

From August 2014, the HIE final salary pension scheme was closed. A new Career Average Revalued Earnings (CARE) scheme replaced the HIE final salary scheme. The retirement age under the new scheme is 65 years of age and the employee contribution rate is 6% of pensionable salary.

## PENSION DISCLOSURE UNDER IAS 19

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

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 5 April 2018 by a qualified independent actuary and updated to 31 March 2020 by a qualified independent actuary.

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

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

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

|  | 31 March 20 | 31 March 19 | 31 March 18 | 31 March 17 | 31 March 16 |
|--|-------------|-------------|-------------|-------------|-------------|
|  | %           | %           | %           | %           | %           |
| <b>Main assumptions:</b>                   |             |             |             |             |             |
| Rate of salary increases (% per annum)     | <b>3.00</b> | 3.45        | 3.35        | 3.40        | 3.15        |
| Rate of pension increase CPI (% per annum) | <b>1.92</b> | 2.45        | 2.35        | 2.40        | 2.15        |
| Discount rate (% per annum)                | <b>2.44</b> | 2.40        | 2.65        | 2.60        | 3.50        |
| Inflation rate RPI (% per annum)           | <b>2.82</b> | 3.45        | 3.35        | 3.40        | 3.15        |

During the year, Highlands and Islands Enterprise paid contributions equivalent to 25.9% of pensionable salaries.

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

| The assets in the scheme and expected rate of return were: |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
|  | Value at  |
|  | 31 March  |
|  | 2020      | 2019      | 2018      | 2017      | 2016      |
|  | £000      | £000      | £000      | £000      | £000      |
| Equities   | 55,074    | 70,318    | 70,623    | 70,592    | 47,886    |
| Gilts  | 23,911    | 16,127    | 12,965    | 13,261    | 16,644    |
| Bonds  | -         | -         | -         | -         | 8,235     |
| Property   | 8,638     | 8,438     | 8,182     | 7,869     | 7,677     |
| Cash   | 8,076     | 2,880     | 2,239     | 1,513     | 1,117     |
| Estimated employer assets                                  | 95,699    | 97,763    | 94,009    | 93,235    | 81,559    |
| Present value of scheme liabilities                        | (134,576) | (139,518) | (128,691) | (143,441) | (113,401) |
| Deficit in the scheme                                      | (38,877)  | (41,755)  | (34,682)  | (50,206)  | (31,842)  |
| Related deferred tax asset/ (liability)                    | -         | -         | -         | -         | -         |
| Net pension liability                                      | (38,877)  | (41,755)  | (34,682)  | (50,206)  | (31,842)  |

The current values show a decrease in the deficit from 31 March 2019 of £2.9m to £38.9m at 31 March 2020.

#### LOCAL GOVERNMENT PENSION FUNDS

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

#### PENSION DISCLOSURE UNDER IAS 19

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

The local government pension fund is a defined benefit scheme. A full actuarial valuation was made at 31 March 2017 and updated to 31 March 2020 by a qualified independent actuary.

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

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

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

|  | 31 March 20 | 31 March 19 | 31 March 18 | 31 March 17 | 31 March 16 |
|--|-------------|-------------|-------------|-------------|-------------|
|  | %           | %           | %           | %           | %           |
| <b>Main assumptions:</b>                   |             |             |             |             |             |
| Rate of salary increases (% per annum)     | 3.00        | 3.45        | 3.35        | 3.40        | 4.20        |
| Rate of pension increase CPI (% per annum) | 1.92        | 2.45        | 2.35        | 2.40        | 2.20        |
| Discount rate (% per annum)                | 2.44        | 2.40        | 2.65        | 2.60        | 3.53        |
| Inflation rate RPI (% per annum)           | 2.82        | 3.20        | 3.35        | 3.40        | 3.20        |

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 |
|  | 2020     | 2019     | 2018     | 2017     | 2016     |
|  | £000     | £000     | £000     | £000     | £000     |
| Equities   | 12,997   | 13,896   | 12,726   | 12,476   | 9,932    |
| Gilts  | 273      | 130      | 658      | 515      | 420      |
| Bonds  | 2,829    | 2,975    | 1,940    | 1,876    | 1,803    |
| Property   | 1,705    | 1,692    | 2,098    | 1,910    | 1,514    |
| Cash   | 1,135    | 703      | 425      | 464      | 491      |
| Estimated employer assets                                  | 18,939   | 19,396   | 17,850   | 17,241   | 14,160   |
| Present value of scheme liabilities                        | (21,367) | (24,088) | (21,442) | (22,529) | (17,890) |
| Present value of unfunded liabilities                      | (679)    | (787)    | (745)    | (819)    | (681)    |
| Deficit in the scheme                                      | (3,107)  | (5,479)  | (4,337)  | (6,107)  | (4,411)  |
| Related deferred tax liability                             | -        | -        | -        | -        | -        |
| Net pension liability                                      | (3,107)  | (5,479)  | (4,337)  | (6,107)  | (4,411)  |

The pension contributions with effect from 1 April 2019 for the local government pension funds are:

| The pension contributions with effect from 1 April 2019 for the local government pension funds are: | 2020  | 2019  |
|---|-------|-------|
| Highland Council Pension Fund   | 30.1% | 30.1% |
| Orkney Islands Council Pension Fund   | 17.6% | 17.6% |
| Strathclyde Pension Fund  | 33.6% | 33.6% |

HIE paid £32k for unfunded pension contributions in 2019/20 for the Shetland Islands Pension Fund.

## RETIREMENT BENEFIT OBLIGATION - GROUP

|   | HIE     | LGPS    | Total    | HIE     | LGPS    | Total    |
|---|---------|---------|----------|---------|---------|----------|
|   | 2020    | 2020    | 2020     | 2019    | 2019    | 2019     |
|   | £000    | £000    | £000     | £000    | £000    | £000     |
| <b>Analysis of the amount charged to SCNE</b>   |         |         |          |         |         |          |
| Current service cost  | 2,971   | 584     | 3,555    | 3,078   | 531     | 3,609    |
| Past service cost   | -       | (114)   | (114)    | 130     | 192     | 322      |
| Admin expenses  | 292     | -       | 292      | 403     | -       | 403      |
| Interest income on retirement benefit assets  | (2,354) | (470)   | (2,824)  | (2,441) | (478)   | (2,919)  |
| Interest on retirement benefit scheme obligations   | 3,350   | 605     | 3,955    | 3,317   | 594     | 3,911    |
| Net pension scheme expense  | 4,259   | 605     | 4,864    | 4,487   | 839     | 5,326    |
| <b>Analysis of the amount recognised in SOCEs</b>   |         |         |          |         |         |          |
| Actual return less expected return on pension scheme assets                               | (5,035) | (1,270) | (6,305)  | 2,497   | 676     | 3,173    |
| Experience gains and (losses) arising on the scheme liabilities                           | (5,227) | 128     | (5,099)  | 1,269   | (26)    | 1,243    |
| Changes in demographic assumptions underlying the present value of the scheme liabilities | -       | -       | -        | -       | -       | -        |
| Changes in financial assumptions underlying the present value of the scheme liabilities   | 13,682  | 3,718   | 17,400   | (8,784) | (1,746) | (10,530) |
| Restriction on scheme surplus   | -       | -       | -        | -       | -       | -        |
| Prior year adjustment on assets   | -       | -       | -        | -       | -       | -        |
| Defined benefit income/(cost) recognised in SOCE  | 3,420   | 2,576   | 5,996    | (5,018) | (1,096) | (6,114)  |
| <b>Reconciliation of defined benefit obligation</b>                                       |         |         |          |         |         |          |
| Opening defined benefit obligation  | 139,518 | 25,071  | 164,589  | 128,691 | 22,187  | 150,878  |
| Recognised on acquisition   | -       | -       | -        | -       | -       | -        |
|   | 139,518 | 25,071  | 164,589  | 128,691 | 22,187  | 150,878  |
| <b>Movement in year</b>   |         |         |          |         |         |          |
| Current Service costs   | 3,263   | 584     | 3,847    | 3,078   | 531     | 3,609    |
| Contributions by members  | 643     | 99      | 742      | 586     | 100     | 686      |
| Past service costs  | -       | (114)   | (114)    | 130     | 192     | 322      |
| Impact of settlements and curtailments  | -       | -       | -        | -       | -       | -        |
| Estimated unfunded benefits paid  | -       | (31)    | (31)     | -       | (31)    | (31)     |
| Estimated benefits paid   | (3,743) | (322)   | (4,065)  | (3,799) | (274)   | (4,073)  |
| Interest cost   | 3,350   | 605     | 3,955    | 3,317   | 594     | 3,911    |
| Actuarial losses/(gains)  | (8,455) | (3,846) | (12,301) | 7,515   | 1,772   | 9,287    |
| Closing defined benefit obligation  | 134,576 | 22,046  | 156,622  | 139,518 | 25,071  | 164,589  |

|   |          |         |          |          |         |          |
|---|----------|---------|----------|----------|---------|----------|
|   |          |         |          |          |         |          |
| Present value of funded liabilities                               | 134,576  | 21,367  | 155,943  | 139,518  | 24,284  | 163,802  |
| Present value of unfunded liabilities                             | -        | 679     | 679      | -        | 787     | 787      |
| <b>Reconciliation of fair value of assets</b>                     |          |         |          |          |         |          |
| Opening fair value of assets                                      | 97,763   | 19,396  | 117,159  | 94,009   | 17,850  | 111,859  |
| Recognised on acquisition   | -        | -       | -        | -        | -       | -        |
| Expected return on assets   | 2,354    | 470     | 2,824    | 2,441    | 478     | 2,919    |
| Contributions by members  | 643      | 99      | 742      | 586      | 100     | 686      |
| Contributions by employer   | 3,717    | 566     | 4,283    | 2,432    | 566     | 2,998    |
| Contribution in respect of unfunded benefits                      | -        | 31      | 31       | -        | 31      | 31       |
| Admin expenses  | -        | -       | -        | (403)    | -       | (403)    |
| Actuarial gains/(losses)  | (5,035)  | (1,270) | (6,305)  | 2,497    | 676     | 3,173    |
| Estimated unfunded benefits paid                                  | -        | (31)    | (31)     | -        | (31)    | (31)     |
| Estimated benefits paid   | (3,743)  | (322)   | (4,065)  | (3,799)  | (274)   | (4,073)  |
|   | 95,699   | 18,939  | 114,638  | 97,763   | 19,396  | 117,159  |
| <b>Net pension liability</b>                                      |          |         |          |          |         |          |
|   | (38,877) | (3,107) | (41,984) | (41,755) | (5,675) | (47,430) |
| Estimated employer contributions for the year ended 31 March 2021 | 3,743    | 570     | 4,313    | 4,300    | 569     | 4,869    |

## RETIREMENT BENEFIT OBLIGATION - HIE

|   | HIE     | LGPS    | Total    | HIE     | LGPS    | Total    |
|---|---------|---------|----------|---------|---------|----------|
|   | 2020    | 2020    | 2020     | 2019    | 2019    | 2019     |
|   | £000    | £000    | £000     | £000    | £000    | £000     |
| <b>Analysis of the amount charged to SCNE</b>   |         |         |          |         |         |          |
| Current service cost  | 2,971   | 584     | 3,555    | 3,078   | 531     | 3,609    |
| Past service cost   | -       | (114)   | (114)    | 130     | 192     | 322      |
| Admin expenses  | 292     | -       | 292      | 403     | -       | 403      |
| Interest income on retirement benefit assets  | (2,354) | (470)   | (2,824)  | (2,441) | (478)   | (2,919)  |
| Interest on retirement benefit scheme obligations   | 3,350   | 605     | 3,955    | 3,317   | 594     | 3,911    |
| Net pension scheme expense  | 4,259   | 605     | 4,864    | 4,487   | 839     | 5,326    |
| <b>Analysis of the amount recognised in SOCEs</b>   |         |         |          |         |         |          |
| Actual return less expected return on pension scheme assets                               | (5,035) | (1,270) | (6,305)  | 2,497   | 676     | 3,173    |
| Experience gains and (losses) arising on the scheme liabilities                           | (5,227) | 128     | (5,099)  | 1,269   | (26)    | 1,243    |
| Changes in demographic assumptions underlying the present value of the scheme liabilities | -       | -       | -        | -       | -       | -        |
| Changes in financial assumptions underlying the present value of the scheme liabilities   | 13,682  | 3,718   | 17,400   | (8,784) | (1,746) | (10,530) |
| Restriction on scheme surplus   | -       | -       | -        | -       | -       | -        |
| Prior year adjustment on assets   | -       | -       | -        | -       | -       | -        |
| Defined benefit income/(cost) recognised in SOCE  | 3,420   | 2,576   | 5,996    | (5,018) | (1,096) | (6,114)  |
| <b>Reconciliation of defined benefit obligation</b>                                       |         |         |          |         |         |          |
| Opening defined benefit obligation  | 139,518 | 25,071  | 164,589  | 128,691 | 22,187  | 150,878  |
| Recognised on acquisition   | -       | -       | -        | -       | -       | -        |
|   | 139,518 | 25,071  | 164,589  | 128,691 | 22,187  | 150,878  |
| Movement in year:   |         |         |          |         |         |          |
| Current Service costs   | 3,263   | 584     | 3,847    | 3,078   | 531     | 3,609    |
| Contributions by members  | 643     | 99      | 742      | 586     | 100     | 686      |
| Past service costs  | -       | (114)   | (114)    | 130     | 192     | 322      |
| Impact of settlements and curtailments  | -       | -       | -        | -       | -       | -        |
| Estimated unfunded benefits paid  | -       | (31)    | (31)     | -       | (31)    | (31)     |
| Estimated benefits paid   | (3,743) | (322)   | (4,065)  | (3,799) | (274)   | (4,073)  |
| Interest cost   | 3,350   | 605     | 3,955    | 3,317   | 594     | 3,911    |
| Actuarial losses/(gains)  | (8,455) | (3,846) | (12,301) | 7,515   | 1,772   | 9,287    |
| Closing defined benefit obligation  | 134,576 | 22,046  | 156,622  | 139,518 | 25,071  | 164,589  |

|   |                 |                |                 |                 |                |                 |
|---|-----------------|----------------|-----------------|-----------------|----------------|-----------------|
| Present value of funded liabilities           | 134,576         | 21,367         | 155,943         | 139,518         | 24,284         | 163,802         |
| Present value of unfunded liabilities         | -               | 679            | 679             | -               | 787            | 787             |
| <b>Reconciliation of fair value of assets</b> |                 |                |                 |                 |                |                 |
| Opening fair value of assets                  | 97,763          | 19,396         | 117,159         | 94,009          | 17,850         | 111,859         |
| Recognised on acquisition                     | -               | -              | -               | -               | -              | -               |
| Expected return on assets                     | 2,354           | 470            | 2,824           | 2,441           | 478            | 2,919           |
| Contributions by members                      | 643             | 99             | 742             | 586             | 100            | 686             |
| Contributions by employer                     | 3,717           | 566            | 4,283           | 2,432           | 566            | 2,998           |
| Contribution in respect of unfunded benefits  | -               | 31             | 31              | -               | 31             | 31              |
| Admin expenses                                | -               | -              | -               | (403)           | -              | (403)           |
| Actuarial gains/(losses)                      | (5,035)         | (1,270)        | (6,305)         | 2,497           | 676            | 3,173           |
| Estimated unfunded benefits paid              | -               | (31)           | (31)            | -               | (31)           | (31)            |
| Estimated benefits paid                       | (3,743)         | (322)          | (4,065)         | (3,799)         | (274)          | (4,073)         |
|   | 95,699          | 18,939         | 114,638         | 97,763          | 19,396         | 117,159         |
|   |                 |                |                 |                 |                |                 |
| <b>Net pension liability</b>                  | <b>(38,877)</b> | <b>(3,107)</b> | <b>(41,984)</b> | <b>(41,755)</b> | <b>(5,675)</b> | <b>(47,430)</b> |

## MCCLLOUD JUDGEMENT

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

## Expenditure recognised in the Statement of Comprehensive Net Expenditure

|   | 2020  | 2019  |
|---|-------|-------|
|   | £000  | £000  |
| Net management expenditure on staff costs | (581) | 1,305 |
| Other finance charges/(income)            | 1,131 | 992   |

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       |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
|  | 2020      | 2019      | 2018      | 2017      | 2016      |
|  | £000      | £000      | £000      | £000      | £000      |
| <b>Experience gains and losses</b>                             |           |           |           |           |           |
| Difference between expected and actual return on scheme assets | (5,035)   | 2,497     | (616)     | 10,395    | (5,150)   |
| Value of assets  | 95,699    | 97,763    | 94,009    | 93,235    | 81,559    |
| Percentage of scheme assets                                    | (5.3)%    | 2.6%      | (0.7)%    | 11.1%     | (6.3)%    |
| Experience gains and (losses) on scheme liabilities            | (5,227)   | 1,269     | 8,200     | (63)      | 1,808     |
| Present value of liabilities                                   | (134,576) | (139,518) | (128,691) | (143,441) | (113,401) |
| Percentage of scheme liabilities                               | 3.9%      | (0.9)%    | (6.4)%    | 0.0%      | (1.6)%    |

|  | LGPS     |          |          |          |          |
|--|----------|----------|----------|----------|----------|
|  | 2020     | 2019     | 2018     | 2017     | 2016     |
|  | £000     | £000     | £000     | £000     | £000     |
| <b>Experience gains and losses</b>                             |          |          |          |          |          |
| Difference between expected and actual return on scheme assets | (1,270)  | 676      | 38       | 2,491    | (185)    |
| Value of assets  | 18,939   | 19,396   | 17,850   | 17,241   | 14,160   |
| Percentage of scheme assets                                    | (6.7)%   | 3.5%     | 0.2%     | 14.4%    | (1.3)%   |
| Experience gains and (losses) on scheme liabilities            | 128      | (26)     | 1,562    | (51)     | 208      |
| Present value of liabilities                                   | (22,046) | (25,071) | (22,187) | (23,348) | (18,571) |
| Percentage of scheme liabilities                               | (0.6)%   | 0.1%     | (7.0)%   | 0.2%     | (1.1)%   |

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £5,996k gain (2019 £6,114k loss).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £23,083k (2019 £29,079k loss).

## MORTALITY

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

|  | HIE  |      | LGPS |      |
|--|------|------|------|------|
|  | UK   | UK   | UK   | UK   |
|  | 2020 | 2019 | 2020 | 2019 |
| 1. Male member aged 65 (current life expectancy)   | 22.9 | 23.2 | 21.1 | 21.8 |
| 2. Male member age 45 (life expectancy at 65)      | 24.3 | 24.2 | 22.3 | 23.5 |
| 3. Female member aged 65 (current life expectancy) | 24.5 | 24.0 | 23.1 | 24.7 |
| 4. Female member aged 45 (life expectancy at 65)   | 26.9 | 26.1 | 24.9 | 26.7 |

Defined benefit obligation analysed by participant status:

|                         | HIE   |                |       |                |
|-------------------------|-------|----------------|-------|----------------|
|                         | 2020  |                | 2019  |                |
|                         | %     | £000           | %     | £000           |
| Active members          | 35.9% | 48,313         | 37.3% | 52,040         |
| Vested deferred members | 21.5% | 28,934         | 22.9% | 31,950         |
| Retired members         | 42.6% | 57,329         | 39.8% | 55,528         |
|                         |       | <b>134,576</b> |       | <b>139,518</b> |

|                         | LGPS  |               |       |               |
|-------------------------|-------|---------------|-------|---------------|
|                         | 2020  |               | 2019  |               |
|                         | %     | £000          | %     | £000          |
| Active members          | 62.5% | 13,769        | 60.3% | 14,645        |
| Vested deferred members | 20.7% | 4,573         | 22.5% | 5,455         |
| Retired members         | 16.8% | 3,704         | 17.2% | 4,184         |
|                         |       | <b>22,046</b> |       | <b>24,284</b> |

## SENSITIVITY ANALYSIS

|   | HIE   |        | LGPS  |       |
|---|-------|--------|-------|-------|
|   | 2020  |        | 2020  |       |
|   | %     | £000   | %     | £000  |
| 0.5% decrease in real discount rate       | 10.5% | 14,130 | 11.0% | 2,425 |
| 1 Year increase in member life expectancy | 3.6%  | 4,844  | 4.0%  | 882   |
| 0.5% increase in the salary increase rate | 1.0%  | 1,345  | 2.0%  | 430   |
| 0.5% increase in pension increase rate    | 7.9%  | 10,632 | 8.9%  | 1,960 |

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

## RISKS

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

### ASSET VOLATILITY

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

## CHANGES IN BOND YIELDS

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

## INFLATION RISK

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

## LIFE EXPECTANCY

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

## LIFE EXPECTANCY

|   | HIE   | LGPS  |
|---|-------|-------|
|   | Years | Years |
| Weighted average duration of defined benefit obligation | 20.3  | 21.5  |

## 19. NET CASH FLOW FROM OPERATING ACTIVITIES

|   | Note | GROUP         |        | HIE           |        |
|---|------|---------------|--------|---------------|--------|
|   |      | 2020          | 2019   | 2020          | 2019   |
|   |      | £000          | £000   | £000          | £000   |
| Deficit on operating activities             |      | 75,801        | 79,582 | 75,865        | 79,801 |
| Interest received                           | 6    | (298)         | (118)  | (298)         | (118)  |
| Dividends received                          | 6    | -             | -      | -             | -      |
| Share of related company results            | 10   | (471)         | 1,180  | -             | -      |
| Gain/loss on financial assets at fair value | 3    | -             | -      | -             | -      |
| Profit of sale of assets                    | 3    | 1,519         | 223    | 1,519         | 224    |
| Interest payable                            | 7    | 262           | 65     | 254           | 64     |
| Net cash outflow from operating activities  |      | <b>76,813</b> | 80,932 | <b>77,340</b> | 79,971 |

## 20. COMMITMENTS

|                  | GROUP  |        | HIE    |        |
|------------------|--------|--------|--------|--------|
|                  | 2020   | 2019   | 2020   | 2019   |
|                  | £000   | £000   | £000   | £000   |
| Commitments      |        |        |        |        |
| Property         | 10,627 | 24,496 | 10,627 | 24,496 |
| Grants and loans | 60,602 | 43,348 | 56,273 | 33,710 |

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

## 21. Financial Commitments

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

### FUTURE MINIMUM PAYMENTS DUE UNDER NON CANCELLABLE OPERATING LEASES

| GROUP   | Property     | Plant and Equipment | Total        |              |
|---|--------------|---------------------|--------------|--------------|
|   |              |                     | 2020         | 2019         |
|   |              |                     | £000         | £000         |
| <b>Obligations under operating and similar leases</b> |              |                     |              |              |
| Within one year                                       | 842          | 114                 | 956          | 852          |
| Within two to five years                              | 1,687        | -                   | 1,687        | 2,265        |
| In over five years                                    | -            | -                   | -            | 266          |
|   | <b>2,529</b> | <b>114</b>          | <b>2,643</b> | <b>3,383</b> |
| HIE   | Property     | Plant and Equipment | Total        |              |
|   |              |                     | 2020         | 2019         |
|   |              |                     | £000         | £000         |
| <b>Obligations under operating and similar leases</b> |              |                     |              |              |
| Within one year                                       | 842          | 10                  | 852          | 852          |
| Within two to five years                              | 1,687        | -                   | 1,687        | 2,265        |
| In over five years                                    | -            | -                   | -            | 266          |
|   | <b>2,529</b> | <b>10</b>           | <b>2,539</b> | <b>3,383</b> |

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 2020 is £1,105k (2019 £1,451k).

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

## FUTURE MINIMUM RENTALS RECEIVABLE UNDER NON-CANCELLABLE OPERATING LEASES

| GROUP  |               |                        |               |               |
|--|---------------|------------------------|---------------|---------------|
|  | Property      | Plant and<br>Equipment | Total         | Total         |
|  |               |                        | 2020          | 2019          |
|  | £000          | £000                   | £000          | £000          |
| <b>Receivable under operating and similar leases</b> |               |                        |               |               |
| Within one year                                      | 3,510         | 70                     | 3,580         | 3,983         |
| Within two to five years                             | 6,612         | -                      | 6,612         | 9,344         |
| In over five years                                   | 12,156        | -                      | 12,156        | 13,160        |
|  | <b>22,278</b> | <b>70</b>              | <b>22,348</b> | <b>26,487</b> |

| HIE  |               |                        |               |               |
|--|---------------|------------------------|---------------|---------------|
|  | Property      | Plant and<br>Equipment | Total         | Total         |
|  |               |                        | 2020          | 2019          |
|  | £000          | £000                   | £000          | £000          |
| <b>Receivable under operating and similar leases</b> |               |                        |               |               |
| Within one year                                      | 3,510         | 70                     | 3,580         | 3,983         |
| Within two to five years                             | 6,612         | -                      | 6,612         | 9,344         |
| In over five years                                   | 12,156        | -                      | 12,156        | 13,160        |
|  | <b>22,278</b> | <b>70</b>              | <b>22,348</b> | <b>26,487</b> |

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

## FUTURE MINIMUM COMMITMENTS DUE UNDER NON-CANCELLABLE FINANCE LEASES

| GROUP   |              |                        |              |              |
|---|--------------|------------------------|--------------|--------------|
|   | Property     | Plant and<br>Equipment | Total        | Total 2019   |
|   | £000         | £000                   | £000         | 2020<br>£000 |
| <b>Obligations under Finance and similar leases</b> |              |                        |              |              |
| Within one year                                     | 284          | -                      | 284          | 388          |
| Within two to five years                            | 1,137        | -                      | 1,137        | 1,137        |
| In over five years                                  | 6,517        | -                      | 6,517        | 6,801        |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,326</b> |
| Finance charges allocated to future periods         | -            | -                      | -            | -            |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,326</b> |
| <b>Present Value of minimum lease payments</b>      |              |                        |              |              |
| Within one year                                     | 284          | -                      | 284          | 388          |
| Within two to five years                            | 1,137        | -                      | 1,137        | 1,137        |
| In over five years                                  | 6,517        | -                      | 6,517        | 6,801        |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,326</b> |
| <b>HIE</b>  |              |                        |              |              |
|   | Property     | Plant and<br>Equipment | Total        | Total 2019   |
|   | £000         | £000                   | £000         | 2020<br>£000 |
| <b>Obligations under Finance and similar leases</b> |              |                        |              |              |
| Within one year                                     | 284          | -                      | 284          | 284          |
| Within two to five years                            | 1,137        | -                      | 1,137        | 1,137        |
| In over five years                                  | 6,517        | -                      | 6,517        | 6,801        |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,222</b> |
| Finance charges allocated to future periods         | -            | -                      | -            | -            |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,222</b> |
| <b>Present Value of minimum lease payments</b>      |              |                        |              |              |
| Within one year                                     | 284          | -                      | 284          | 284          |
| Within two to five years                            | 1,137        | -                      | 1,137        | 1,137        |
| In over five years                                  | 6,517        | -                      | 6,517        | 6,801        |
|   | <b>7,938</b> | <b>-</b>               | <b>7,938</b> | <b>8,222</b> |

## 22. Contingent Liabilities

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

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

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

In addition the HIE scheme of the LGPS have not been updated to reflect the changes to survivor benefits arising from the Goodwin legal case. The effect of the Goodwin case has yet to be calculated, but this is expected to be minimal.

## 23. Transactions involving Board members' and Directors registered interests

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

### TRANSACTIONS WHERE A DIRECTOR HAD A FINANCIAL INTEREST.

#### DIRECTORS INTERESTS

| Business                           | Approvals brought forward | Amount approved / (withdrawn) in year | Amount paid in year | Nature of Transaction                        | Board member and interest          |
|------------------------------------|---------------------------|---------------------------------------|---------------------|--|------------------------------------|
|                                    | £                         | £                                     | £                   |  |                                    |
| Crerar Hotels                      | -                         | 224                                   | 224                 | Accommodation and room hire                  | P Crerar - Chief Executive Officer |
| Forestry and Land Scotland         | -                         | 420                                   | 420                 | Utilities costs                              | A Bryan                            |
| Harper Macleod                     | -                         | 1,500                                 | 1,500               | Legal fees                                   | L Crerar – Member                  |
| Inverness College UHI              | -                         | 17,824                                | 17,824              | ICUHI feasibility study funding and catering | A Bryan - Lecturer                 |
| Loch Melfort Hotel                 | -                         | 360                                   | 360                 | Training grant                               | C Ross - Partner                   |
|                                    | -                         | -                                     | (600)               | Training course fees                         |                                    |
| Midton Acrylics LTD                | 9,559                     | 14,575                                | 24,134              | Graduate placement grant and equipment grant | C Ross - Non Exec Chairman         |
|                                    | -                         | -                                     | (3,000)             | Training course fees                         |                                    |
| Scottish Natural Heritage          | -                         | 7,554                                 | 7,554               | Office rent                                  | Angus Campbell - Deputy Chair      |
|                                    | -                         | -                                     | (15,634)            | Economic impact assessment                   |                                    |
| Scottish Water                     | -                         | -                                     | 53                  | Water charges                                | A B Oldfield - Senior Manager      |
| South West Mull & Iona development | 21,443                    | 13,728                                | 29,447              | Graduate placement grant and SWMID grant     | Morven Gibson - General Manager    |
| Visit Scotland                     | -                         | 15,000                                | 15,000              | Research funding                             | C Ross - Board member              |

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

- Argyll and the Isles Tourism Cooperative Limited
- Cairngorm Mountain (Scotland) Limited
- Comunn na Gaidhlig
- Entrepreneurial Scotland
- HIE Ventures Limited
- High Life Highland (Trading) CIC
- Jacobite Cruises Ltd
- MacTV
- Massachusetts Institute of Technology
- Mott MacDonald
- Mull & Iona Community Enterprise
- NHS Highland
- Orkney Research and Innovation Campus LLP
- People Matters Ltd
- Sabhal Mor Ostaig
- Scottish Aquaculture Innovation Centre Board
- Scottish Tourism Alliance
- Social Growth Fund Social Investment Scotland
- SSE plc
- Staffin Community Trust
- Remarkable Limited
- University of Highlands & Islands
- Visit Inverness Loch Ness Ltd
- Wave Energy Scotland Limited

## 24. Related party transactions

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

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

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

Transactions have taken place with:

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

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 23.

#### 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 (2019: £6K) employers national insurance contributions and Nil (2019 Nil) employer pension contributions.

## 25. Financial instruments

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

- Liquidity risk
- Credit risk
- Market risk

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

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

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

### LIQUIDITY RISK

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

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

The table below details the contractual maturities of financial liabilities.

## CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

| 2020                         |                 |                       |                 |                          |
|------------------------------|-----------------|-----------------------|-----------------|--------------------------|
| GROUP                        |                 |                       |                 |                          |
|                              | Carrying Amount | Contractual Cashflows | Within one year | After more than one year |
|                              | £000            | £000                  | £000            | £000                     |
| <b>Financial Liabilities</b> |                 |                       |                 |                          |
| Trade and other payables     | 10,782          | 10,782                | 10,782          | -                        |
|                              | <b>10,782</b>   | <b>10,782</b>         | <b>10,782</b>   | <b>-</b>                 |
| HIE                          |                 |                       |                 |                          |
|                              | Carrying Amount | Contractual Cashflows | Within one year | After more than one year |
|                              | £000            | £000                  | £000            | £000                     |
| <b>Financial Liabilities</b> |                 |                       |                 |                          |
| Trade and other payables     | 10,639          | 10,639                | 10,639          | -                        |
|                              | <b>10,639</b>   | <b>10,639</b>         | <b>10,639</b>   | <b>-</b>                 |
| 2019                         |                 |                       |                 |                          |
| GROUP                        |                 |                       |                 |                          |
|                              | Carrying Amount | Contractual Cashflows | Within one year | After more than one year |
|                              | £000            | £000                  | £000            | £000                     |
| <b>Financial Liabilities</b> |                 |                       |                 |                          |
| Trade and other payables     | 17,296          | 17,296                | 17,296          | -                        |
|                              | <b>17,296</b>   | <b>17,296</b>         | <b>17,296</b>   | <b>-</b>                 |
| HIE                          |                 |                       |                 |                          |
|                              | Carrying Amount | Contractual Cashflows | Within one year | After more than one year |
|                              | £000            | £000                  | £000            | £000                     |
| <b>Financial Liabilities</b> |                 |                       |                 |                          |
| Trade and other payables     | 17,725          | 17,725                | 17,725          | -                        |
|                              | <b>17,725</b>   | <b>17,725</b>         | <b>17,725</b>   | <b>-</b>                 |

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2020 (2019: £nil).

## CREDIT RISK

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

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

In pursuit of economic growth targets, Highlands and Islands Enterprise makes investments in a variety of companies, in part using funds provided by the European Union. Management monitors the performance of all investments and regularly revalue 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 |
|  | 2020            | 2019            |
|  | £000            | £000            |
| <b>Financial assets - other investments</b>            |                 |                 |
| Financial assets at fair value through profit and loss | 20              | 195             |
| Preference shares                                      | -               | -               |
| Loans and other receivables                            | 2,452           | 1,934           |
|  |                 |                 |
| <b>Financial assets</b>                                |                 |                 |
| Trade and other receivables                            | 9,548           | 13,577          |
| Cash and cash equivalents                              | 5,065           | 2,286           |
|  | <b>17,085</b>   | <b>17,992</b>   |
|  |                 |                 |
| HIE  |                 |                 |
|  | Carrying Amount | Carrying Amount |
|  | 2020            | 2019            |
|  | £000            | £000            |
| <b>Financial assets - other investments</b>            |                 |                 |
| Financial assets at fair value through profit and loss | 649             | 770             |
| Preference shares                                      | -               | -               |
| Loans and other receivables                            | 2,511           | 2,021           |
|  |                 |                 |
| <b>Financial assets</b>                                |                 |                 |
| Trade and other receivables                            | 12,624          | 13,282          |
| Cash and cash equivalents                              | 868             | 811             |
|  | <b>16,652</b>   | <b>16,884</b>   |

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

| <b>AGEING</b>              |               |                   |               |                   |
|----------------------------|---------------|-------------------|---------------|-------------------|
| <b>GROUP</b>               |               |                   |               |                   |
|                            | <b>Gross</b>  | <b>Impairment</b> | <b>Gross</b>  | <b>Impairment</b> |
|                            | <b>2020</b>   | <b>2020</b>       | <b>2019</b>   | <b>2019</b>       |
|                            | <b>£000</b>   | <b>£000</b>       | <b>£000</b>   | <b>£000</b>       |
| Not past due               | 10,532        | -                 | 13,367        | -                 |
| Past due 0 to 30 days      | 69            | (21)              | 138           | (69)              |
| Past due more than 31 days | 280           | (1,312)           | 500           | (359)             |
|                            | <b>10,881</b> | <b>(1,333)</b>    | <b>14,005</b> | <b>(428)</b>      |
| <b>HIE</b>                 |               |                   |               |                   |
|                            | <b>Gross</b>  | <b>Impairment</b> | <b>Gross</b>  | <b>Impairment</b> |
|                            | <b>2020</b>   | <b>2020</b>       | <b>2019</b>   | <b>2019</b>       |
|                            | <b>£000</b>   | <b>£000</b>       | <b>£000</b>   | <b>£000</b>       |
| Not past due               | 10,411        | -                 | 12,916        | -                 |
| Past due 0 to 30 days      | 69            | (69)              | 294           | (69)              |
| Past due more than 31 days | 280           | (1,264)           | 500           | (359)             |
|                            | <b>10,760</b> | <b>(1,333)</b>    | <b>13,710</b> | <b>(428)</b>      |

Movements in impairment of trade and other receivables is shown in Note 12. 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:

| <b>INTEREST RATE RISK</b>        |                        |                        |
|----------------------------------|------------------------|------------------------|
| <b>GROUP</b>                     |                        |                        |
|                                  | <b>Carrying Amount</b> | <b>Carrying Amount</b> |
|                                  | <b>2020</b>            | <b>2019</b>            |
|                                  | <b>£000</b>            | <b>£000</b>            |
| <b>Fixed rate instruments</b>    |                        |                        |
| Financial assets                 | 2,452                  | 1,934                  |
| Financial liabilities            | -                      | -                      |
|                                  | <b>2,452</b>           | <b>1,934</b>           |
| <b>Variable rate instruments</b> |                        |                        |
| Cash and cash equivalents        | 5,065                  | 2,286                  |
|                                  | <b>5,065</b>           | <b>2,286</b>           |
| <b>HIE</b>                       |                        |                        |
|                                  | <b>Carrying Amount</b> | <b>Carrying Amount</b> |
|                                  | <b>2020</b>            | <b>2019</b>            |
|                                  | <b>£000</b>            | <b>£000</b>            |
| <b>Fixed rate instruments</b>    |                        |                        |
| Financial assets                 | 2,511                  | 2,021                  |
| Financial liabilities            | -                      | -                      |
|                                  | <b>2,511</b>           | <b>2,021</b>           |
| <b>Variable rate instruments</b> |                        |                        |
| Cash and cash equivalents        | 868                    | 118                    |
|                                  | <b>868</b>             | <b>118</b>             |

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:

| <b>INTEREST RATE RISK - CASH</b> |                                |                                |
|----------------------------------|--------------------------------|--------------------------------|
|                                  | <b>GROUP</b>                   | <b>HIE</b>                     |
|                                  | <b>100 basis points change</b> | <b>100 basis points change</b> |
|                                  | <b>£000</b>                    | <b>£000</b>                    |
| <b>Cash and cash equivalents</b> |                                |                                |
| 31 March 2019                    | 23                             | 11                             |
| 31 March 2020                    | 37                             | 8                              |

## CURRENCY RISK

Highlands and Islands Enterprise is exposed to currency risk on transactions and balances that are denominated in currencies other than Sterling. Whenever practical, Highlands and Islands Enterprise enters into agreements in its functional currency in order to minimise currency risks. Highlands and Islands Enterprise is exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

## Fair values

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

| <b>FAIR VALUES</b>                                     |                        |                   |                        |                   |
|--|------------------------|-------------------|------------------------|-------------------|
| <b>GROUP</b>   |                        |                   |                        |                   |
|  | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Carrying Amount</b> | <b>Fair Value</b> |
|  | <b>2020</b>            | <b>2020</b>       | <b>2019</b>            | <b>2019</b>       |
|  | <b>£000</b>            | <b>£000</b>       | <b>£000</b>            | <b>£000</b>       |
| Financial assets at fair value through profit and loss | 20                     | 20                | 195                    | 195               |
| Preference shares                                      | -                      | -                 | -                      | -                 |
| Loans and other receivables                            | 2,452                  | 2,452             | 1,934                  | 1,934             |
| Trade and other receivables                            | 9,548                  | 9,548             | 13,577                 | 13,577            |
| Cash and cash equivalents                              | 5,065                  | 5,065             | 2,286                  | 2,286             |
| Trade and other payables                               | (10,782)               | (10,782)          | (17,296)               | (17,296)          |
| Taxation recoverable                                   | 469                    | 469               | 370                    | 370               |
|  | <b>6,772</b>           | <b>6,772</b>      | <b>1,066</b>           | <b>1,066</b>      |
| <b>HIE</b>   |                        |                   |                        |                   |
|  | <b>Carrying Amount</b> | <b>Fair Value</b> | <b>Carrying Amount</b> | <b>Fair Value</b> |
|  | <b>2020</b>            | <b>2020</b>       | <b>2019</b>            | <b>2019</b>       |
|  | <b>£000</b>            | <b>£000</b>       | <b>£000</b>            | <b>£000</b>       |
| Financial assets at fair value through profit and loss | 649                    | 649               | 770                    | 770               |
| Preference shares                                      | -                      | -                 | -                      | -                 |
| Loans and other receivables                            | 2,511                  | 2,511             | 2,021                  | 2,021             |
| Trade and other receivables                            | 12,624                 | 12,624            | 13,282                 | 13,282            |
| Cash and cash equivalents                              | 868                    | 868               | 811                    | 811               |
| Trade and other payables                               | (10,639)               | (10,639)          | (17,725)               | (17,725)          |
| Taxation recoverable                                   | 469                    | 469               | 355                    | 355               |
|  | <b>6,482</b>           | <b>6,482</b>      | <b>(486)</b>           | <b>(486)</b>      |

Financial assets at fair value through profit and loss are not being actively marketed and there is no expectation that completed sales will occur within one year.

## NON-CURRENT ASSETS

### Valuation Process

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

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

## FAIR VALUE HIERARCHY

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (i.e. unobservable market inputs).

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

## FAIR VALUES CONT.

| GROUP   |       |   |   |   |                       |
|---|-------|---|---|---|-----------------------|
|   |       | Quoted prices in active markets for identical instruments (Level 1) | Significant other observable inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains/ (Losses) |
|   | 2020  |   |   |   |                       |
|   | £000  | £000  | £000  | £000                                      | £000                  |
| <b>Recurring Measurements</b>                             |       |   |   |   |                       |
| Fair value through profit and loss unlisted equity shares | 20    | -   | -   | 20  | -                     |
| <b>Non-recurring Measurements</b>                         |       |   |   |   |                       |
| Property classified as held-for-resale                    | 3,316 | -   | 3,316   | -   | -                     |
| Plant and Equipment classified as held-for-resale         | -     | -   | -   | -   | -                     |
| <b>HIE</b>  |       |   |   |   |                       |
|   |       | Quoted prices in active markets for identical instruments (Level 1) | Significant other observable inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total Gains/ (Losses) |
|   | 2020  |   |   |   |                       |
|   | £000  | £000  | £000  | £000                                      | £000                  |
| <b>Recurring Measurements</b>                             |       |   |   |   |                       |
| Fair value through profit and loss unlisted equity shares | 649   | -   | -   | 649                                       | -                     |
| <b>Non-recurring Measurements</b>                         |       |   |   |   |                       |
| Property classified as held-for-resale                    | 3,316 | -   | 3,316   | -   | -                     |
| Plant and Equipment classified as held-for-resale         | -     | -   | -   | -   | -                     |

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

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

## CHANGES IN RECURRING FAIR VALUE MEASUREMENTS

|  | GROUP     | HIE        |
|--|-----------|------------|
|  | £000      | £000       |
| Opening Balance                        | 194       | 770        |
| Transfers into Level 3                 | -         | -          |
| Transfers out of Level 3               | -         | -          |
| Additions                              | -         | 600        |
| Disposals                              | -         | -          |
| Impairment                             | (174)     | (721)      |
|  |           |            |
| Total Gains or Losses for the period:  | -         | -          |
| Included in other income and expenses  | -         | -          |
| Included in other comprehensive income |           |            |
| <b>Closing Balance</b>                 | <b>20</b> | <b>649</b> |

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      | £20k       | 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



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



[www.hie.co.uk](http://www.hie.co.uk)  
[info@hient.co.uk](mailto:info@hient.co.uk)

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Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

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

24 September 2020

Dear Gordon

## Highlands and Islands Enterprise Annual report and accounts 2019/20

1. This representation letter is provided in connection with your audit of the annual report and accounts of Highlands and Islands Enterprise and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the regularity of income and expenditure, the remuneration and staff report, the performance report and governance statement.
2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of the annual report and accounts of Highlands and Islands Enterprise and its Group for the year ended 31 March 2020.

### General

3. I have fulfilled my responsibilities for the preparation of the 2019/20 annual report and accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual report and accounts have been made available to you for the purposes of your audit. All transactions undertaken by Highlands and Islands Enterprise have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.



### Regularity of Expenditure and Income

5. I confirm that, in all material respects, expenditure was incurred, and income applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

### Financial Reporting Framework

6. The annual report and accounts have been prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.
7. I have ensured that the financial statements give a true and fair view of the financial position of Highlands and Islands Enterprise and its Group at 31 March 2020 and the transactions for 2019/20.

### Accounting Policies & Estimates

8. All significant accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2019/20 Government Financial Reporting Manual (the FReM), where applicable. Where the FReM does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Highlands and Islands Enterprise circumstances and have been consistently applied.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or because of new information or experience.

### Going Concern Basis of Accounting

10. I have assessed Highlands and Islands Enterprise's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Highlands and Islands Enterprise ability to continue as a going concern.

### Assets

11. Where a rolling programme of asset valuations has been used, I am satisfied that the carrying amount of assets at 31 March 2020 does not differ materially from that which would be determined if a revaluation had been carried out at that date.



12. I carried out an assessment at 31 March 2020 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
13. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2020.
14. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
15. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.
16. The amount recognised for Assets under Construction has been estimated on a reasonable basis.

### Liabilities

17. All liabilities at 31 March 2020 of which I am aware have been recognised in the financial statements.
18. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2020 of which I am aware where the conditions specified in IAS 37 have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2020. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.
19. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2020 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
20. The accrual recognised in the financial statements for holiday untaken by 31 March 2020 has been estimated on a reasonable basis.
21. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

### Fraud

22. I have provided you with all information in relation to
  - my assessment of the risk that the financial statements may be materially misstated as a result of fraud
  - any allegations of fraud or suspected fraud affecting the financial statements



- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

### Laws and Regulations

23. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

### Related Party Transactions

24. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24 as interpreted by the FReM. I have made available to you the identity of all the Highlands and Islands Enterprise related parties and all the related party relationships and transactions of which I am aware.

### Remuneration and Staff Report

25. The Remuneration and Staff Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and all required information of which I am aware has been provided to you.

### Performance Report

26. I confirm that the Performance Report has been prepared in accordance with the requirements of the FReM to the extent they apply in Scotland and the information is consistent with the financial statements.

### Corporate Governance

27. I have fulfilled my responsibilities for Highlands and Islands Enterprise's corporate governance arrangements. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
28. I confirm that the Governance Statement has been prepared in accordance with the Scottish Public Finance Manual and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified since 31 March 2020 which require to be reflected.



Highlands and Islands Enterprise  
Iomairt na Gàidhealtachd 's nan Eilean

### Group Accounts

29. I have identified all the other entities in which Highlands and Islands Enterprise has a material interest and have classified and accounted for them in accordance with the 2019/20 FReM. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

### Events Subsequent to the Date of the Statement of Financial Position

30. All events subsequent to 31 March 2020 for which IAS 10 as interpreted by the FReM requires adjustment or disclosure have been adjusted or disclosed.

### Other matters

31. **Covid 19 impact.** I have reviewed the impact of Covid 19 on the financial statements and have reflected on the impact on global financial markets in Note 1 '*Critical accounting estimates and judgements*' and Note 9 '*Property, plant and equipment*' in the financial statements. I am satisfied that all reasonable action has been taken to identify the impact of Covid 19 on the fair value of land and buildings and this has been disclosed appropriately in the financial statements

Yours sincerely

*Charlotte Wright*

Charlotte Wright  
Accountable Officer

Chief Executive  
Highlands and Islands Enterprise

Email: [charlotte.wright@hient.co.uk](mailto:charlotte.wright@hient.co.uk)