



2010/11

annual report and
accounts

Ambitious for *Scotland*



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 2011 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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Management commentary

Background and principal activities

Statutory background

Highlands and Islands Enterprise (HIE) was established in 1991 in accordance with the provisions of the Enterprise and New Towns (Scotland) Act 1990.

Strategic aims

Ministerial reforms announced in September 2007 followed by the Government Economic Strategy (GES) published in November 2007 signalled significant change in the role and focus of HIE towards supporting high growth businesses and sectors; creating the infrastructure and conditions to improve regional competitiveness; and strengthening communities, especially in the fragile parts of the region. The aim is to create a more successful region within Scotland with opportunities for all through increased sustainable growth.

Principal activities

HIE was established for the purpose of preparing, concerting, promoting, assisting and undertaking measures for the economic and community development of the Highlands and Islands, improving the region's competitiveness, assisting people to establish themselves as self-employed and furthering improvement of the environment in the Highlands and Islands.

Board membership

Mr W Roe CBE, Chair
Mr A L Paterson (Chief Executive - Appointed 2 August 2010)
Mr A Mackenzie (Resigned 31 March 2011)
Prof M Bownes OBE
Prof L Crerar
Mr J Royan OBE
Mr C Spence
Mr S Thomson
Mr W Swan (Appointed 1 February 2011)
Mr D MacDonald (Appointed 1 February 2011)
Mrs I MacTaggart (Appointed 1 February 2011)

Details of company directorships and other significant interests held by Board Members are available online at <http://www.hie.co.uk/about-hie/who-we-are/hie-board.html>

Management Team

Mr A L Paterson (Chief Executive - Appointed 2 August 2010)
Mr A B Brady (Resigned 31 December 2010)
Mr F C Duthie
Dr J A Watt OBE
Mrs C Buxton (Appointed 1 January 2011)
Ms C Wright (Appointed 1 January 2011)

Financial performance

Results

The results for the year to 31 March 2011 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 is mainly financed by Scottish Ministers through the Scottish Government Business, Enterprise and Energy Directorate. In addition, it has receipts in the form of rents, interest, loan repayments, European Union funding and proceeds received from the sale of assets. The funding provision, other income and expenditure for the year ended 31 March 2011 was as follows:

Sources of finance 2010-2011	Provision £m	Actual £m
Funding		
Grant-in-aid	59.3	59.3
Non-cash	13.7	8.2
	<u>73.0</u>	<u>67.5</u>
Income from other sources		
European Union / Big Lottery	4.5	2.5
Business receipts	9.4	10.3
	<u>86.9</u>	<u>80.3</u>
Expenditure		
Operations	68.7	63.2
Operations - virement*	1.0	1.0
Management and administration **	17.2	16.1
	<u>86.9</u>	<u>80.3</u>

Resource budget outturn	Provision £m	Actual £m
Resource consumption	56.3	53.5
Depreciation, provisions, revaluation deficits	12.7	7.2
Virement	1.0	1.0
	<u>70.0</u>	<u>61.7</u>
Capital expenditure	3.0	5.8
Total	<u>73.0</u>	<u>67.5</u>

*The Resource Budget funding for 2010/11 comprised grant-in-aid provision of £59.25m and a non-cash allocation of £13.697m. This initial provision of non-cash of £13.697m was reduced by a budget virement of £1m to the Scottish Government during the year.

** Management and administration cost includes £0.86m for a Voluntary Severance Scheme completed by 31/03/11.

Financial commentary

2010-2011 summary of financial results	Provision £m	Result £m
Grant-in-aid	59.3	59.3
Business income	9.4	10.3
Direct capital spend	3.0	5.8
Indirect capital spend	7.3	6.3
RAB outturn (net resource)	73.0	67.5

Highlands and Islands Enterprise balanced its budget for the year and total spend on a resource accounting and budgeting (RAB) basis was £5.5m under the provision set by the Scottish Government, which was partly due to the delay in the commencement of infrastructure projects, which was outwith HIE's control. All available grant-in-aid (GIA) was drawn down for the year.

The group pension liability was decreased from £20.5m to £9.6m in 2010/11. There was a reduction in the liability arising in the Highlands and Islands Enterprise Superannuation Scheme of £8.4m. This was due to improving market conditions, the move to CPI basis for pension increases and the pension recovery plan lump-sum contribution of £1.5m during the year.

A resource budget for 2011-12 of £61.0m awarded by the Scottish Government comprises grant-in-aid and non-cash budget provision. This is deemed to be adequate for the agency to continue for the foreseeable future.

Events after the statement of financial position

After the Statement of Financial Position, one of HIE's investee companies, which was a subsidiary at the 31 March 2011 by way of unpaid dividend voting rights, ceased to be a subsidiary as payment of these accrued dividends was received. Further information is disclosed in the Notes to the Accounts under the Basis of Preparation.

Non-current assets

During 2010/11, Highlands and Islands Enterprise spent £5.9m on property, plant and equipment additions.

At 31 March 2011, the net book value of HIE's property, plant and equipment was £41.6m. Commercial properties were valued at market value. Financial assets amounted to £4.8m.

European Union

In addition to the funding from grant-in-aid, funds amounting to £2.5m were received from the European Union in support of the operations of Highlands and Islands Enterprise.

Payment to creditors

HIE observes the Scottish 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 agency's performance statistics can be found in the Customer Service section of the Management Commentary.

Key performance indicators

Transformational projects

HIE's portfolio of transformational projects at the start of 2010-11 included 11 key projects and initiatives under implementation, with a further 15 at the pipeline stage. Investments of £20.5m in these projects during the course of the year helped create new infrastructure that will see the Highlands and Islands increase the contribution it makes to the Scottish economy in future years.

Growth measures

High growth businesses

Growth measure	Target	Actual	Actual as a %
No of account managed businesses with growth plans	100	146	146
Cumulative total of account managed businesses	350	375	107
Added value to national growth through account managed businesses	£50m	£56m	112
Anticipated average wage of jobs supported	£25k	£24.3k	97

These outturns demonstrate considerable progress made working with businesses right across the Highlands and Islands, particularly given the challenging economic conditions experienced over the past year.

Strengthening communities

Growth measure	Target	Actual	Actual as a %
No of account managed social enterprises with growth plans	20	29	145
Cumulative total of account managed social enterprises	60	129	215
Increase in turnover in the social economy	£2m	£2.1m	105
Account managed communities with growth plans	18	18	100

Continued growth in the social economy will play an important role in mitigating the impacts of changing economic conditions in many communities across the region.

Future developments

Businesses and community groups across the Highlands and Islands are finding the current economic climate challenging but many are also taking advantage of the opportunities which are arising.

HIE will also continue to invest in projects and sectors which have the potential to transform local economies and promote sustainable economic growth throughout the region.

* Further information on the key measures of performance is provided in the HIE operating plan which can be located online at www.hie.co.uk/about-hie/policies-and-publications

Corporate governance

Overview

Highlands and Islands Enterprise has procedures in place ensuring that the highest standards of Corporate Governance are maintained at all times. In 2010/11 the following procedures were applied:

Risk assessment

Highlands and Islands Enterprise, in line with best practice, has robust procedures in place for the systematic identification and management of risk. A risk management strategy highlights that effective risk management is essential to the achievement of HIE's objectives. Implementation of the strategy includes an ongoing assessment of risk by management and the assessment of risk at individual project level. Where appropriate, action plans are put in place to address significant risks. The Chief Executive, as accountable officer, is able to report that these procedures have been complied with throughout the year.

The Board

At 31 March 2011, the Board of Highlands and Islands Enterprise comprised the Chair, ten non-executive members and one executive member who is the Chief Executive. Board members are appointed by Scottish Ministers and their remuneration is determined by the Scottish Government.

The Board meets at least six times a year. The Board has corporate responsibility for ensuring that HIE fulfils its statutory duties and the aims and objectives set by Scottish Ministers and for promoting the efficient and effective use of staff and other resources by HIE in accordance with the principles of best value as set out in the Scottish Public Finance Manual. The Board has corporate responsibility for the operating activities of the agency. Individual Board members act in accordance with their wider responsibility under a code of conduct and in the best interests of HIE.

As a Board member, the Chief Executive also has a pivotal role in assisting the Board to develop policies and priorities and in ensuring that they are implemented effectively.

Risk and Assurance Committee

The Risk and Assurance Committee represents the agency and is composed of four non executive HIE Board members, who are appointed by the HIE Board. The Chief Executive, in his role as accountable officer, a representative of the Scottish Government departmental accountable officer, Audit Scotland, the Director of Finance and Corporate Services, having specific responsibility for finance, and the Head of Business Improvement and Internal Audit normally attend the meetings of the committee which are held no fewer than four times per year.

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

Mr A Mackenzie (Chair) (resigned 31 March 2011)

Prof L Crerar (Chair from 31 March 2011)

Mr J Royan OBE

Mr S Thomson

Mr D MacDonald (appointed 10 March 2011)

Key risks

HIE has identified the following as key risks to the agency

- The achievement of HIE's notional resource budget remains an ongoing challenge as it is dependent on markets outwith the control of HIE. This challenge increased with the implementation of international accounting reporting standards in 2009/10.
- Following the HIE Board decision in December 2009 that HIE would need to maintain ownership of CairnGorm Mountain Limited in the short term, and support the operating company in delivery of a revenue enhanced operating arrangement during this period, there is a significant ongoing challenge for HIE to manage the implications of having a trading subsidiary operating in a high risk environment.

The Combined Code

While the remuneration and the service contracts of Board members are set by the Scottish Government, the recommendations of the Combined Code have been applied in so far as they are appropriate to Highlands and Islands Enterprise. Full details of all elements in the remuneration package of each Board member are disclosed in the Remuneration Report.

Conflicts of interest procedures

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

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

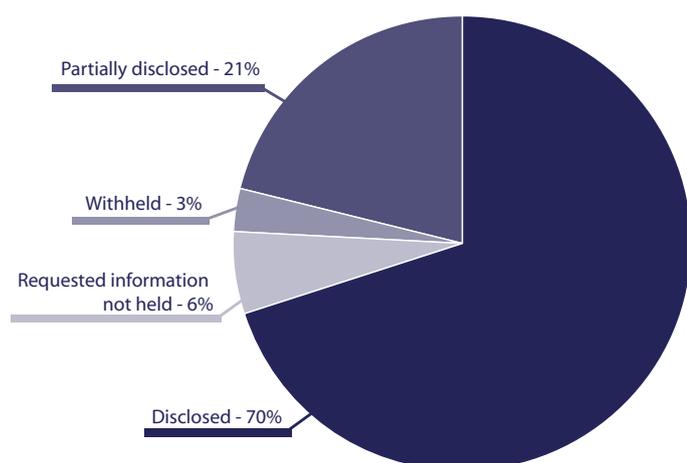
Public interest reporting

Freedom of Information

As a publicly-funded organisation, HIE is committed to full compliance with the Freedom of Information (Scotland) Act 2000.

In 2010/11, HIE received 121 Freedom of Information enquiries.

The following chart shows the percentage of FOI enquiries where the requested information was fully disclosed, withheld or partially disclosed, and where no information was held.



- Average time to fully respond and close a request for information: 12 days
- The number of charges applied to requests: 0
- Number of requests for review: 2
- Number of appeals to the Office of the Scottish Information Commissioner: 0
- Number of instances when the time limit for reply was extended: 4

The HIE website's Freedom of Information section - www.hie.co.uk/freedom-of-information - publishes FOI-related questions and answers.

Customer service

We are committed to improving our service continually and welcome comments and suggestions. We take all complaints seriously and have an effective, easy to use complaints procedure.

From 1 April 2010 to 31 March 2011, four formal complaints were made against HIE. These fell into two categories:

- Displacement: 2
- Miscellaneous: 2

When it is not possible to solve a complaint 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 referred to the SPSO during the year. Following investigation by the SPSO it was not upheld.

The following table shows HIE's performance in meeting standards of service

Standard	Performance 2010/11	Performance 2009/2010
In line with government policy, aim to pay all invoices promptly - target 10 days	82%	87%
<i>Note: excludes items under dispute or where other terms are agreed with a supplier</i>		

Diversity and equality

We want the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

Integrating equality outcomes into HIE's performance review and reporting mechanisms places equality at strategic levels of our organisation, helping deliver measurable changes for those who live in our communities and for those who lead or work in the businesses of our region.

Assessing the impact of our functions on people helps us understand how we can minimise barriers to economic participation or grow community confidence.

This approach is consistent with our responsibilities under the Equality Act 2010 which require us to:-

- Eliminate discrimination, harassment and victimisation
- Advance equality of opportunity, e.g. by removing or minimising disadvantage, taking steps to meet peoples' needs, encouraging participation in public life
- Foster good relations, e.g. by tackling prejudice and promoting understanding

The equality characteristics covered by the Act incorporate age, disability, gender, gender re-assignment, marriage and civil partnership (in employment), pregnancy and maternity, race, religion or belief, and sexual orientation. HIE goes further, also considering equality impact in relation to Gaelic, to those living in geographically dispersed or peripheral communities and to those who may face multiple barriers to being part of the economy.

In 2010/11 five employees working for HIE declared a disability.

Further information on HIE's workforce demographics and other equality topics is available on the HIE website. Go to www.hie.co.uk/equality

Employee involvement and communication

Alongside a selective voluntary severance scheme, which saw 12 staff leave the organisation in March 2011, HIE has designed a new structure which will support an enhanced focus on our four priorities.

Business improvement is embedded in how the organisation operates. We aim to ensure the right people are in the right roles, focusing time, effort and resources on the key drivers of economic and social expansion, creating additional cost savings and continuing to drive efficiencies across HIE.

Further development of HIE's in-house learning and development programme is under way to support the organisation's business requirements. Given HIE's geography and reduction in staff numbers it is important that the sharing of expertise and effective collaboration is encouraged in a number of ways, including mentoring.

HIE staff participate annually in a competition to win places on the globally-renowned Entrepreneurship Development Programme at Massachusetts Institute of Technology (MIT) Sloan School of Management. Their experience has been invaluable in communicating and championing the opportunities available to our clients.

Over 90 managers have participated in HIE's leadership programme, ACHIEVE. A new version, ACHIEVE 2 Inspire, was accredited by UHI as a CPD Award in Leadership at SCQF level 10. The UHI award provides additional reading, application of knowledge, independent study and assessment.

Participants have been working to generate ideas to address three areas for performance improvement and innovation across HIE:

- improving internal communications and resource sharing across the agency
- introducing an innovation system
- removing organisational constraints in order to develop a high performing climate.

The HIE Chief Executive has attended each of the programmes to engage with staff and encourage progress on the work strands identified by the groups. The Chief Executive also produced a blog on our intranet, to communicate issues and provide an update on priorities to all staff.

Enhancing employee engagement is a long-standing corporate priority. A sustained focus has been given to improving our internal communications, providing opportunities for meaningful staff feedback and engaging the talent and creativity of our staff in delivering performance improvement.

A new online communications channel, In Touch, was launched to bring together all relevant organisational communications for staff.

Plans are also under way to upgrade the HIE intranet to take advantage of social media tools and applications which will encourage more immediate dialogue and facilitate collaborative working across the agency.

The Joint Negotiating Committee (JNC) is the formal mechanism for staff consultation and negotiation between management and the recognised trade unions on pay and terms and conditions of service. Staff from across HIE have also been involved and consulted on a range of organisational issues from changes to bonus arrangements, annual leave arrangements and the HIE intranet and website, to how we address issues of inequality through the 'Close the Gap' initiative.

Sickness absence

The attendance record for HIE employees for the year to 31 March 2011 (2010) was 1,470 (1,430) days sick leave out of a total of 59,891 (73,593) possible working days representing a lost time through sickness rate of 2.4% (1.9%).

Data loss

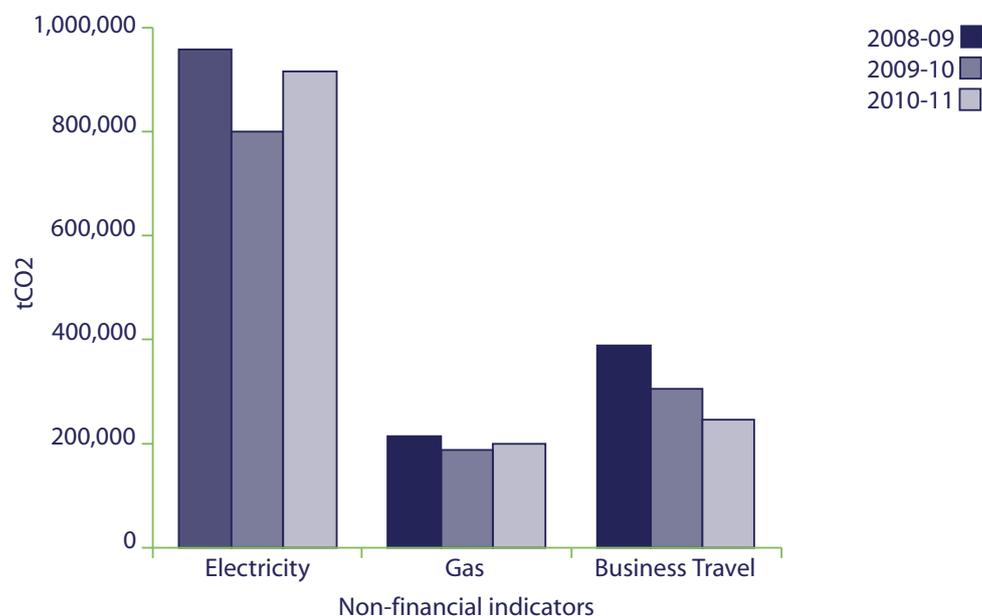
There were no reported instances of data loss during the financial year.

Sustainability

Greenhouse gas emissions from buildings and business travel	2008-09	2009-10	2010-11
Non-financial indicators (tCO ₂)			
Electricity	938,224	801,632	885,145
Gas	220,783	179,842	203,435
Business travel	371,011	306,096	252,929
Related energy consumption (KWh)			
Electricity	1,747,158	1,492,797	1,648,315
Gas	1,193,421	972,119	1,099,649
Financial indicators (£cost)			
Electricity	209,659	183,242	145,077
Gas	27,547	28,941	29,226
Business travel	781,151	745,070	653,677

Greenhouse gas emissions from buildings and business travel

Graphical analysis



Performance commentary

Using 2008-09 levels as a baseline, HIE is aiming to reduce its CO₂ outputs by 20% by 2013-14. Progress against this five-year target has been encouraging and it seems likely that the target will be met before the target date.

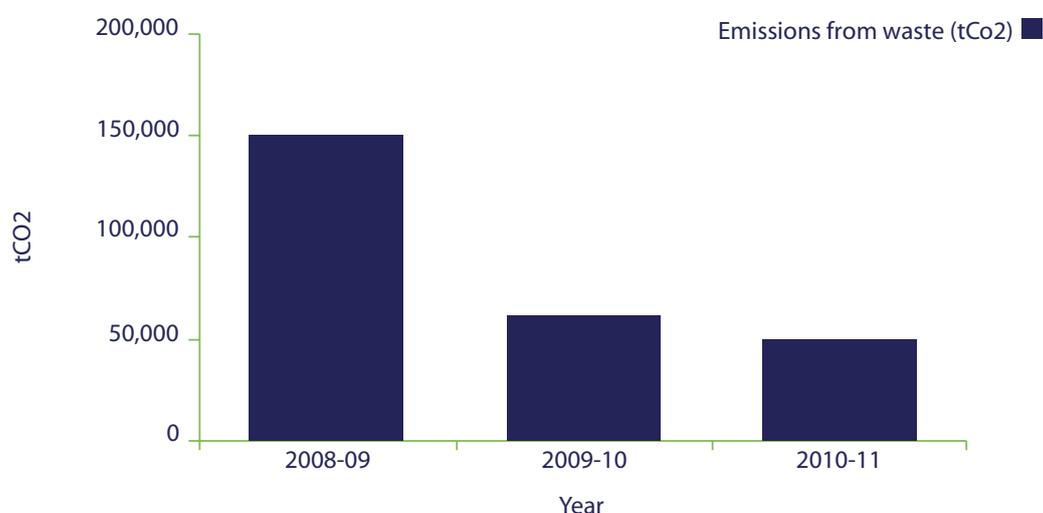
Controllable impacts commentary

The scope of HIE's Carbon Management Plan includes business travel, waste, water and office energy consumption. The benefit of controlling these outputs are that cost savings and efficiency have been achieved, as well as a reduction in HIE's carbon footprint.

Waste and water	2008-09	2009-10	2010-11
Non-financial indicators (tCO2)			
Total greenhouse emissions from waste	148,332	64,670	44,906
Non-financial indicators			
Total waste (t)	331,839	144,675	100,461
Financial indicators (£)			
Total disposal cost	43,139	18,808	13,060

Emissions from waste (tCO2)

Graphical analysis



Performance commentary

Working with staff, recycling facilities will be improved. When purchasing office materials, packaging and waste will influence selection. As part of the carbon management plan, opportunities to reduce water wastage will be researched.

Controllable impacts commentary

HIE is working alongside staff, suppliers and contractors to ensure that an improved culture encourages a better performance in waste management. In some cases, a reduction in water wastage will reduce cost. In all cases, it will reduce our carbon footprint, although, for some offices, this will not be measurable due to lease arrangements.

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 Report and in notes 1 and 18 to the accounts.

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 2011 was Brian Howarth, Assistant Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £140,700 (2010 - £147,400).

A L Paterson

27 September 2011
Highlands and Islands Enterprise

Remuneration report

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. HIE's auditors are required to report on the information contained in the financial sections of this report.

Remuneration committee

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

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

Committee membership

Mr J Royan OBE (Chair)
Mr W Roe CBE
Prof M Bownes OBE

Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances, Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. The remuneration of HIE Board members for the year ended 31 March 2011 was as follows:

	2011 £	2010 £
W Roe (Chair)	48,012	48,512
A Mackenzie	10,065	10,065
Prof M Bownes	10,065	10,065
Prof L Crerar	10,065	10,065
J Royan	10,065	10,065
S Thomson	10,065	10,065
C Spence	10,065	10,065
W Swann	1,678	-
D MacDonald	1,678	-
I MacTaggart	1,678	-

The above figures represent emoluments earned as Board members during the relevant financial year. The figure for Mr Roe includes £107 (2010 - £304) of travel expenses which have been subject to tax and national insurance. (Expenses incurred for business are not subject to audit.) The cost to HIE for contributions to the pension fund for Mr Roe was £11,928 (2010 - £11,928) while Mr Roe contributed £720 being 1.5% of his remuneration as Chair of HIE.

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 2011 £86,991 (2010 - £87,712) was paid to these former members.

Remuneration of Chief Executive

Mr A B Brady was Acting Chief Executive for the agency during the year until the appointment of Mr A L Paterson as Chief Executive on 2 August 2010. The remuneration of Mr A B Brady as Acting Chief Executive is included in the remuneration details for the HIE Management Team.

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

Mr A L Paterson's remuneration, including his remuneration as a member of the HIE Management Team preceding his appointment as Chief Executive, for the year ended 31 March 2011, was as follows:

	Remuneration as Chief Executive £	Remuneration as member of HIE Management Team £	2011 Total £	2010 Remuneration as member of HIE Management Team £
Salary	61,250	34,844	96,094	76,753
Performance-related bonus (paid in respect of the previous financial year)	-	-	-	2,567
Pension contributions	15,251	8,676	23,927	19,111
	76,501	43,520	120,021	98,431

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

Remuneration of other members of the HIE Management Team

The contracts of members of the HIE Management 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 Management Team. As noted above, Mr A B Brady was Acting Chief Executive until 1 August 2010 and left under the selective voluntary severance scheme on 31 December 2010. All members of the HIE Management Team are ordinary members of the Highland and Islands Enterprise Superannuation Scheme, with the exception of Ms C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS). The ordinary members of the Highlands and Islands Enterprise Superannuation Scheme contribute 1.5% of pensionable salary and HIE contributes 24.9%

of the employees' pensionable salary. Ms C Wright contributes 9.3% of pensionable salary to the LGPS and HIE contributes 23.25%. Both schemes are final salary schemes. The HIE scheme provides benefits at a normal retirement age of 60 and the LGPS has a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the accounts (note 18).

Mrs C Buxton and Ms C Wright joined the HIE Management Team on 1 January 2011.

The remuneration of members of the HIE Management Team for the year ended 31 March 2011 was as follows:

	2010-11				2009-10			
	Salary £	Bonus (for 09-10) £	Other* £	Total £	Salary £	Bonus (for 08-09) £	Other* £	Total £
A B Brady	68,857	-	67,230	136,087	90,131	-	-	90,131
F C Duthie	80,965	250	-	81,215	76,834	2,229	-	79,063
D J Yule	-	-	-	-	76,834	2,559	42,645	122,038
J A Watt	76,834	250	-	77,084	72,712	-	-	72,712
C Buxton	69,745	250	-	69,995	-	-	-	-
C Wright	68,530	250	-	68,780	-	-	-	-

Note: non-consolidated bonus payments were paid at a flat rate of £250 and are disclosed on a 'paid' basis for performance over the previous financial year. Mr A B Brady opted not to be considered for a bonus in respect of performance for both 2008-09 and 2009-10. In line with Government guidance on pay restraint, there will be no payment of performances bonuses made for 2010-11.

Mrs C Buxton and Ms C Wright were both employees of HIE during 2009-10 but their remuneration for these years is not disclosed separately above as they were not members of the HIE Management Team during that time. The remuneration disclosed above for both for 2010-11 includes their remuneration as an employee of HIE prior to their appointment to the HIE Management Team.

*Additional payments including those from a voluntary severance scheme were included above as follows:

	2010-11			2009-10		
	SVS £	Excess mileage £	Total £	SVS £	Excess mileage £	Total £
A B Brady	67,230	-	67,230	-	-	-
D J Yule	-	-	-	41,850	795	42,645

SVS = selective voluntary severance

The SVS payment made to Mr A B Brady during the year includes £21,060 as payment in lieu of notice. In addition to the above, a lump sum contribution to HIE's pension fund of £90,000 was made as a result of the early retirement under the severance scheme of Mr A B Brady.

Retirement benefits of members of HIE Management Team:

	Accrued pension at age 60 as at 31/3/11 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/11 *	CETV at 31/3/10 *	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£'000	£'000	£'000
A L Paterson	10-15 Lump sum 30-35	2.5-5 Lump sum 2.5-5	160	106	53
A B Brady	40-45 Lump sum 120-125	0-2.5 Lump sum 5-7.5	947	805	141
F C Duthie	15-20 Lump sum 50-55	0-2.5 Lump sum 2.5-5	331	277	53
J A Watt	25-30 Lump sum 80-85	0-2.5 Lump sum 0-2.5	625	536	88
C Buxton	5-10 Lump sum 20-25	0-2.5 Lump sum 0-2.5	99	95	4
	Accrued pension at age 65 as at 31/3/11 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/11 *	CETV at 31/3/10 *	Real increase in CETV
C Wright	20-25 Lump sum 55-60	0-2.5 Lump sum 2.5-5	299	292	1

**The actuarial factors used in the Cash Equivalent Transfer Values (CETVs) were changed during 2010, due to changes in demographic assumptions and the move from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI) as the measure to uprate pensions. As a result the CETV values shown for 31/3/2010 are not the same as the corresponding figures shown in last year's report.*

The Chief Executive and senior members of the HIE Management Team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPS. These schemes provide benefits based on final pensionable salary. The assets of the 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.

For the Highlands and Islands Enterprise Superannuation Scheme, benefits accrue at the rate of one-eightieth of pensionable salary for each year of service subject to a maximum of 40 years. In addition, a lump sum equivalent to three years' pension is payable on retirement. Normal retirement age under the scheme is 60.

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

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 spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in the former scheme. The pension figures shown relate to the benefits that the individual has accrued 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.

A L Paterson

27 September 2011
Highlands and Islands Enterprise

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, recognised gains and losses 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.

Statement on internal control

Scope of responsibility

- 1 As the Accountable Officer, I have responsibility for maintaining a sound system of 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.
- 2 Pending conclusion of a recruitment process, Sandy Brady was the appointed Accountable Officer for the organisation until 1 August 2010. I commenced my appointment as Accountable Officer on 2 August 2010.

Purpose of the system of internal control

- 3 The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
- 4 The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.
- 5 The process within Highlands and Islands Enterprise has been in place for the year ended 31 March 2011 and up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Government.

Internal control arrangements

- 6 As the Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established for HIE:
 - a) A Leadership Team which normally meets weekly. Major executive decisions are taken by myself in consultation with that team.
 - b) A Board which normally meets six times a year. The Board is comprised of a part-time Chair, up to 10 non-executive members and the Accountable Officer. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has a general corporate responsibility for:
 - ensuring that Highlands and Islands Enterprise complies with any statutory or administrative requirements for the use of public funds and, in so doing, satisfying itself that Highlands and Islands Enterprise operates within the delegated authorities agreed with the Scottish Government Business Directorate;
 - ensuring that high standards of corporate governance are observed at all times;
 - ensuring that its aims and objectives are explained to and understood by staff and
 - overseeing the delivery of planned results by monitoring performance against agreed corporate objectives, measures and targets on both an in-year and longer-term basis.
 - c) A Risk and Assurance Committee, chaired by a non-executive Board member, which reviews the effectiveness of the internal control system. The committee met 4 times in the past year. Minutes of the Risk and Assurance committee are provided to the full Board for information.
 - d) A Health and Safety Committee, chaired by an executive director, exists to review the organisation's compliance with health and safety legislation.
 - e) A Remuneration Committee, chaired by a non-executive member, exists to review the reward arrangements of HIE's Chief Executive and the HIE directors. This committee met twice in the past year.
 - f) Highlands and Islands Enterprise has a robust risk management strategy in place. This strategy highlights that effective risk management is essential to the achievement of the agency objectives. Implementation of this strategy includes:
 - the assessment of risk by management at least quarterly;
 - the maintenance of organisation-wide risk registers;
 - the maintenance of a high level risk register;
 - assessment of risk at individual project level;
 - independent project reviews for high risk projects;
 - action plans with clear accountability and timescales to address significant risks;
 - that the Highlands and Islands Enterprise Board and the Scottish Government are made aware of the key risks on at least a quarterly basis;
 - that the risk management arrangements are fully aligned with the HIE corporate reporting framework and are reviewed by the Risk and Assurance committee.
 - g) In addition:
 - corporate governance workshops were held;
 - targets are set to measure financial and other business objectives;
 - regular consideration of resource accounting and budgeting (RAB) impacts;
 - a corporate reporting framework was in place to consider organisational performance during 2010/11;
 - during the year we undertook a review of the investment portfolio and identified some areas for system improvement which are being implemented.

Internal audit

- 7 Highlands and Islands Enterprise has a Business Improvement and Internal Audit team which is independent of any operational group. The Head of Business Improvement and Internal Audit reports directly to me as the Accountable Officer.
- a) The work of the Business Improvement and Internal Audit Team is informed by an analysis of the risk to which HIE is exposed and the annual business improvement and internal audit plans are based on this analysis. The plan is endorsed by and overseen by the HIE Risk and Assurance Committee.
 - b) The Head of Business Improvement and Internal Audit provides me with regular reports on internal audit activity and provides me with an annual report which includes the Head of Business Improvement and Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement.
 - c) The Business Improvement and Internal Audit team supports the agency's continuous improvement activities through the identification of action points arising from ongoing audit activity. These actions cover all aspects of HIE operations and, together with the recommendations of external auditors, identify areas where there is scope for improvements in internal controls.
 - d) The business improvement and internal audit plan includes cyclical reviews of the implementation of HIE in the risk management strategy.

Internal control assessment framework

- 8 As part of the organisation's internal control arrangements, we have in place an internal control assessment framework. This framework requires the heads of each business unit, including subsidiaries, to undertake an annual review of their areas' internal controls. This required the completion of an internal control checklist and the identification of any control issues which should be brought to my attention. Information provided is used to complete an organisational internal control checklist and Certificate of Assurance for Highlands and Islands Enterprise.
- 9 My review of the effectiveness of the system of internal control is therefore informed by:
- The organisation's risk management framework;
 - The work of the Business Improvement and Internal Audit team and the HIE Risk and Assurance committee which oversees this activity;
 - The internal control assessment framework, including the assurances provided from each business unit;
 - Matters raised by external auditors in their management letter and other reports.

In summary, on the basis of the above processes, my overall review has not highlighted any significant internal control weaknesses within Highlands and Islands Enterprise in 2010/11.

A L Paterson

27 September 2011
Accountable Officer

Independent auditor's report

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

I have audited the financial statements of Highlands and Islands Enterprise for the year ended 31 March 2011 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, Group and Highlands and Islands Enterprise Statement of Financial Position, Group Statement of Cash Flows, Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2010/11 Government Financial Reporting Manual (the 2010/11 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Board, Accountable Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts, disclosures, and regularity of expenditure and receipts in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer, and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

As outlined in Note 1 to the accounts (Accounting Policies), HIE's group accounts do not consolidate the results of two companies which fall within the definition of a subsidiary under IAS 27, which constitutes a departure from international financial reporting standards. The inclusion of these subsidiaries would have increased the group's net assets by £2.3 million.

Qualified opinion

In my opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2011 and of its net operating cost 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 2010/11 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited (excluding sections General Information, Remuneration Committee and Committee membership) has been properly prepared in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary included in the Annual Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Brian Howarth ACMA

Assistant Director
Audit Scotland
7th Floor, Plaza Tower
East Kilbride
GLASGOW
G74 1LE

5 October 2011

Group statement of comprehensive net expenditure for the year ended 31 March 2011

	Notes	2011 £000	2010 Restated * £000
Income from operating activities	3	19,846	23,532
Expenditure on operating activities			
Continuing operations	4	(62,819)	(55,618)
Discontinuing operations	4	(78)	(358)
		(62,897)	(55,976)
Administration and management charges			
Continuing operations	5	(17,225)	(22,190)
Discontinuing operations	5	(95)	(338)
		(17,320)	(22,528)
Excess of expenditure over income on operating activities		(60,371)	(54,972)
Share of associates' operating profit/(loss)		(84)	(293)
Investment income	6	172	100
Other finance income/(charges)	6	(865)	(2,319)
Share of associates' investment income		-	2
Interest payable	7	(24)	(79)
Net operating cost before taxation		(61,172)	(57,561)
Taxation	9	(662)	(346)
Net operating cost after taxation		(61,834)	(57,907)

* 2010 figures restated following the removal of the cost of capital charge. See note 1 (accounting policies) for further details

Group and Highlands and Islands Enterprise statement of financial position as at 31 March 2011

	Notes	GROUP		HIE	
		2011 £000	2010 Restated * £000	2011 £000	2010 Restated * £000
Non-current assets					
Property, plant and equipment	10	42,121	49,051	41,645	48,867
Intangible assets	11	6	10	-	-
Financial assets	12	4,483	2,494	4,807	2,874
Investment in associate		44	128	-	-
Total non current assets		46,654	51,683	46,452	51,741
Current assets					
Inventories	13	116	122	-	-
Trade and other receivables	14	6,737	6,957	6,225	6,613
Cash and cash equivalents	15	1,670	2,527	690	1,534
Assets classified as held for sale		942	143	942	133
Total current assets		9,465	9,749	7,857	8,280
Current liabilities: Trade payables and other current liabilities	16	(11,062)	(11,139)	(10,166)	(10,219)
Net current assets/(liabilities)		(1,597)	(1,390)	(2,309)	(1,939)
Total assets less current liabilities		45,057	50,293	44,143	49,802
Non-current liabilities: Trade payables and other liabilities falling due after more than one year	17	(967)	(1,910)	(874)	(1,818)
		44,090	48,383	43,269	47,984
Retirement benefit obligation	18	(9,332)	(20,464)	(9,638)	(20,593)
Net assets		34,758	27,919	33,631	27,391
Reserves					
Revaluation reserve		220	221	220	221
Government grant reserve		6,088	5,253	6,062	5,218
Other reserve		403	415	3	15
Pension reserve		(9,332)	(20,273)	(9,638)	(20,593)
General reserve		37,379	42,303	36,984	42,530
		34,758	27,919	33,631	27,391

* 2010 figures restated following the reclassification of government grant provision to trade payables and other liabilities: amounts falling due after more than one year. See note 1 (accounting policies) for further details

A L Paterson

27 September 2011
Accountable Officer

The Accounting Officer authorised these financial statements for issue on 5 October 2011.

Group statement of cash flows for the year ended 31 March 2011

	Notes	2011 £000	2010 £000
Net cash outflow from operating activities			
Profit/(loss) before taxation	21	(60,307)	(55,243)
Share of associates profit/(loss)		84	359
Depreciation		1,295	1,430
Amortisation of intangibles		3	3
Government grant release		(91)	(91)
Investment income	6	(169)	(90)
Interest expense	7	24	79
		<u>(59,161)</u>	<u>(53,553)</u>
(Increase)/decrease in trade and other receivables		(144)	1,399
Provision for irrecoverable debts and losses		291	106
(Increase)/decrease in inventories		6	(19)
Increase/(decrease) in trade and other payables		82	(1,118)
Movement in pension provision		(3,446)	(5,776)
Investments written off, net of provision		(54)	1,318
Loss/(profit) on sale of property, plant and equipment		(827)	(162)
Loss/(profit) on sale of assets classified as held for sale		(51)	4,180
Revaluation of assets held for resale (movement in provision)		46	-
Revaluation of assets held for resale		8,115	15
Movement in deferred income		(932)	(835)
Cash generated from operations		<u>(56,075)</u>	<u>(54,445)</u>
Taxes paid		(835)	(3)
Net cash from/(used in) operating activities		<u>(56,910)</u>	<u>(54,448)</u>
Cash flows from investing activities			
Payments to acquire shares	12	(1,140)	(360)
Payments for the construction of property	10	(5,898)	(8,262)
Payments for tenants' improvements	10	(34)	(22)
Payments to acquire plant and equipment	10	(390)	(100)
Purchase of assets classified as held for sale		-	(9)
Proceeds from sale of plant, property and equipment		3,783	175
Proceeds from sale of assets classified as held for sale		170	1,117
Receipts from sale of shares	6	49	-
Loans advanced		(1,085)	(50)
Loans repaid	12	315	139
Interest received	6	74	89
Dividends received		6	10
Net cash from/(used in) investing activities		<u>(4,150)</u>	<u>(7,273)</u>
Cash flows from financing activities			
Grant-in-aid		59,300	58,723
Capital grants		927	1,894
Interest paid	7	(24)	(79)
Net cash from financing activities		<u>60,203</u>	<u>60,538</u>
Net increase/(decrease) in cash and cash equivalents		<u>(857)</u>	<u>(1,183)</u>
Cash and cash equivalents at beginning of period	15	<u>2,527</u>	3,710
Cash and cash equivalents at end of period	15	<u>1,670</u>	<u>2,527</u>

Group statement of changes in taxpayers' equity for the year ended 31 March 2011

GROUP	Note	Revaluation reserve £000	Capital reserve £000	Pension reserve £000	Government grant reserve £000	I&E reserve restated* £000	Total reserves restated* £000
Balance at 31 March 2010		221	415	(20,273)	5,253	42,303	27,919
Changes in taxpayers' equity for 2010-11							
Net gain/(loss) on revaluation of property, plant and equipment		(1)	(12)				(13)
Net gain/(loss) on revaluation of intangible assets							-
Net gain/(loss) on revaluation of investments							-
Grants received in year					927		927
Release of reserves to the I&E					(92)		(92)
Non-cash charges*						-	-
Transfers between reserves							-
Actuarial gain/(loss)				10,941		(2,390)	8,551
Retained surplus/deficit						(61,834)	(61,834)
Total recognised income and expense for 2010-11		(1)	(12)	10,941	835	(64,224)	(52,461)
Grant from Scottish Government						59,300	59,300
Balance at 31 March 2011		220	403	(9,332)	6,088	37,379	34,758

* 2010 figures restated following the removal of the cost of capital charge. See note 1 (accounting policies) for further details

HIE	Note	Revaluation reserve £000	Capital reserve £000	Pension reserve £000	Government grant reserve £000	I&E reserve restated* £000	Total reserves restated* £000
Balance at 31 March 2010		221	15	(20,593)	5,218	42,530	27,391
Changes in taxpayers' equity for 2010-11							
Net gain/(loss) on revaluation of property, plant and equipment		(1)	(12)				(13)
Net gain/(loss) on revaluation of intangible assets							-
Net gain/(loss) on revaluation of investments							-
Grants received in year					935		935
Release of reserves to the I&E					(91)		(91)
Non-cash charges*							-
Transfers between reserves							-
Actuarial gain/(loss)				10,955		(2,559)	8,396
Retained surplus/deficit						(62,237)	(62,237)
Total recognised income and expense for 2010-11		(1)	(12)	10,955	844	(64,796)	(53,010)
Grant from Scottish Government						59,250	59,250
Balance at 31 March 2011		220	3	(9,638)	6,062	36,984	33,631

* 2010 figures restated following the removal of the cost of capital charge. See note 1 (accounting policies) for further details

Notes to the accounts

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the 2010-11 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, except that the Group Accounts exclude the results of two investee companies which are subsidiaries under IAS 27, Consolidated and Separate Financial Statements. The accounting policies contained in the FReM apply International Financial Reporting Standards as adapted or interpreted for the public sector context.

The financial statements comply with the accounting policies contained in the FReM which apply International Financial Reporting Standards as adapted or interpreted for the public sector context, with the exception of IAS 27, Consolidated and Separate Financial Statements. Management has chosen not to consolidate the results of two investee companies which fall within the definition of a subsidiary under IAS 27. These companies are subsidiaries by way of voting rights which confer to HIE when preference dividends due are in arrears. In the case of one of these investees the voting rights no longer exist as payment of the dividend was made post year end. Further, steps are being taken by HIE to change these share agreements to avoid what it considers to be an anomaly arising from a historic investment policy. To consolidate the results of these companies in the Group Accounts presents practical difficulties which Management considers cannot be easily overcome without significant disruption to the two investee companies. The full effect of not consolidating these companies cannot be fully quantified as the year end dates differ, the basis of preparation differs (UK GAAP rather than IFRS basis) and full audited accounts are not yet available. However, based on the latest financial information available for the two companies concerned, the impact on the Statement of Financial Position would have been as follows:

Property, plant and equipment	£1,231,000
Inventories	£3,421,000
Trade and other receivables	£913,000
Current liabilities	-£1,634,000
Non current liabilities	-£1,595,000
Other	-£59,000
Net assets	£2, 277,000
Minority interest	£1,981,000
General reserve	£296,000
Reserves	£2,277,000

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 10)
Financial assets	(note 12)
Assets classified as held for sale	
Financial commitments	(note 24)

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

The Board and Accountable Officer have considered the agency's Operating Plan requirement and consider that the resource budget awarded by the Scottish Government is adequate. Refer to the Management Commentary for current details. The accounts are therefore prepared on a going concern basis.

Change in accounting policy and restatement

The accounting policies have, unless otherwise stated, been applied consistently for all periods presented in the Group and Highlands and Islands Enterprise accounts.

HM Treasury, under the Clear Line of Sight (Alignment Project) removed the cost of capital charge from budgets and accounts from 1 April 2010. The cost of capital charge is therefore no longer applicable. The removal of the cost of capital charge is considered to be a change in accounting policy under IAS 8 and prior year comparatives have therefore been restated.

The removal of the costs of capital charge has no effect on the reported balances in the statement of financial position in 2009-10. The impact on the Statement of Comprehensive Net Expenditure in 2009-10 is to reduce the net operating cost for the financial year by £1.736m. The restated operating cost for the financial year and the removal of the add back of cost of capital to the I&E reserve results in no change to the previously reported reserve balance.

Prior year adjustments

Trade payables and other current liabilities: amounts falling due within one year (note 16)

The government grant provisions have been reclassified to trade payables and other liabilities due after more than one year following a review of the requirement of the provision and the expected timing of any claim against the provision not being likely within the next 12 months. The effect on the 2009/10 figures is to reduce the current liabilities by £13,000.

Trade payables and other liabilities: amounts falling due after more than one year (note 17)

The government grant provisions have been reclassified from trade payables and current liabilities due within one year following a review of the requirement of the provision and the expected timing of any claim against the provision not being likely within the next 12 months. The effect on the 2009/10 figures is to increase the other liabilities by £13,000.

Provision for losses and similar charges (Note 19)

The 2009/10 figures have been restated due to the figures used in the 2009/10 note being misstated for investments and loan capital. The correct figures have now been disclosed, resulting in a revised opening balance for the Group at 1 April 2009 of £8.308m, which is £3.445m lower than the figure of £11.753m shown previously. Similarly, the in-year Group movement for 2009/10 was out by £4.236m, resulting in an overall change to the total shown for 2009/10 of £0.791m, from £8.697m to £9.488m. The HIE figures have also been restated similarly, resulting in a revised opening balance at 1 April 2009 of £5.053m, which is £2.119m lower than the previously reported figure of £7.172m. The in-year movement for HIE was out by £4.432m, resulting in an overall change to the total for 2009-10 of £2.313m, from £3.512m to £1.393m.

Basis of consolidation

The Group Accounts consolidate the accounts of Highlands and Islands Enterprise and its subsidiary undertakings, with the exception of two investee companies detailed in the basis of preparation, drawn up to 31 March each year.

The results of CairnGorm Mountain Limited, a wholly owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group. The results of CairnGorm 2000+ plc, a wholly owned subsidiary of CairnGorm Mountain Limited, are also consolidated within the accounts of the Group.

The results of Highlands and Islands Community Energy Company Limited, a wholly-owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group.

The results of Distance Lab Limited, a wholly-owned subsidiary of Highlands and Islands Enterprise, are consolidated within the accounts of the Group.

No Statement of Comprehensive Net Expenditure is presented for Highlands and Islands Enterprise as permitted by section 408 of the Companies Act 2006 and with the approval of Scottish Ministers.

Undertakings, other than subsidiary undertakings, in which HIE has an investment representing 20 per cent, or more than 20 per cent of the voting rights and over which it exerts significant influence, are treated as associated undertakings in accordance with IAS 28 and IAS 27, unless the impact of these undertakings are deemed immaterial for the purposes of these accounts.

The Group Accounts include Highlands and Islands Enterprise's share of the results and reserves of HIE Ventures Limited, based on audited accounts to 31 March 2011.

Scottish Health Innovations Limited and Scottish Intellectual Asset Management Limited are jointly owned with Scottish Enterprise. The Group Accounts include Highlands and Islands Enterprise's share of the results and reserves of Scottish Health Innovations Limited, based on audited accounts to 31 March 2011.

The consolidated accounts do not include the results of Scottish Intellectual Asset Management Limited; the results of this company are included in the accounts of Scottish Enterprise. Scottish Intellectual Asset Management Limited is 100% funded by Scottish Enterprise.

The consolidated accounts do not include the results of two investee companies which are subsidiaries under IAS 27 by virtue of voting rights conferred as a result of unpaid preference dividends.

Details of undertakings which would fall within the definition of Associates or Joint Ventures, but where the impact of equity accounting for these is considered immaterial, are noted below. For each, details of HIE's relationship with the company is shown:

The Centre for Health Science: HIE is one of three members of this company limited by guarantee.

AI Welders: HIE has the right to convert 40,000 out of its 60,000 Cumulative Convertible Participating Preferred Ordinary Shares into 40,000 Ordinary Shares which would give HIE 30% of the Ordinary Share Capital.

Aquapharm Bio Discovery Limited: HIE holds 21.79% of the Ordinary Share Capital of Aquapharm.

Gaeltec Ltd: HIE holds 34.7% of the Ordinary Share Capital of Gaeltec and has the right to appoint one of the four directors of the company.

Rodel Hotels: HIE has 56,000 Cumulative Convertible Participating Preferred Ordinary Shares with the right to convert these into Ordinary Shares, which would give HIE 30.1% of the voting rights.

Sitekit Solutions Ltd: HIE has the right to convert its 160,000 Cumulative Convertible Participating Redeemable Preferred Ordinary Shares into 20,000 Ordinary Shares which would give HIE 20% of the voting rights.

Inverness Airport Business Park Ltd: HIE holds 5% of the Ordinary Shares in this company but has the right to appoint 2 of the 7 directors on the board giving HIE more than 20% of the voting power on the board.

In the opinion of Highlands and Islands Enterprise, none of the other minority investments conform to the definition of associated companies contained in International Accounting Standard 28.

Basis of operations

Highlands and Islands Enterprise is in the process of winding up the former local enterprise companies (LECs) and Highlands and Islands Community Energy Company Limited. Distance Lab ceased trading during the year. HIE Ventures Limited is a venture capital company aimed at investing in companies operating in the Highlands and Islands. Scottish Health Innovations Limited, a company limited by guarantee, was formed to promote research and development within the National Health Service in Scotland, particularly the commercialisation of research, technology and innovations. Scottish Intellectual Asset Management Limited, a company limited by guarantee, was formed to help build Scotland's competitiveness in a modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets. CairnGorm Mountain Limited, a company which operates a ski resort and visitor attraction, became a wholly-owned subsidiary of HIE on 16 May 2008.

Judgements

The preparation of financial statements requires Management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

In the process of applying Highlands and Islands Enterprise accounting policies, Management made a number of judgements, apart from those involving estimations. The judgements which have the most significant effect on the amounts recognised in the financial statements are detailed within the notes which follow.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the Statement of Financial Position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are included within the notes below.

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 revenue expenditure over attributable income. Grant-in-aid is credited to general reserves and the net expenditure set against this on the basis that grant-in-aid cannot be allocated between revenue and capital expenditure as disclosed in the accounts.

European Union funding and other grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Claims for funding relating to buildings are taken to the Government Grant Reserve and are credited to income over the useful life of the properties. Grants relating solely to land, which is deemed to have an infinite useful life, are credited to the Government Grant Reserve until the land is disposed of.

Income

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

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

Expenditure

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

Property, plant and equipment

Property, plant and equipment is accounted for in accordance with IAS 16 'Property, Plant and Equipment'.

HIE has 4 types of property, plant and equipment:

- Land and buildings
- Tenants' improvements
- Other 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 International Accounting Standards (IAS) 16 'Property, Plant and Equipment' are followed.

Property, plant and equipment are included in the statement of financial position at their fair 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:	30-60 years, with one exception where a useful life of 5 years was estimated
Buildings - engineering:	10-20 years
Buildings - specialist engineering:	20 years
Plant and equipment:	4 years
Tenants' improvements:	10 years
IT equipment:	4 years

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

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

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

Financial Assets - Equity

Equity instruments have been classified as Available for Sale financial assets and are shown at fair value in accordance with IAS 39. 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 arms' length and net assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparables 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.

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 and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.

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 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 selling costs.

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 investment 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 requires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the life of the lease.

Research expenditure

All research expenditure is charged against revenue in the year it occurs.

Insurance

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

Taxation

The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned.

Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2009 have been agreed with the relevant tax authorities.

Pension costs (retirement benefit obligations)

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

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

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

Additional information is disclosed in note 18.

Trade receivables and payables

All commercial and trade sums due and payable (debtors and creditors) are stated at fair value.

Exceptional items

Highlands and Islands Enterprise presents as exceptional items on the face of the Statement of Comprehensive Net Expenditure, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow stakeholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

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 2011 and 2010 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.

HIE	2011 £000	2010 £000
Income		
GIA	59,250	61,354
European		
Single projects	1,129	3,094
Schemes	1,390	614
	<u>2,519</u>	<u>3,708</u>
Capital		
Equity sales	49	-
Loan repayments	130	92
Property sales	3,878	1,428
	<u>4,057</u>	<u>1,520</u>
Revenue		
Property rental	6,260	6,247
Loan interest/dividend	61	88
Big Lottery fund		349
Other receipts	(90)	302
	<u>6,231</u>	<u>6,986</u>
Other income	12,807	12,214
Total income	<u>72,057</u>	<u>73,568</u>
Expenditure		
Block A		
Regional significant investments	20,468	15,499
Business support	4,653	5,104
Growth investment	26,105	22,203
Total block A	<u>51,226</u>	<u>42,806</u>
Big Lottery - operational spend	-	-
European single projects	1,129	3,093
European schemes	1,390	614
Pension fund deficit recovery plan	1,500	2,500
SVS	706	3,900
Business Gateway		2,632
Total block A	<u>55,951</u>	<u>55,545</u>
Block B		
Management, staff and admin cost	16,077	17,512
Big Lottery		349
Total block B	<u>16,077</u>	<u>17,861</u>
Total expenditure	<u>72,028</u>	<u>73,406</u>
Financial position (I&E)	<u>29</u>	<u>162</u>
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	29	162
Pension (IAS19)	2,554	3,435
Depreciation	(1,198)	(1,338)
Provisions and charges	(539)	(76)
Timing differences	4,795	(956)
EU cost accrual	3,597	(2,756)
Property cost of sales	(3,108)	1,277
Capital revaluation and additions	(8,115)	990
Big Lottery	-	489
Grant-in-aid	(59,250)	(58,723)
Interest payable	(6)	(4)
Taxation	(214)	-
Other group companies	283	(61)
	-	-
Group net operating cost before taxation	<u>(61,172)</u>	<u>(57,561)</u>

3. Income from operating activities

Income, which is shown net of value added tax (VAT), is made up of receipts from various bodies as detailed below:

Group	2011 £000	2010* £000
Other European contributions	1,473	631
Scottish Government receipts	-	-
Property income	7,461	6,591
Other external income	10,912	16,310
	19,846	23,532

* 2010 figures restated to split other European contributions from other external income.

All income shown relates to continuing activities.

4. Expenditure on operating activities

Expenditure is shown net of value added tax (VAT) except where the VAT is irrecoverable.

	Regional significant investments £000	Business support £000	Growth investment £000	Tourism attraction operator £000	Total £000	2010 £000
Highlands and Islands Enterprise	19,894	13,851	25,315		59,060	53,031
CairnGorm Mountain Limited				3,759	3,759	2,587
Distance Lab Limited*			78		78	358
Former LECs *					-	-
Highlands and Islands Community Energy Company					-	-
Group	19,894	13,851	25,393	3,759	62,897	55,976
2010	16,566	12,714	24,109	2,587	55,976	
2011						
Continuing operations	19,894	13,851	25,315	3,759	62,819	
Discontinuing operations			78		78	
	19,894	13,851	25,393	3,759	62,897	
2010						
Continuing operations	16,566	12,714	23,751	2,587	55,618	
Discontinuing operations			358		358	
	16,566	12,714	24,109	2,587	55,976	

* Local enterprise companies (LECs) and Distance Lab are in the process of being wound-up. HIE delivery continues through its area teams.

Expenditure includes grants of **£24,153,000** (2010 - £25,391,000) of which **£834,000** (2010 - £3,313,000) were made to the public sector and **£23,319,000** (2010 - £22,078,000) to the private sector.

Property revaluation and management costs of **£9,325,000** (2010 - £7,268,000) are included within Regional Competitiveness expenditure above.

5a. Administration and management charges by organisation

Group	2011 £000	2010 £000
Highlands and Islands Enterprise	16,301	20,692
CairnGorm Mountain Ltd	923	1,498
Distance Lab	95	338
Former LECs	-	-
Highlands and Islands Community Energy Company	-	-
	17,319	22,528
Continuing operations	17,225	22,190
Discontinuing operations	95	338
	17,320	22,528

5b. Administration and management charges by organisation

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Continuing operations				
Staff and Board member salaries (note 8)	12,437	14,581	12,437	14,581
Voluntary severance packages	847	3,768	847	3,768
IAS 19 adjustment in respect of service costs and curtailments	(3,438)	(5,773)	(3,438)	(5,773)
Travel and subsistence - Board members	22	36	21	36
Travel and subsistence - staff	632	748	632	748
Accommodation	1,634	2,125	1,635	2,126
Hospitality - Board members	7	8	7	8
Hospitality - staff	104	115	104	115
Audit fees	157	128	141	113
Non-audit fees paid to auditors	3	3	-	-
Operating lease rentals – equipment	54	76	47	68
Depreciation of fixed assets	1,296	1,426	1,198	1,338
Equipment and furnishings	10	31	10	31
Provision for irrecoverable debts and losses	293	1,336	51	35
Investment fair value adjustments	(57)	-	184	35
Other administration costs	3,224	3,582	2,423	2,179
	17,225	22,190	16,299	19,408
Discontinuing operations				
Staff and Board member salaries (note 8)	48	199	-	-
Travel and subsistence - Board members	1	1	-	-
Travel and subsistence - staff	1	11	-	-
Accommodation	38	55	-	-
Audit fees	-	4	-	-
Non-audit fees paid to auditors	-	1	-	-
Depreciation of fixed assets	-	28	-	-
Equipment and furnishings	1	15	-	-
Provision for irrecoverable debts and losses	-	(28)	-	-
Other administration costs	6	52	-	-
	95	338	-	-

Fees chargeable for audit services provided by Audit Scotland amounted to £140,700 (2010 - £147,400).

6. Investment income and other finance income/(charges)

Group	2011 £000	2010 £000
Investment income		
Dividends received	46	32
Loan interest receivable	53	41
Bank interest receivable	21	17
Surplus on disposal of investments	49	10
Loan arrangement fees	3	-
	172	100
Other finance income/(charges)		
Expected return on pension plan assets	4,075	2,535
Interest on pension plan liabilities	(4,940)	(4,854)
	(865)	(2,319)

7. Interest payable

Group	2011 £000	2010 £000
Other	24	79
	24	79

8. Staff costs and reporting of compensation schemes – exit packages

Group	2011 £000	2010 £000
Wages and salaries	11,046	12,276
Voluntary severance packages	847	3,768
Social security costs	852	910
Other pension costs	3,823	4,947
Contract/temporary staff	33	77
	16,601	21,978
Board members' remuneration	358	270
	16,959	22,248

Of the total above, **£13,331,721** (2010 - £18,552,065) relates to complement staff and Board members. The balance relates to project staff charged to expenditure on operating activities.

The average number of employees was as follows:

	Group 2011		Group 2010	
	Complement staff	Total staff	Complement staff	Total staff
Senior management	51	55	56	61
Operational staff	141	169	285	310
Administration and support staff	46	52	42	55
	238	276	383	426

Total staff includes project staff who work on fixed short-term contracts in support of a number of special initiatives.

The figures for total staff reflect the average number of staff employed over the course of the year, without adjustment for those who left in the voluntary severance exercise at the end of March 2011. In addition to permanent staff employed directly by HIE, the figures also include staff in short-term posts and staff employed by subsidiaries: CairnGorm Mountain Ltd and Distance Lab Ltd.

Compensation scheme – exit packages

12 staff (2009-10: 53) left under voluntary severance terms between 1 April 2010 and 31 March 2011. The total cost of severance packages in the year was £846,611 (2009-10: £3,768,000), excluding the cost of compromise agreements of £4,693 (2009-10: £22,049).

	2010-11 Number of departures agreed	2009-10 Number of departures agreed
Exit package cost band*:		
< £10,000	3	5
£10,001 - £25,000	2	11
£25,001 - £50,000	1	14
£50,001 - £100,000	3	12
£100,001 - £150,000	2	2
£150,001 - £200,000	1	4
£200,001 - £250,000	-	2
£250,001 - £300,000	-	2
£300,001 - £350,000	-	1
	12	53

* Exit package cost bands include payments in lieu of notice and additional pension costs as well as the severance lump sum

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted in full in the year of departure. Where HIE has agreed early retirements, the additional costs are met by HIE until the retirement date of the individual is reached.

9. Taxation

Corporation tax is charged at 28 per cent on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on taxable income of its subsidiaries.

Group	2011 £000	2010 £000
Corporation tax	261	346
Adjustment in respect of prior periods	61	-
Current corporation tax charge	322	346
Temporary timing differences	366	-
Effect of changes in tax rates	(26)	-
Deferred tax	340	-
	662	346

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

10. Property, plant and equipment

At 31 March 2011, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, chartered surveyors.

GROUP	Property £000	Tenants' improvements £000	IT equipment £000	Other plant and equipment £000	Total £000	2010 £000
Cost or valuation						
At 1 April 2010	50,254	1,421	756	2,473	54,904	51,122
Additions	5,898	34	46	344	6,322	8,385
Write down	-	-	-	-	-	-
Disposals	(3,000)	-	-	(548)	(3,548)	(319)
Assets held for resale	(1,012)	-	-	-	(1,012)	(222)
Reclassifications	-	-	-	-	-	-
Revaluations	(8,861)	-	-	-	(8,861)	(2,311)
Impairment	-	-	-	-	-	(1,751)
At 31 March 2011	43,279	1,455	802	2,269	47,805	54,904
Depreciation						
At 1 April 2010	2,115	765	718	2,255	5,853	4,719
Charged in year	1,029	133	27	107	1,296	1,421
Write down	-	-	-	-	-	9
Disposals	(137)	-	-	(547)	(684)	(224)
Assets held for resale	(36)	-	-	-	(36)	(72)
Reclassifications	-	-	-	-	-	-
Revaluations	(745)	-	-	-	(745)	-
At 31 March 2011	2,226	898	745	1,815	5,684	5,853
Net book value						
At 31 March 2011	41,053	557	57	454	42,121	49,051
At 1 April 2010	48,139	656	38	218	49,051	
Analysis of asset financing:						
	Property £000	Tenants' improvements £000	IT equipment £000	Other plant and equipment £000	Total £000	2010 £000
Owned	40,440	557	57	444	41,498	48,428
Finance leased	613	-	-	10	623	623
Net book value						
At 31 March 2011	41,053	557	57	454	42,121	49,051
At 1 April 2010	48,139	656	38	218	49,051	

GROUP	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000	2010 £000
Cost or valuation							
At 1 April 2010	18,070	29,133	512	831	1,708	50,254	46,247
Additions	45	5,853	-	-	-	5,898	8,262
Write down	-	-	-	-	-	-	-
Disposals	(1,220)	(1,780)	-	-	-	(3,000)	(97)
Assets held for resale	(512)	(500)	-	-	-	(1,012)	(144)
Reclassifications	427	1,281	-	-	(1,708)	-	-
Revaluations	(890)	(7,938)	(18)	(15)	-	(8,861)	(2,263)
Impairment	-	-	-	-	-	-	(1,751)
At 31 March 2011	15,920	26,049	494	816	-	43,279	50,254
Depreciation							
At 1 April 2010	-	1,996	-	63	56	2,115	1,041
Charged in year	-	997	-	32	-	1,029	1,080
Write down	-	-	-	-	-	-	-
Disposals	-	(137)	-	-	-	(137)	(2)
Assets held for resale	-	(36)	-	-	-	(36)	(4)
Reclassifications	-	56	-	-	(56)	-	-
Revaluations	-	(743)	-	(2)	-	(745)	-
At 31 March 2011	-	2,133	-	93	-	2,226	2,115
Net book value							
At 31 March 2011	15,920	23,916	494	723	-	41,053	48,139
At 1 April 2010	18,070	27,137	512	768	1,652	48,139	
Analysis of asset financing:							
	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000	2010 £000
Owned	15,716	23,507	494	723	-	40,440	47,526
Finance leased	204	409	-	-	-	613	613
Net book value							
At 31 March 2011	15,920	23,916	494	723	-	41,053	48,139
At 1 April 2010	18,070	27,137	512	768	1,652	48,139	

HIE						
	Property £000	Tenants' improvements £000	IT equipment £000	Other plant and equipment £000	Total £000	2010 £000
Cost or valuation						
At 1 April 2010	50,254	1,193	543	846	52,836	48,796
Additions	5,898	34			5,932	8,295
Write down	-				-	-
Disposals	(3,000)			(465)	(3,465)	(97)
Assets held for resale	(1,012)				(1,012)	(144)
Reclassifications	-				-	-
Revaluations	(8,861)				(8,861)	(2,263)
Impairment	-				-	(1,751)
At 31 March 2011	<u>43,279</u>	<u>1,227</u>	<u>543</u>	<u>381</u>	45,430	52,836
Depreciation						
At 1 April 2010	2,115	537	525	792	3,969	2,638
Charged in year	1,029	133	9	28	1,199	1,337
Write down	-				-	-
Disposals	(137)			(465)	(602)	(2)
Assets held for resale	(36)				(36)	(4)
Reclassifications	-				-	-
Revaluations	(745)				(745)	-
At 31 March 2011	<u>2,226</u>	<u>670</u>	<u>534</u>	<u>355</u>	3,785	3,969
Net book value						
At 31 March 2011	41,053	557	9	26	41,645	48,867
At 1 April 2010	48,139	656	18	54	48,867	
Analysis of asset financing:						
	Property £000	Tenants' improvements £000	IT equipment £000	Other plant and equipment £000	Total £000	2010 £000
Owned	40,440	557	9	16	41,022	48,244
Finance leased	613			10	623	623
Net book value						
At 31 March 2011	41,053	557	9	26	41,645	48,867
At 1 April 2010	48,139	656	18	54	48,867	

HIE	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000	2010 £000
Cost or valuation							
At 1 April 2010	18,272	29,466	312	496	1,708	50,254	46,247
Additions	45	5,853				5,898	8,262
Write down						-	-
Disposals	(1,220)	(1,780)				(3,000)	(97)
Assets held for resale	(512)	(500)				(1,012)	(144)
Reclassifications	427	1,281			(1,708)	-	-
Revaluations	(891)	(7,937)	(18)	(15)		(8,861)	(2,263)
Impairment						-	(1,751)
At 31 March 2011	16,121	26,383	294	481	-	43,279	50,254
Depreciation							
At 1 April 2010	-	2,031	-	28	56	2,115	1,041
Charged in year		1,015		14		1,029	1,080
Write down						-	-
Disposals		(137)				(137)	(2)
Assets held for resale		(36)				(36)	(4)
Reclassifications		56			(56)	-	-
Revaluations		(743)		(2)		(745)	-
At 31 March 2011	-	2,186	-	40	-	2,226	2,115
Net book value							
At 31 March 2011	16,121	24,197	294	441	-	41,053	48,139
At 1 April 2010	18,272	27,435	312	468	1,652	48,139	
Analysis of asset financing:							
	Land held for regeneration purposes £000	Buildings held for regeneration purposes £000	Land held for own use £000	Buildings held for own use £000	Assets under construction £000	Total land and buildings £000	2010 £000
Owned	15,917	23,788	294	441	-	40,440	47,526
Finance leased	204	409	-	-	-	613	613
Net book value							
At 31 March 2011	16,121	24,197	294	441	-	41,053	48,139
At 1 April 2010	18,272	27,435	312	468	1,652	48,139	

Reconciliation of profit on sales:

Group	2011 £000	2010 £000
Sales value of disposals	3,997	1,428
Net book value of disposals	3,108	1,277
Profit on sales	889	151

11. Intangible fixed assets

Intangible assets of £6,000 (2010 £10,000) relate to goodwill on consolidation of CairnGorm Mountain Limited.

12. Financial assets

Financial assets

Group	2011 £000	2010 £000
Available for sale unlisted equity shares	1,944	924

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

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

Loans and receivables

Group	Preference shares £000	Loans and receivables £000	Total £000	2010 £000
Amortised cost				
At 1 April 2010	8,627	1,710	10,337	10,428
Additions	-	1,110	1,110	-
Repayments	-	(315)	(315)	(70)
Disposals	(127)	-	(127)	-
Fair value adjustment	22	(11)	11	(1)
Reclassification	-	-	-	-
Written off	(3,134)	(983)	(4,117)	(20)
At 31 March 2011	5,388	1,511	6,899	10,337
Diminution in value				
At 1 April 2010	7,311	1,456	8,767	7,521
Additions	66	51	117	1,312
Disposals	(127)	-	(127)	-
Released	-	(280)	(280)	(46)
Reclassification	-	-	-	-
Written off	(3,134)	(983)	(4,117)	(20)
At 31 March 2011	4,116	244	4,360	8,767
Net book value				
At 31 March 2011	1,272	1,267	2,539	1,570
At 1 April 2010	1,316	254	1,570	

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 cashflows.

At 31 March 2011, loan instalments due for repayment within one year amounted to £155,176 (2010 - £80,000)

During the year 100,000 preference shares in Bute Fabrics were sold for £49,000. These shares had an amortised cost of nil. 112,500 preference shares were converted to unlisted equity shares; these shares had a fair value of nil.

Financial assets

HIE	2011 £000	2010 £000
Available for sale unlisted equity shares	1,944	924

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

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

Loans and receivables

HIE	Preference shares £000	Loans and receivables £000	Total £000	2010 £000
Amortised Cost				
At 1 April 2010	5,417	1,637	7,054	7,854
Additions	-	1,110	1,110	61
Repayments	-	(130)	(130)	(852)
Disposals	(127)	-	(127)	(9)
Fair value adjustment	22	28	50	-
Reclassification	-	-	-	-
Written off	-	-	-	-
At 31 March 2011	5,312	2,645	7,957	7,054
Diminution in value				
At 1 April 2010	4,101	1,003	5,104	4,223
Additions	66	51	117	1,312
Disposals	(127)	-	(127)	-
Released	-	-	-	(431)
Reclassification	-	-	-	-
Written off	-	-	-	-
At 31 March 2011	4,040	1,054	5,094	5,104
Net book value				
At 31 March 2011	1,272	1,591	2,863	1,950
At 1 April 2010	1,316	634	1,950	

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 cashflows.

During the year 100,000 preference shares in Bute Fabrics were sold for £49,000. These shares had an amortised cost of nil. 112,500 preference shares were converted to unlisted equity shares; these shares had a fair value of nil.

At 31 March 2011, loan instalments due for repayment within one year amounted to £211,902 (2010 - £136,726).

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company
HIE Innse Gall	Scotland	n/a	n/a	Local enterprise company
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company
HIE Moray	Scotland	n/a	n/a	Local enterprise company
HIE Orkney	Scotland	n/a	n/a	Local enterprise company
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company
HIE Shetland	Scotland	n/a	n/a	Local enterprise company
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives.
Distance Lab Limited	Scotland	n/a	n/a	To investigate how digital media technology can enable people to deal with distance in new ways and bring these technologies into everyday use.
CairnGorm Mountain Ltd	Scotland	ordinary	100%	All year round tourist attraction including mountain railway and winter skiing facilities

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

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Ventures Limited	Scotland	Ordinary Shares	30%	Venture capitalist
		'A' Ordinary Shares (non voting)	80%	
Scottish Health Innovations Limited	Scotland	n/a	n/a	Promote research and development within the National Health Service in Scotland particularly the commercialisation of research, technology and innovations.
Scottish Intellectual Asset Management Limited	Scotland	n/a	n/a	Help build Scotland's competitiveness in a modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets.

Highlands and Islands Enterprise is a joint member, along with Scottish Enterprise, of Scottish Health Innovations Limited and Scottish Intellectual Asset Management Limited.

The results of Scottish Health Innovations Limited are included in the HIE group accounts. The results of Scottish Intellectual Asset Management Limited are consolidated within Scottish Enterprise's accounts.

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

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

Name of company- activity	% of voting rights	Holding as at 31 March 2010	Shares value paid £000	Loan outstanding £000	Outstanding commitment £000
HIE Ventures Limited - venture capitalist	30%	60,000 ordinary shares	60	*	-
	-	40,000 'A' non voting ordinary shares	40	-	-
Aviemore Highland Resort Limited - provider of accommodation in Aviemore	-	1,000,000 preference shares	1,000	-	-
	-	1,400,000 preferred ordinary shares	1,400	-	-
Balcas Limited - production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000	-	15
Aquapharm	21.8%	422,787 ordinary shares	1,743	-	-
Investments in 41 other businesses			4,709	2,645	-
			10,952	2,645	15

*Loans of £1,000,000 netted off by ERDF received.

The outstanding commitment in respect of Balcas Limited relates to offers of grant.

13. Inventories

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Goods for resale	116	122	-	-
	116	122	0	0

Goods for resale are held by CairnGorm Mountain Ltd and consist of café catering supplies and retail shop visitor goods.

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

14. Trade and other receivables

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Other receivables	6,345	6,374	5,977	5,899
Provision for bad debts	(1,000)	(709)	(999)	(708)
	5,345	5,665	4,978	5,191
Taxation recoverable	554	648	636	788
Accrued income and prepayments	838	644	611	579
Owed by subsidiary undertakings	-	-	-	55
	6,737	6,957	6,225	6,613

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

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Balances with other central government bodies	1,071	2,916	1,152	2,916
Balances with local authorities	141	100	138	100
Balances with NHS bodies	-	-	-	-
Balances with similar public bodies	4	-	-	-
	1,216	3,016	1,290	3,016
Balances with bodies external to government	5,521	3,941	4,935	3,597
	6,737	6,957	6,225	6,613

15. Cash and cash equivalents

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Group and HIE funds	980	1,012	-	19
Other scheme funds held	690	1,515	690	1,515
	1,670	2,527	690	1,534

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

	GROUP		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Growing Community Assets	690	1,515	690	1,515
	690	1,515	690	1,515

Highlands and Islands Enterprise was contracted by The Big Lottery Fund to promote and administer both the Scottish Land Fund and the Growing Community Assets Fund in Scotland until 30 June 2010.

16. Trade payables and other current liabilities: amounts falling due within one year

	GROUP		HIE	
	2011 £000	2010* £000	2011 £000	2010* £000
Other payables	7,023	6,608	7,010	6,501
Accruals	3,090	2,840	2,252	2,016
Taxation and social security	338	955	288	910
Corporation tax	174	346	174	346
Prepaid rental income	437	390	437	390
Owed to subsidiary undertakings	-	-	5	56
	11,062	11,139	10,166	10,219

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

	GROUP		HIE	
	2011 £000	2010* £000	2011 £000	2010* £000
Balances with other central government bodies	342	2,689	293	2,689
Balances with local authorities	58	578	58	20
Balances with NHS bodies	-	-	-	-
	400	3,267	351	2,709
Balances with bodies external to government	10,662	7,872	9,815	7,510
	11,062	11,139	10,166	10,219

* 2010 figures restated following the reclassification of government grant provision to trade payables and other liabilities: amounts falling due after more than one year. See note 1 (accounting policies) for further details

17. Trade payables and other liabilities: amounts falling due after more than one year

	GROUP		HIE	
	2011 £000	2010* £000	2011 £000	2010* £000
Deferred income - other schemes	200	1,515	200	1,515
Deferred Tax	340	-	340	-
Debenture loans	93	92	-	-
Provison - EU funding	22	13	22	13
Re-phased commercial rent	312	290	312	290
	967	1,910	874	1,818

* 2010 figures restated following the reclassification of government grant provision from trade payables and other liabilities: amounts falling due within one year. See note 1 (accounting policies) for further details

18. Retirement benefit obligation

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

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

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

The pension scheme operated by CairnGorm Mountain Ltd (CML) is separate from HIE and involves no HIE employees. Further information about CML pension arrangements can be found in that company's annual report and accounts.

Highlands and Islands Enterprise Superannuation Scheme

The actuarial valuation at 5 April 2009 indicated a potential deficit of £27.0 million in the HIE pension fund. HIE, in agreement with the HIE Pension Fund trustees and Scottish Government undertook to implement the following recovery plan to address this shortfall, following its acceptance by the Pensions Regulator:

- A lump sum payment of at least £2.5 million by 31 March 2009
- A second lump sum payment by 31 March 2010 to take the combined contribution of both lump sum payments to £5 million

In addition, HIE made a lump sum contribution of £1.5 million during the year and will maintain employer's contributions to the scheme at existing levels for the duration of the recovery plan. It is anticipated that this action will remove the deficit revealed in the April 2006 valuation by April 2016.

Pension disclosure under IAS 19

Highlands and Islands Enterprise Superannuation Scheme

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2009** and updated to **31 March 2011** by a qualified independent actuary.

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

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

	31 March 11 %	31 March 10 %	31 March 09 %	31 March 08 %
Rate of salary increases (% per annum)	4.00	4.10	5.50	5.60
Rate of pension increase (% per annum)	3.00	3.60	3.50	3.60
Discount rate (% per annum)	5.50	5.50	6.70	6.20
Inflation rate (% per annum)	3.50	3.60	3.50	3.60

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

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

	Long-term rate of return expected at 31 March 2011 %	Value at 31 March 2011 £000	Long-term rate of return expected at 31 March 2010 %	Value at 31 March 2010 £000	Long-term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £000	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £000
Equities	6.56	43,334	6.75	37,369	6.25	23,239	6.80	34,571
Gilts/corporate bonds	4.40	20,423	5.30	18,804	4.20	15,274	4.50	18,257
Cash	0.00	64	0.00	3,905	0.00	2,547	4.20	445
Total market value of assets		63,821		60,078		41,060		53,273
Actuarial value of liability		(71,921)		(76,620)		(63,889)		(67,122)
Deficit in the scheme		(8,100)		(16,542)		(22,829)		(13,849)
Related deferred tax asset/(liability)		-		-		-		-
Net pension liability		(8,100)		(16,542)		(22,829)		(13,849)

The current values show a decrease in the deficit at 31 March 2010 of £16,542 million to £8,100 million at 31 March 2011.

Local Government Pension Funds

The valuation for the local government pension funds used for IAS 19 disclosures has been based on the most recent actuarial valuations at 31 March 2007 and updated by a qualified actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the funds at 31 March 2011. Fund assets are stated at their market value at 31 March 2011:

	31 March 11 %	31 March 10 %	31 March 09 %	31 March 08 %
Main assumptions:				
Rate of salary increases (% per annum)	5.08	5.33	4.58	5.17
Rate of pension increase (% per annum)	2.78	3.30	3.08	3.67
Discount rate (% per annum)	5.50	5.50	6.85	6.70
Inflation rate (% per annum)	3.58	3.83	3.08	3.67

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

	Long-term rate of return expected at 31 March 2011 %	Value at 31 March 2011 £000	Long-term rate of return expected at 31 March 2010 %	Value at 31 March 2010 £000	Long-term rate of return expected at 31 March 2009 %	Value at 31 March 2009 £000	Long-term rate of return expected at 31 March 2008 %	Value at 31 March 2008 £000
Equities	7.58	7,235	7.83	6,447	7.10	4,066	7.70	10,930
Gilts	4.40	278	4.50	247				
Bonds	5.05	818	5.13	781	5.68	815	5.30	2,559
Property	5.58	667	5.80	564	5.03	489	5.70	1,646
Cash	4.20	221	4.35	155	3.75	168	4.93	356
Estimated employer assets		9,219		8,194		5,538		15,491
Present value of scheme liabilities		(10,417)		(11,862)		(6,429)		(16,936)
Present value of unfunded liabilities		(340)		(383)		(308)		(320)
Deficit in the scheme		(1,538)		(4,051)		(1,199)		(1,765)
Related deferred tax liability		-		-		-		-
Net pension liability		(1,538)		(4,051)		(1,199)		(1,765)

The pension contributions with effect from 1 April 2011 for the local government pension funds are:

	2011	2010
Highland Council pension fund - former LECs	18.2%	17.3%
Highland Council - others	18.2%	17.8%
Orkney Islands Council pension fund	20.4%	18.4%
Strathclyde pension fund	18.2%	17.3%

Group

	HIE* pension scheme 2011 £000	LGPF 2011 £000	CML 2011 £000	Total 2011 £000	HIE* pension scheme 2010 £000	LGPF 2010 £000	CML 2010 £000	Total 2010 £000
Analysis of the amount charged to Income statement								
Current service cost	1,784	328	21	2,133	1,721	186	18	1,925
Past service cost	652	(984)	-	(332)	1,375	18	-	1,393
Impact of settlements and curtailments	(321)	10	-	(311)	-	18	-	18
Expected return on pension scheme assets	3,412	610	53	4,075	(2,108)	(372)	(55)	(2,535)
Interest on pension scheme liabilities	(4,238)	(663)	(39)	(4,940)	4,353	465	36	4,854
Actual return less expected return on pension scheme assets	1,164	96	(28)	1,232	(12,630)	(1,916)	45	(14,501)
Experience gains and (losses) arising on the scheme liabilities	(128)	127	7	6	3,246	(9)	14	3,251
Changes in assumptions underlying the present value of the scheme liabilities	5,815	1,322	26	7,163	3,949	4,793	169	8,911
Restriction on scheme surplus	-	-	(41)	(41)	-	-	(330)	(330)
Prior year adjustment on assets	-	-	-	-	-	-	-	-
Total operating charge	8,140	846	(1)	8,985	(94)	3,183	(103)	2,986
Reconciliation of defined benefit obligation								
Opening defined benefit obligation	76,620	12,245	717	89,582	63,889	6,737	565	71,191
Recognised on acquisition	-	-	-	-	-	-	-	-
	76,620	12,245	717	89,582	63,889	6,737	565	71,191
Movement in year:								
Current service costs	1,784	328	21	2,133	1,721	186	18	1,925
Contributions by members	147	104	12	263	163	113	8	284
Past service costs	652	(984)	-	(332)	1,375	18	-	1,393
Impact of settlements and curtailments	(2,547)	10	-	(2,537)	-	18	-	18
Estimated unfunded benefits paid	-	(19)	-	(19)	-	(18)	-	(18)
Estimated benefits paid	(3,286)	(141)	(73)	(3,500)	(2,076)	(58)	(93)	(2,227)
Interest cost	4,238	663	39	4,940	4,353	465	36	4,854
Actuarial losses/(gains)	(5,687)	(1,449)	(33)	(7,169)	7,195	4,784	183	12,162
Closing defined benefit obligation	71,921	10,757	683	83,361	76,620	12,245	717	89,582
Reconciliation of fair value of assets								
Opening fair value of assets	60,078	8,194	1,074	69,346	41,060	5,538	1,128	47,726
Prior year adjustment	-	-	(78)	(78)	-	-	(37)	(37)
Opening fair value of assets - as restated	60,078	8,194	996	69,268	41,060	5,538	1,091	47,689
Recognised on acquisition	-	-	-	-	-	-	(191)	(191)
Expected return on assets	3,412	610	53	4,075	2,108	372	55	2,535
Contributions by members	147	104	12	263	163	113	8	284
Contributions by employer	4,532	367	29	4,928	6,193	323	21	6,537
Contribution in respect of unfunded benefits	-	8	-	8	-	8	-	8
Impact of settlements and curtailments	(2,226)	-	-	(2,226)	-	-	-	-
Actuarial gains/(losses)	1,164	96	(28)	1,232	12,630	1,916	(45)	14,501
Estimated unfunded benefits paid	-	(19)	-	(19)	-	(18)	-	(18)
Estimated benefits paid	(3,286)	(141)	(73)	(3,500)	(2,076)	(58)	(93)	(2,227)
	63,821	9,219	989	74,029	60,078	8,194	846	69,118
Estimated employer contribution year ended 31 March 2011	1,500	310	29	1,839	2,750	354	29	3,133

* Figures include pension disclosure for CairnGorm Mountain Limited.

HIE

	HIE pension scheme 2011 £000	LGPF 2011 £000	Total 2011 £000	HIE pension scheme 2010 £000	LGPF 2010 £000	Total 2010 £000
Analysis of the amount charged to income statement						
Current service cost	1,784	328	2,112	1,721	186	1,907
Past service cost	652	(984)	(332)	1,375	18	1,393
Impact of settlements and curtailments	(321)	10	(311)	-	18	18
Expected return on pension scheme assets	3,412	610	4,022	(2,108)	(372)	(2,480)
Interest on pension scheme liabilities	(4,238)	(663)	(4,901)	4,353	465	4,818
Actual return less expected return on pension scheme assets	1,164	96	1,260	(12,630)	(1,916)	(14,546)
Experience gains and (losses) arising on the scheme liabilities	(128)	127	(1)	3,246	(9)	3,237
Changes in assumptions underlying the present value of the scheme liabilities	5,815	1,322	7,137	3,949	4,793	8,742
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Total operating charge	8,140	846	8,986	(94)	3,183	3,089
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	76,620	12,245	88,865	63,889	6,737	70,626
Recognised on acquisition	-	-	-	-	-	-
	76,620	12,245	88,865	63,889	6,737	70,626
Movement in year:						
Current service costs	1,784	328	2,112	1,721	186	1,907
Contributions by members	147	104	251	163	113	276
Past service costs	652	(984)	(332)	1,375	18	1,393
Impact of settlements and curtailments	(2,547)	10	(2,537)	-	18	18
Estimated unfunded benefits paid	-	(19)	(19)	-	(18)	(18)
Estimated benefits paid	(3,286)	(141)	(3,427)	(2,076)	(58)	(2,134)
Interest cost	4,238	663	4,901	4,353	465	4,818
Actuarial losses/(gains)	(5,687)	(1,449)	(7,136)	7,195	4,784	11,979
Closing defined benefit obligation	71,921	10,757	82,678	76,620	12,245	88,865
Reconciliation of fair value of assets						
Opening fair value of assets	60,078	8,194	68,272	41,060	5,538	46,598
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets - as restated	60,078	8,194	68,272	41,060	5,538	46,598
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	3,412	610	4,022	2,108	372	2,480
Contributions by members	147	104	251	163	113	276
Contributions by employer	4,532	367	4,899	6,193	323	6,516
Contribution in respect of unfunded benefits	-	8	8	-	8	8
Impact of settlements and curtailments	(2,226)	-	(2,226)	-	-	-
Actuarial gains/(losses)	1,164	96	1,260	12,630	1,916	14,546
Estimated unfunded benefits paid	-	(19)	(19)	-	(18)	(18)
Estimated benefits paid	(3,286)	(141)	(3,427)	(2,076)	(58)	(2,134)
	63,821	9,219	73,040	60,078	8,194	68,272
Estimated employer contribution year ended 31 March 2011	1,500	310	1,810	2,750	354	3,104

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					Local government pension funds				
	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Experience gains and losses										
Difference between expected and actual return on scheme assets	(1,164)	12,630	(17,923)	(5,851)	(543)	(96)	1,916	(2,162)	(1,926)	186
Value of assets	63,821	60,078	41,060	53,273	52,842	9,219	8,194	15,357	15,491	15,704
Percentage of scheme assets	(1.8)%	21.0%	(43.7)%	(11.0)%	(1.0)%	(1.0)%	23.4%	(14.1)%	(12.4)%	1.2%
Experience gains and (losses) on scheme liabilities	(128)	3,246	59	(380)	(1,892)	127	(9)	823	(18)	8
Present value of liabilities	(71,921)	(76,620)	63,889	67,122	68,469	(10,757)	(12,245)	5,538	17,256	17,633
Percentage of scheme liabilities	0.2%	(4.2)%	0.1%	(0.6)%	(2.8)%	(1.2)%	0.1%	14.9%	(0.1)%	0.0%

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 60 year old to live for a number of years as follows:

	UK 31/03/11	UK 31/03/10	UK 31/03/09
1. Male member aged 60 (current life expectancy)	84	85	85
2. Male member age 40 (life expectancy at 60)	86	86	86
3. Female member aged 60 (current life expectancy)	87	87	
4. Female member aged 40 (life expectancy at 60)	89	89	

19. Provisions for losses and similar charges

GROUP	Investments £000	Loan capital £000	Revenue debts £000	Government grants £000	Total £000	2010* £000
At 1 April 2010	7,310	1,456	709	13	9,488	8,308
Written off/released	(3,261)	(983)	(302)	-	(4,546)	(332)
	4,049	473	407	13	4,942	7,976
Provisions for year:						
General	66	(229)	389	9	235	1,333
Commercial property			204		204	179
At 31 March 2011	4,115	244	1,000	22	5,381	9,488

HIE	Investments £000	Loan capital £000	Revenue debts £000	Government grants £000	Total £000	2010* £000
At 1 April 2010	4,101	1,003	708	13	5,825	5,053
Written off/released	(127)	-	(302)		(429)	(265)
	3,974	1,003	406	13	5,396	4,788
Provisions for year:						
General	66	51	289	9	415	858
Commercial property			304		304	179
At 31 March 2011	4,040	1,054	999	22	6,115	5,825

* 2010 figures restated following incorrect figures used in the preparation of the note in 2009/10. See note 1 (accounting policies) for further details

Investments

The charge reflects the diminution in amortised cost of specific shares within the portfolio of shares (Note 12).

Loan capital

The charge reflects the diminution in amortised cost of specific loans and the potential of non recovery of some loans made to third party companies (Note 12).

Revenue debts

Provision has been made for the potential non payment of trading debts from third party companies. The provision is based on specific revenue debts over 3 months old where HIE has reasonable cause to believe some or all of the debt may not be recoverable (Note 14).

Government grants

Provision has been made for the potential decommitment of government grant funding (Note 17).

20. Losses statement

	Group		HIE	
	No of cases	£000	No of cases	£000
Claims waived (amounts written off) during the year ended 31 March 2011	24	6,873	15	988

These write-offs relate to Scottish Government approved balances and Highlands and Islands Enterprise delegated authority.

There were 5 (2010: none) cases written off which exceeded £250,000.

Highlands and Islands Enterprise continues to pursue all outstanding debts.

21. Net cash flow from operating activities

	note	Group	
		2011 £000	2010 £000
Deficit on operating activities		60,371	54,972
Interest received	6	(74)	(58)
Dividends received	6	(46)	(31)
Surplus on disposal of investments	6	(49)	(10)
Share of related company results		84	291
Loan arrangement fees	6	(3)	-
Interest payable	7	24	79
Net cash outflow from operating activities		60,307	55,243

22. Commitments

	Group		HIE	
	2011 £000	2010 £000	2011 £000	2010 £000
Commitments				
Property	18,005	9,053	18,005	9,053
Grants and loans	59,276	46,922	59,276	46,922

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

23. Contingent liabilities

HIE acquired control of CairnGorm Mountain Ltd during 2008/09 and the company continues trading. In addition, as the owner of the Cairngorm mountain railway, HIE will continue to fulfil its responsibilities to ensure the continuance of this public service. In the event of permanent closure, HIE would have responsibility for the costs of removal of equipment and re-instatement of the site of the funicular railway to a natural condition.

24. 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 £000	Equipment £000	Total £000	2010 £000
Operating and similar leases which expire:				
Within one year	1,179	9	1,188	1,372
Within two to five years	4,350	7	4,357	4,539
In over five years	5,963	-	5,963	6,952
	11,492	16	11,508	12,863

HIE	Property £000	Equipment £000	Total £000	2010 £000
Operating and similar leases which expire:				
Within one year	1,179	4	1,183	1,369
Within two to five years	4,349	-	4,349	4,538
In over five years	5,963	-	5,963	6,952
	11,491	4	11,495	12,859

HIE has sublet space in certain properties. The future minimum sublease payment expected to be received under non-cancellable sublease agreements as at 31 March 2011 is £107,153 (2010 £873,450).

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

Future minimum rentals receivable under non-cancellable operating leases:

GROUP	Property £000	Equipment £000	Total £000	2010 £000
Operating and similar leases which expire:				
Within one year	3,452	-	3,452	3,524
Within two to five years	10,650	-	10,650	9,313
In over five years	11,726	-	11,726	11,805
	25,828	-	25,828	24,642

HIE	Property £000	Equipment £000	Total £000	2010 £000
Operating and similar leases which expire:				
Within one year	3,552	-	3,552	3,624
Within two to five years	11,050	-	11,050	9,713
In over five years	13,245	-	13,245	13,424
	27,847	-	27,847	26,761

25. Transactions involving Board members' 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:

Business	Approvals brought forward (£)	Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Harper Macleod	-	11,666	11,666	Legal fees with a framework agreement	Lorne Crerar - Member
Scottish Association of Marine Science	529,895	-	365,444	Project grant	Mary Bownes - Board member
NESTA	-	40,000	20,000	Project grant	W Roe - Member

Other transactions taking place with organisations where HIE Board members remunerated:

William Roe held the position of Chair, Skills Development Scotland for which he received remuneration. On 16 August 2010, Mr Roe temporarily stood down from this position of Chair, SDS in order to undertake a review of vocational education for the Scottish Government. On 9th June 2011, Mr Roe resigned from Skills Development Scotland.

Highlands and Islands Enterprise entered into a shared services agreement within Skills Development Scotland on 15 February 2011 for the provision of information technology services.

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 College
- Commun na Gaidhlig
- Moray Tourism Development Group
- Scottish Crofting Foundation
- Speyside Whisky Festival
- Staffin Community Trust

26. 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 material transactions with other Government departments, central government bodies, local government, non-departmental public bodies and similar organisations.

Material transactions have taken place with:

- Aberdeenshire Council
- Argyll and Bute Council
- Audit Scotland
- Cairngorms National Park Authority
- Comhairle Nan Eilean Siar
- Crofters Commission
- Forestry Commission
- Glasgow City Council
- NHS Highland
- Orkney Islands Council
- Scottish Enterprise
- Scottish Executive
- Scottish Natural Heritage
- Shetland Islands Council
- Skills Development Scotland
- The Highland Council
- The Moray Council
- UHI Millennium Institute
- Visit Scotland

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

27. Financial instruments

Highlands and Islands Enterprise Limited has exposure to the following risks from the use of financial instruments.

Liquidity risk Credit risk Market risk

The Management 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's 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 Limited will not be able to meet its financial obligations as they fall due. The agency'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 Limited's primary source of liquidity is the grant-in-aid provision from the Scottish Government. With the exception of finance leases obligations for property, Highlands and Islands Enterprise has no debt or borrowing with any external party.

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

Credit risk

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

Credit risk arises from the group and Highlands and Islands Enterprise's normal operations, including holding non-current financial assets.

In pursuance 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 revalues assets available for resale to their fair value and provides, where appropriate, for impairment of assets held to maturity, loans and other materials.

Highlands and Islands Enterprise carries out appropriate credit checks on potential customers before significant sales transactions are entered into in order to mitigate the credit risk Highlands and Islands Enterprise will have from any single counter party. 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 the experience of collecting specific 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 significant impact as the risk is spread across a large number of receivables.

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.

Currency risk

Highlands and Islands Enterprise is exposed to currency risk on transactions 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.

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 (FReM) 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 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

Mary McAllan,
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

Highlands and Islands Enterprise accounts for 2010/11 were presented to the Scottish Parliament on 26 October 2011.

This document is available on the Highlands and Islands Enterprise website: www.hie.co.uk

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INVESTORS
IN PEOPLE



Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean

Ambitious for *Scotland*