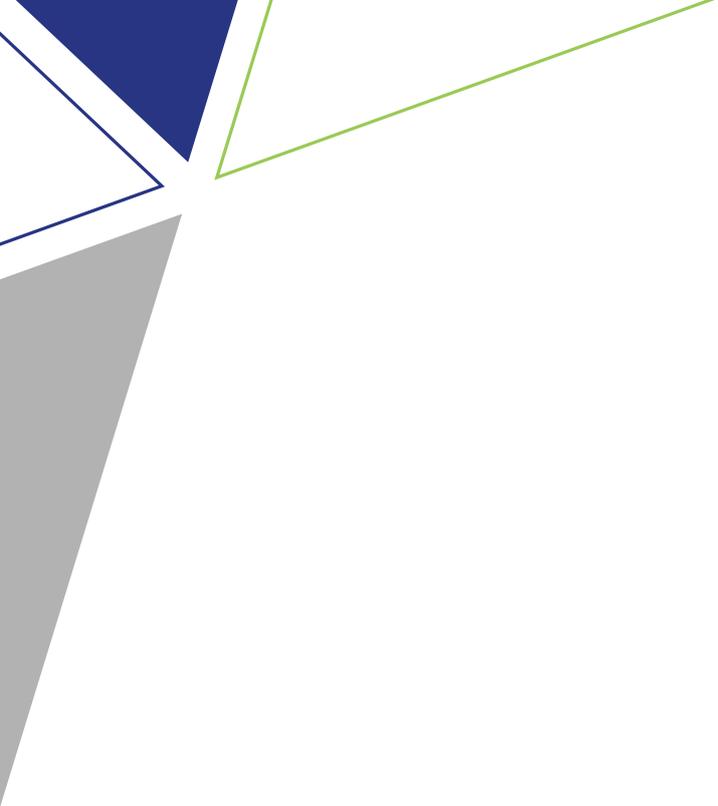


ANNUAL REPORT AND ACCOUNTS

2020-21



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 2021 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.



Performance report

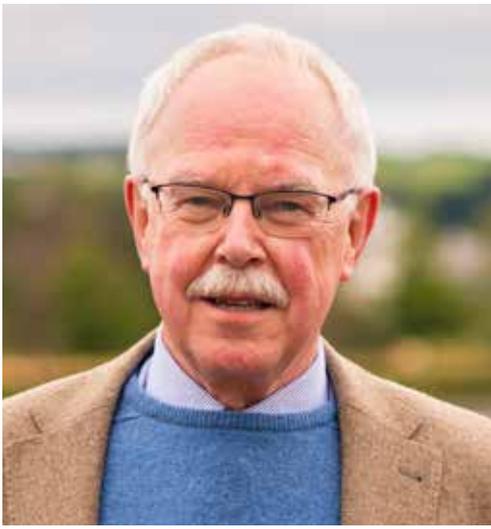
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PERFORMANCE REPORT

FOREWORD

When future economists and historians reflect on 2020-21, there can be few who will resist placing the word ‘pandemic’ in the first sentence. As if the seismic shift of the UK’s departure from the European Union were not enough of a challenge, the economic crisis triggered by COVID-19 posed an enormous risk to businesses and communities across the Highlands and Islands, as it did throughout the whole world.

Both COVID and Brexit had – and continue to have – a disproportionate effect on our region, with its above-average levels of employment in some of the hardest hit sectors, including food and drink, tourism and creative industries. It is unsurprising, therefore, that these were the themes that dominated in the year under review.

The pandemic also had a direct impact on Highlands and Islands Enterprise itself. With the doors of all our premises effectively closed, we had to transition swiftly to home-based working. It is greatly to the credit of all our staff that such a dramatic change to how we work was achieved virtually overnight, enabling us not only to continue working, but to step up our efforts to provide vital support to our clients and customers at a time when many were in urgent need.

A great deal of focus was on working with colleagues in the Scottish Government and partner organisations as part of the national effort to mitigate COVID impacts on our businesses and communities. We played a key role in all parts of our region, with staff rising to the challenge of supporting the distribution of more than £43m of dedicated funding to hundreds of customers through a range of targeted funding schemes.

While high standards of governance remained essential, we were able to flex our systems effectively and, thanks to the commitment of our people, ensure that much-needed cash was out the door and delivered into eligible applicants’ bank accounts at the greatest speed possible.

At the same time, it was important that we continued to progress initiatives that were already planned or under way to strengthen and grow our economy in future years, including realising the benefits from major infrastructure investments.

It was also vital to ensure that our ‘business as usual’ services continued to support clients dealing with a wide variety of significant challenges and opportunities throughout the Highlands and Islands. To that end, this was the year in which digital delivery, which has become increasingly important in recent years, truly came into its own.

Webinars, workshops, even large scale events including *XpoNorth*, Scotland’s biggest creative industry conference, were repurposed for online participation, with very successful results. While the experience was undoubtedly different, the numbers and geographical range of participants demonstrated that this approach – which our previous investment in digital infrastructure had made accessible to the vast majority of people in our region – was both effective and popular.

Given the unprecedented scale of the challenges, it is noteworthy that we were able to record a remarkably strong set of annual out-turns (see p10). While we cannot undo the economic hardships that many continue to experience, the outputs recorded in this report, not least the figure of just over 1,865 full-time equivalent jobs supported (including more than 266 in fragile areas) demonstrate the effectiveness of our approach and the resilience of our clients.

Both these qualities will continue to be tested in the years ahead as we play our part in achieving a strong and sustainable recovery for all parts of the Highlands and Islands.

Lastly, we would like to pay tribute to Charlotte Wright, who stood down as Chief Executive of HIE at the end of July 2021. Charlotte worked diligently for HIE in a variety of roles over more than 20 years, including the past six as Chief Executive. Over that period, she earned the deepest respect from the Board, our partners, and colleagues across the Highlands and Islands.

RO-RÀDH

Nuair a bhios eaconamairean agus luchd-eachdraidh san àm ri teachd a' meòrachadh air 2020-21, 's e beagan dhiubh nach cleachd am facal 'pandamaig' sa chiad seantans. Mura robh ùpraid uabhasach na RA a' fàgail an Aonaidh Eòrpaich na dhùbhlain mòr gu leòr, bha an èiginn eaconamach a phiobraich COVID-19 na chunnart mòr do ghnothachasan is choimhearsnachdan air feadh na Gàidhealtachd 's nan Eilean, agus air feadh an t-saoghail mhòir.

Bha buaidh mhì-chuimseach aig COVID agus Brexit air an sgìre againn, agus tha fhathast, leis na h-ìrean cosnaidh a b' àirde ann an cuid de na roinnean air bu mhotha a bha buaidh, a' gabhail a-steach biadh is deoch, turasachd agus na gnìomhachasan cruthachail. Mar sin, chan eil e na iongnadh gum b' iad sin na cuspairean a bha am bàrr sa bhliadhna sgrùdaidh.

Bha buaidh dhìreach aig a' phandamaig air lomairt na Gàidhealtachd 's nan Eilean fhèin cuideachd. Le dorsan nan togalaichean againn dùinte, bha againn ri gluasad glè luath gu obair bhon dachaigh. Tha e gu mòr an urra ri dìcheall ar luchd-obrach uile gun d' fhuair feadh air a leithid de dh'atharrachadh san dòigh-obrach againn a choileanadh ann an aon latha, a' comasachadh dhuinn leantainn ag obair agus ar n-oidhirpean air taic dheatamach a thoirt do ar luchd-dèiligidh is custamairean a mheudachadh, aig àm a bha mòran ann an cruaidh-chàs.

Bha cuibheas math de ar n-obair a' cuimseachadh air co-obraichean ann an Rìaghaltais na h-Alba agus buidhnean com-pàirteachais, mar phàirt den oidhirp nàiseanta air buadhan COVID air ar gnothachasan is choimhearsnachdan, a lasachadh. Bha prìomh àite againn anns gach pàirt den sgìre, le luchd-obrach a' dèiligeadh ri riarachadh air còrr agus £43m de mhaoinachadh a bharrachd, do na ceudan de chustamairean tro raon de sgeamaichean maoinachaidh.

Ged a dh'fhuirich ìrean riaghlaidh riatanach, bha e comasach dhuinn a bhith sùbailte le ar siostaman agus mar thoradh air dìcheall nan daoine againn, b' urrainn dhuinn dèanamh cinnteach gun robh airgead air an robh cruaidh-fheum ga chur gu luath do chunntasan banca nan tagraichean a bha airidh air.

Aig an aon àm, bha e cudromach gun leanadh sinn ag adhartachadh iomairtean a bha air am planadh roimhe gus ar eaconamaidh a neartachadh agus fhàs sna bliadhnaichean ri teachd, a' gabhail a-steach a bhith mothachail do bhuanachdan an lùib prìomh inbheistidhean bun-structair.

Our activities supported
**1,865.5 FULL-TIME
EQUIVALENT JOBS:**
66% retained and 34% created.

Bha e deatamach dèanamh cinnteach gun leanadh ar seirbheisean 'àbhaisteach' mar thaic do luchd-dèiligidh a bha a' cothachadh ri measgachadh farsaing de dhùbhlain is chothroman cudromach air feadh na Gàidhealtachd 's nan Eilean. A thaobh sin, b' e seo a' bhliadhna san tàinig liubhairt didseatach, a tha air sìor fhàs cudromach sna bliadhnaichean mu dheireadh, gu bhith fìor dheatamach.

Chaidh deasbadan, bùithtean-obrach, fiù tachartasan mòra mar *XpoNorth*, a' cho-labhairt gnìomhachais chruthachail as motha ann an Alba, ath-eagrachadh gu soirbheachail airson com-pàirteachadh air-loidhne. Ged a bha an suidheachadh diofraichte, thaisbean na h-àireamhan agus an raon de chom-pàirtichean gun robh an dòigh-obrach seo – a rinn ar inbheisteachd ann am bun-structar didseatach ruigsinneach don mhòr-chuid de dhaoine nar sgìre – èifeachdach agus measail.

Leis a' mheud de dhùbhlain, 's fhiach e a thoirt fa-near gum b' urrainn dhuinn seata làidir de chinneasachdan bliadhnaile a chlàradh (faic d10). Ged nach urrainn dhuinn na càsan eaconamach fhuasgladh a tha mòran fhathast a' fulang, tha na cinneasachdan air an clàradh san aithisg agus an àireamh co-ionann ri 1,865 obair làn-ùine a' faotainn taic (sa bheil 266 sgìre chugallach) a' taisbeanadh èifeachdas ar modh-obrach agus fulangas ar luchd-dèiligidh.

Leannar a' dèanamh deuchainn air na feartan sin sna bliadhnaichean ri teachd fhad 's a tha sinn a' coileanadh ar pàirt ann am faotainn ath-leasachadh làidir agus seasmhach do gach ceàrnaidh den Ghàidhealtachd 's na h-Eileanan.

Mu dheireadh, bu chaomh leinn moladh a thoirt dha Charlotte Wright, a sheas sìos mar Àrd-oifigear aig HIE aig deireadh an luchair 2021. Dh'obraich Charlotte gu dìcheallach airson HIE ann an grunn dhreuchdan thairis air 20 bliadhna, a' toirt a-steach na sia a dh' fhalbh mar Àrd-oifigear. Thar na h-ùine sin, choisinn i an spèis as doimhne bhon Bhòrd, ar com-pàirtichean, agus co-obraichean air feadh na Gàidhealtachd agus nan Eilean.

ALISTAIR DODDS CBE
Chair

CARROLL BUXTON
Interim Chief Executive*

* Carroll Buxton, Deputy Chief Executive, took on the role of Interim Chief Executive and Accountable Officer in August 2021, following Charlotte Wright's resignation. HIE began the process to recruit a new Chief Executive concurrently with this change.



ABOUT HIE

History and statutory background

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

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

OUR VISION

The Highlands and Islands is a highly successful, inclusive and prosperous region in which increasing numbers of people choose to live, work, study and invest.

OUR STRATEGIC AIMS

Our vision will be achieved through supporting inclusive growth and having a strong regional perspective. We are ambitious for all parts of our region to sustain and develop a vibrant rural economy based on three integrated priorities:

ENABLE strong, capable and resourceful communities

BUILD successful, productive and resilient businesses

CREATE the conditions for growth and a green recovery

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

Four related documents from the Scottish Government set out our direction and guidance: *Programme for Government*; *Economic Action Plan*; *Enterprise and Skills Strategic Board's Strategic Plan*, and *Scotland: A Trading Nation*.

BUSINESS MODEL AND ENVIRONMENT

The HIE Board oversees the work of the organisation, reporting to the Cabinet Secretary for Finance and the Economy. (This cabinet post was introduced following the Scottish Parliament election in May 2021. During 2020-21, the HIE Board reported to the Cabinet Secretary for Rural Economy and Tourism.) We work collaboratively with the Scottish Government and partner organisations to align strategies and resources behind growth opportunities.



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

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

Strategy and Regional Economy holds responsibility for performance measurement and analytics, planning, EU and transition funding, marketing, communications, engagement and executive support.

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

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

Finance and Corporate Services is responsible for strategic financial management, financial services, procurement and IT systems.

Business Improvement and Internal Audit focuses on business improvement, ensuring that innovation, corporate governance and value for money are at the heart of our operations and decision-making.

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

OUR VALUES

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

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

NATIONAL INITIATIVES

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

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



COLLABORATION

A key enabler of collaboration is the Enterprise and Skills Strategic Board (ESSB), which seeks to maximise the collective investment made by HIE and our partners Scottish Enterprise, South of Scotland Enterprise and Skills Development Scotland. Together, the agencies are delivering four missions set out in the ESSB Strategic Plan: future skills needs; business creation and growth; business models, and workplace innovation and exporting.

Other key partners for HIE in the public sector include, the Scottish Funding Council, VisitScotland, local authorities and Business Gateway, and we play a significant role in the national Business Support Partnership and the Convention of the Highlands and Islands.

We are also active in several long-established community planning partnerships and working to maximise the benefits driven by current city, area and island growth deals across the Highlands and Islands.

PRINCIPAL RISKS AND UNCERTAINTIES

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

All internal and external risks in the corporate risk register are actively managed at the appropriate level in the organisation. At the end of 2020/21, principal risks included:

Impact on regional economy from the pandemic

Supporting the Highlands and Islands economy dealing with the unprecedented challenges as a result of the COVID-19 pandemic remains a top priority for HIE. During 2020/21, we supported the delivery of COVID-targeted funds of £43.6m across the region providing support to businesses and communities. Our focus continues to be on how we respond to the ongoing challenges, strengthen the reliance of our regional economy and accelerate sustainable recovery in every part of the Highlands and Islands.

Post-EU transition

The UK exit from the EU will have implications for the Highlands and Islands region and we are actively considering implications for specific sectors and on areas such as access to funding and subsidy regimes.

Financial and budget

Budgetary challenges, including access to and replacement of EU funding and reduction in budget allocations, requires a rigorous approach to resource prioritisation and new approaches to interventions and investments. In addition, the ongoing COVID-19 challenges will put an additional strain on HIE budget capacity. Securing funding will be critical to our role in supporting our regional economy restart and recover.

Cairngorm Mountain

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

Following the unexpected closure of the funicular railway and the operating company going into administration in 2018, the HIE Board took the decision to create an operating subsidiary. Significant activity has been and continues to be undertaken to ensure appropriate governance is in place for Cairngorm Mountain (Scotland) Ltd.

In 2020/21, the operating company had to make significant adjustments to how the resort was operated as a result of the impact of COVID-19 measures. This included being unable to operate during the 2020/21 snowsports season.

HIE concluded a detailed options appraisal and business case for the solution to the funicular which resulted in approval for reinstatement works to be progressed. This work is now ongoing. Alongside this business case HIE also progressed a masterplan for Cairngorm, ensuring future plans align to optimise regional benefits.

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

In-year, the Scottish Government concluded a review – *Financial Management Review of Cairngorm Mountain*. Audit Scotland also concluded a review under section 23 of the Public Finance and Accountability (Scotland) Act 2000 – *Management of Cairngorm Mountain and Funicular Railway*. We are ensuring that agreed action points in these reviews are implemented.

In August 2021, we announced that the timetable for funicular reinstatement works would be extended into autumn 2022 (see page 26).

Space opportunities

HIE is taking a programme approach to space activity in the region, aiming to realise the potentially significant benefits for the region and for Scotland from developing the sector. This is a high risk and complex programme that includes a significant spaceport investment, Space Hub Sutherland, that HIE is taking forward at its own hand. We have put in place robust governance and project management arrangements, including access to additional expertise as required.

A sub-group of the HIE Board provides advice and oversight of our activity in the sector. We are also engaging with the Scottish Government on ensuring decisions on national space infrastructure are considered at Scottish level.

Cyber-security

Given the increased general risk relating to cyber-security, alongside our partners we continue to strengthen our control environment. Our partnership with Scottish Enterprise, South of Scotland Enterprise and Skills Development Scotland for the delivery of information systems services through Enterprise Information Systems (EIS) includes overarching security governance arrangements. Led by EIS, these cover issues such as systems, policy, education and incident management for EIS-hosted systems. During the year, we achieved Cyber Essentials accreditation.

Business transformation programme

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

Net zero

HIE needs to design and implement an effective series of actions, both collaboratively and at our own hand, to play our part in meeting the Scottish Government's ambition for a net zero Scotland by 2045. Key features of our approach include optimising the contribution of natural assets and past investments in renewable energy. See also p16.

BUSINESS TRANSFORMATION

HIE continually seeks to optimise the delivery and impact of the services we offer customers, including seeking and developing opportunities for collaboration with government and partner organisations, and streamlining the customer experience through improved use of digital delivery and commitment to high quality service.

GOING CONCERN

The financial statements for the year ended 31 March 2021 show net liability position of £39.1m (Group £37.7m net liabilities). The position of net liabilities has arisen due to the HIE pension fund deficit. Net current liabilities will be funded by the Scottish Government as they arise. The Scottish Government has provided a resource budget for 2021-22 of £70.5m. The financial statements have therefore been prepared on a going concern basis.

PERFORMANCE OVERVIEW

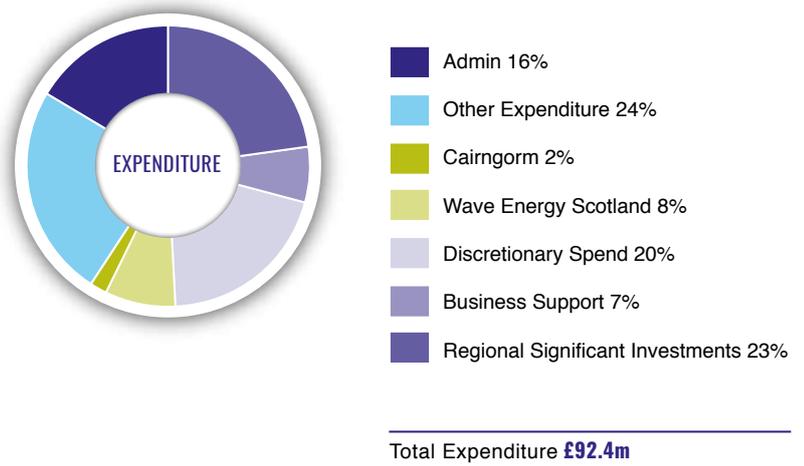
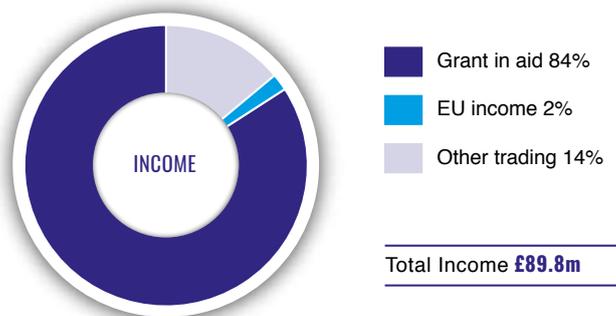
KEY MEASURES

Given the unprecedented challenges faced this year, it was not considered appropriate to set target ranges against our key measures of progress. Support for businesses and communities was quickly adapted to focus on resilience across the region. We continued to monitor performance against our key measures and the out-turns generated by HIE's interventions and from the administration of additional SG funds are set out below.

PRIMARY OUTPUT MEASURE	2020-21 - OUT-TURN	COVID FUNDS OUT-TURN	2019-20 - OUT-TURN
Increase in business turnover	£117.5m	£6.5m	£95.7m
Increase in international sales	£19.1m	£62.5k	£33.1m
Increase in turnover in the social economy	£7.9m	£469K	£4.5m
No. of jobs supported (FTEs)	1,865.5	435.25 FTEs	646.75
	638.25 created 1,227.25 retained	87 created 348.25 retained	
No. of jobs supported in fragile areas (FTEs)	266.5	65 FTEs	80.5
	131 created 135.5 retained	22.5 created 42.5 retained	
Average wage of jobs supported (FTEs)	£22,727		£28,058
Capital asset investment	£120.8m		£46m
New/improved income-generating community assets	48		30
Webinars - No. external participants	3,300		

In response to the unprecedented challenges of 2020/21, HIE focused on delivering two broad work streams. To ensure business resilience, we directed substantial funding towards key sectors such as tourism, food and drink, and the creative industries which were disproportionately affected by both the pandemic and the UK's exit from the EU.

In parallel we continued to focus on strategic investment in regional opportunities such as Net Zero commitments with investments in renewable energy, and a series of investments prioritising research and development and innovation across the region. It has been essential to maintain balance between ongoing strategic priorities and reactive measures to the COVID crisis.



Our measures contribute to the short, medium and long-term outcomes in the Strategic Board performance framework which are fully aligned to those of the National Performance Framework of Scotland (NPF). These are indicated in HIE's three-year strategy within the [2019-20 Operating Plan](#) tables and remain valid for 2020-21. HIE's measures contribute to several national outcomes, primarily those within:

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

A strong emphasis on sustaining employment resulted in 1,865.5 FTE jobs being supported, of which 66% were retained. In 2020/21 HIE supported 188% more FTEs than the previous year. The additional COVID funds significantly contributed to these, however HIE's out-turn without these funds was 121% more than 2019/20. The difference was even greater within fragile areas, as 231% more FTEs were supported compared to the previous year (majority supported outwith the additional COVID funds). This was due to responding effectively to the impact of the pandemic and the necessary focus on retaining jobs to sustain local economies.

In 2020/21, 66% of total FTEs supported in this year were retained, more than twice the proportion retained in 2019/20 (32%). The average wage supported in 2020/21 was 19% lower than that of the previous year (£28,058) due to the need to support jobs in lower-paying sectors such as tourism and food and drink as a necessary response to the pandemic, reflecting the importance of these sectors in our region and in our more fragile areas. Whilst HIE retains the goal of raising the average wage across the region, it was a necessary result in order to support to these hard-hit clients. 80% of jobs created were in the food and drink (195.75 FTEs), tourism (187.75), and technology and advanced engineering (187.75) sectors. 71% of jobs retained were in tourism (633 FTEs), food and drink (132.5), and creative industries (106.5). All these sectors were greatly impacted due in part to the expected patterns of trade being disrupted. There is a high degree of reliance on Tourism in rural areas and issues arose from a frequent inability to continue trading and adapt during lockdown. The Food and drink sector retains close ties to tourism and hospitality, the seafood sector was particularly hard hit due to the pandemic and BREXIT. Whilst a higher percentage of FTEs were created (rather than retained) in 2019/20, the actual number of FTEs created within this year remains 46% higher than that of 2019/20. HIE's commitment to a wider range of projects during this challenging time is evidenced by the number and types of jobs supported and by the increased support directed towards non account-managed clients. The largest number of jobs supported was in the Inner Moray Firth (477 FTEs), with our interventions in Lochaber, Skye and Wester Ross (225.5), Eilean Siar (176), Argyll and the Islands (173.5), and Orkney (171.5) also generating substantial employment impacts.

Forecast increases in turnover were recorded in all areas and sectors. The highest increase was in the Inner Moray Firth (£39.4m) with all other areas forecasting an increase of between £3.5m and £9.8m. The highest increases in turnover by sector were found within creative industries (£25.5m), food and drink (£25.6m), and technology and advanced engineering (£28.6m).

The twofold impact of Brexit and the COVID-19 pandemic, and the knock-on effect on international trade severely reduced the demand for and activity in the International Highlands and Islands 2015-2021 programme. Our international sales out-turn was therefore lower compared to the previous year: £19.1m v £33.1m. Our February 2021 business panel survey found that COVID-19 and lockdown restrictions followed by Brexit were identified most frequently as the greatest risk facing businesses. When asked whether their sales to specific markets had increased, decreased, or remained the same in the past six months, around one in ten respondents had seen an increase in sales within the EU (11%) and outside the EU (13%), while more than half had experienced a decrease (59% and 54% respectively). Re-establishing existing markets and targeting new markets will therefore be a key focus for these businesses looking to a post-COVID and post-Brexit recovery.

Capital asset investment totalled £120.8m which related to 560 projects across the region. More than a third (37%) was generated by three projects: GEG (Holdings) Limited (£18.9m) in relation to Nigg Energy Park East Quay; Cairngorm Mountain (£20m); and Royal Zoological Society of Scotland (£5.4m). Investments in infrastructure are a vital component of our efforts to create the conditions for growth, with the GEG project contributing to our net zero ambitions for the region.

HIE recorded an exceptionally high forecast increase in turnover in the social economy of £7.9m, which was largely derived from investments in the Royal Zoological Society of Scotland and The Ledge. In addition, the out-turn for new and improved income generating community assets was particularly strong this year, as HIE has provided increased support for communities and social enterprises through the Communities Leading in Tourism programme. With the growing focus on supporting and enabling communities in the region during an unprecedented crisis, and the associated impact and risk across all communities due to the heavy investiture in hard hit sectors such as Tourism and Food and Drink, HIE adopted a focus on supporting and adapting community infrastructure and support. Turnover within the social economy increased by 76% compared to the previous year, and 60% more income generating community assets were supported compared to 2019/20.

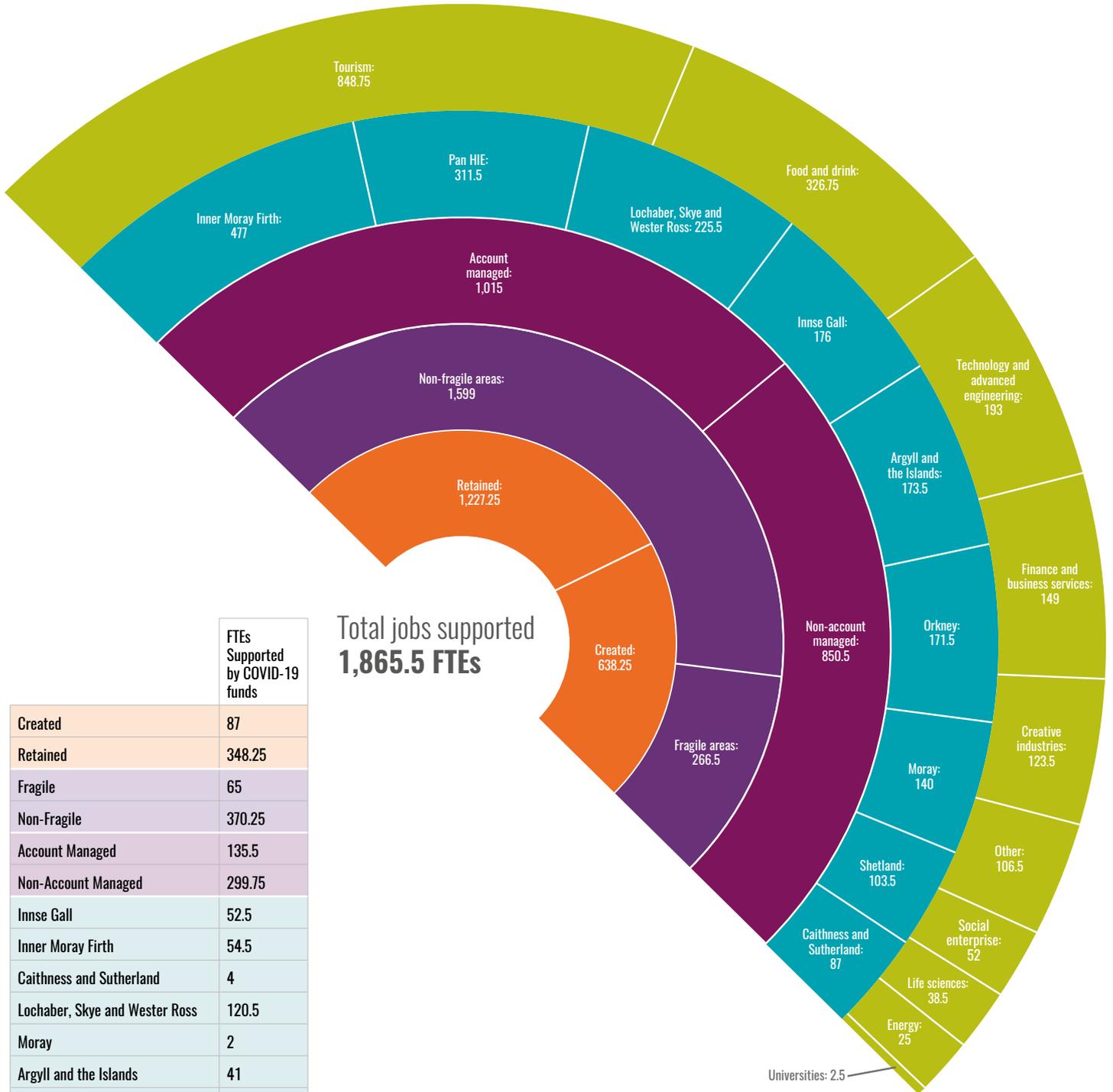
£47.3m of COVID-19 funds (including the Pivotal Enterprises Resilience Fund and Tourism and Hospitality Enterprises Hardship Fund) was distributed across the region in an unprecedented response to the pandemic. 873 third party projects directly administered by HIE are expected to support 435.25 FTEs and generate an increase in business turnover of c£6.5m and £0.5m in the social economy.

The response to the changes in working practices caused by the pandemic resulted in increased delivery and access to digital resources across the region. There was a substantial uptake of HIE's Digital Enablement Grant Scheme which will leave a lasting mark on our region's businesses and their capabilities.

Due to the unprecedented economic and operating environment in 2020-21, many businesses, communities and other organisations postponed or adjusted projects as the year evolved. HIE took a flexible approach to support our clients and reprofiled cashflow to projects in response. Capital and research and development investments were particularly affected as clients' focus shifted towards resilience and survival rather than growth. Several graduate placements, other research and evaluation activity, and international development support were also postponed as clients' circumstances changed.

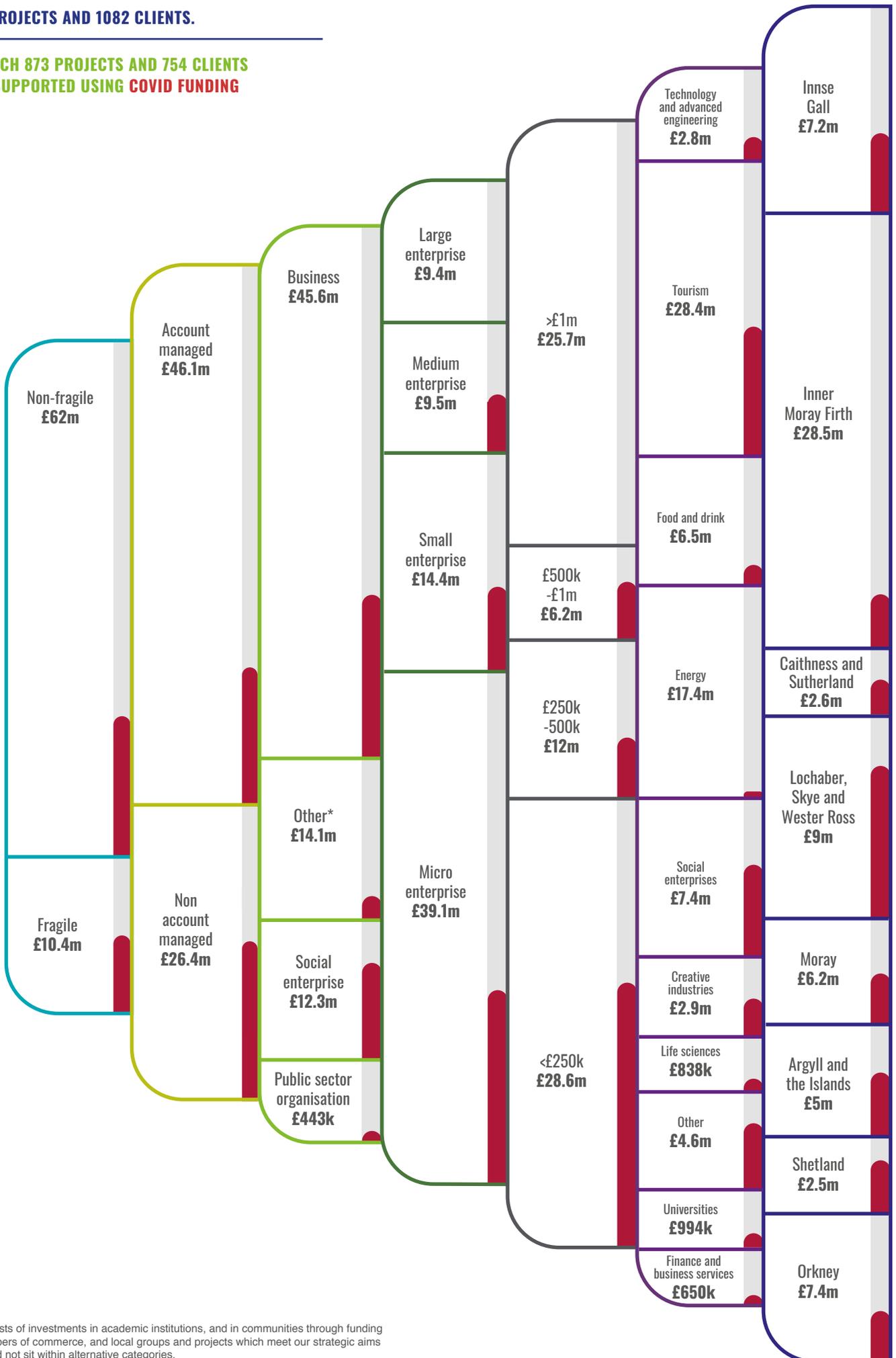
HIE's decision to increase virtual delivery of support enabled the continuation and positive evolution of many programmes. Our webinars drew in 3,300 individuals, while creative industries conference XpoNorth increased inclusion and attendance by moving from physical to virtual delivery, attracting a record 5,500 participants. HIE will apply lessons learned from this experience in future years.

**REGIONAL EMPLOYMENT OUTCOMES
FROM INVESTMENTS**



	FTEs Supported by COVID-19 funds
Created	87
Retained	348.25
Fragile	65
Non-Fragile	370.25
Account Managed	135.5
Non-Account Managed	299.75
Innse Gall	52.5
Inner Moray Firth	54.5
Caithness and Sutherland	4
Lochaber, Skye and Wester Ross	120.5
Moray	2
Argyll and the Islands	41
Shetland	48.75
Orkney	63
Pan HIE	48
Social enterprise	8
Creative industries	4
Technology and advanced engineering	1
Food and drink	38.5
Tourism	367.75
Other	15
Life sciences	1

OF WHICH 873 PROJECTS AND 754 CLIENTS WERE SUPPORTED USING COVID FUNDING



*consists of investments in academic institutions, and in communities through funding chambers of commerce, and local groups and projects which meet our strategic aims but did not sit within alternative categories.



The Science Skills Academy Newton Room opening in North Highland College, Thurso

PERFORMANCE ANALYSIS

REGIONAL ECONOMIC PERFORMANCE

2020/21 brought about the most challenging trading conditions that many businesses have ever faced. Lockdowns and forced closures resulting from the pandemic contributed to the Scottish economy shrinking by 9.6% between 2019 and 2020 - an unprecedented economic shock.

Impacts were not felt uniformly. GDP contractions in some sectors were more severe than others and impacted more heavily in particular locations. The hardest hit sectors were accommodation and food services (-43.2%): arts, culture and recreation (-26.9%), and transport and storage (-19.0%). These sectors are disproportionately represented in the Highlands and Islands, accounting for 20.6% of employment and 11.6% of GVA. The comparable figures for Scotland as a whole are 15.1% and 9.0% respectively.

The longer-term impacts of the UK's new trading relationship with the EU have yet to be fully felt, however the end of frictionless trade with the EU has already led to large reductions in exports and imports of some goods.

Total monthly UK exports to the EU fell by almost £6bn (-42.0%) between December 2020 and January 2021 and although they bounced back in February 2021, they remained 12.5% lower than in February 2020. Export of food and live animals have been particularly negatively affected, with international trade in the first two months of 2021 41.8% lower than in the same period in 2020.

Food and drink is a significant sector in our regional economy accounting for 7.8% of total employment compared to just 3.3% in Scotland. Seafood, which is particularly vulnerable to border delays due to perishability, is also a key export from the Highlands and Islands, with our region accounting for more than half of Scottish employment in the sector.

Statistics show that the economy of the Highlands and Islands was more negatively affected than the rest of Scotland. Between March 2020 and March 2021, the number of people claiming unemployment benefits more than doubled in the Highlands and Islands compared to an increase of 86% in Scotland. Our furlough rate was also slightly higher (16% of eligible employments compared to 15%).

Despite these challenges, the business base in the Highlands and Islands continues to be resilient, with the vast majority (84%) of businesses responding to HIE's Business Panel survey confident they would be viable over the next six months.

COVID-19 RESPONSE

Even at the start of the financial year, it was already clear that the impact of the pandemic required a rapid and effective response from HIE to support businesses, sectors and communities. We took early and swift action on a range of issues including:

- **engaging** with businesses, communities and public sector partners-to gather data and intelligence
- **playing** an active partnership role in COVID-19 response groups
- **promoting** and implementing community and business resilience funds
- **developing** local resilience plans and sectoral responses
- **adapting** products and services for digital delivery.

We worked with the Scottish Government, enterprise and skills agency partners, local authorities and industry organisations to develop local, regional and national responses. HIE had a key role in new funds announced by the Scottish Government, including through direct delivery.

These funds had to be designed and implemented quickly to meet unprecedented challenges to our businesses and communities, and this required changes to our processes and intense collaboration with partners. Cross-agency groups worked to develop criteria and delivery mechanisms, and ensure consistency of due diligence and legal documentation.

The [FindBusinessSupport](#) portal proved invaluable for shared communications and an entry point for customers looking for support and advice across Scotland's enterprise and skills environment.

Throughout the year, partners reviewed projects and sought to learn lessons for the delivery of subsequent funds. We will continue to do so.

Looking beyond 2020-21, we recognise a continuing need to support resilience in particular sectors and areas more impacted by the pandemic alongside increasing support for economic recovery. Areas of focus for HIE will be: fair work; targeted population and talent attraction; business case development for growth deals, and developing the green and blue economies where many opportunities exist for socio-economic and sustainable growth across the region.

COVID-related funds that we delivered or supported came to a total of just under £47.5m and included:

FUND	PURPOSE	FUNDING SOURCE	FUND ADMINISTRATORS	DELIVERY PARTNERS	NO OF APPROVALS AT 31 MARCH 21	TOTAL VALUE OF APPROVALS AT 31 MARCH 21
Pivotal Enterprise Resilience Fund (PERF)	Support enterprise resilience across the region	SG	SE	HIE, SE, SOSE	371	£20.1m
Creative, Tourism and Hospitality Enterprises Hardship Fund	Support tourism and other hospitality organisations facing hardship	SG	SE	HIE, SE, SOSE	463	£4.9m
Digital Enablement Grant Scheme 2020 - 21	Support companies to take advantage of digital technologies	SG, HIE	HIE		207	£2.6m
Destination Management Organisation Recovery Funding	Support DMOs to develop place-based tourism recovery plans	HIE	HIE		6	£2.1m
Supporting Communities Fund 2020	Support local response to COVID-19	SG	HIE		156	£3.8m
Communities Recovery Fund	Support the recovery of local organisations affected by COVID-19	SG	HIE		87	£1.5m
Hotel Support Programme - (HSP)	Support hotels within the region affected by COVID-19	SG	HIE, SE, SOSE	HIE, SE, SOSE	17	£3.3m
Young Company Capital Investment Grant	Support SMEs under five years old to focus on sustainability, growth and adaptation / diversification arising from COVID-19	HIE	HIE	Business Gateway	67	£1.1m
Community-led Tourism Infrastructure (C-LTI)	Support infrastructure improvements to mitigate or create opportunities arising from the impact of the pandemic	HIE	HIE, SOSE	Social Enterprise Academy	55	£1.6m
Scottish Wedding Industry Fund	Help businesses whose main income was from the wedding industry	SG	HIE, SE, SOSE	HIE, SE, SOSE	259	£2.2m
Islands Green Recovery Programme (IGRP)	Support island communities and organisations with innovative green projects	SG, HIE	HIE	Inspiring Scotland, ZWS, Energy Savings Trust	11	£0.7m
Snowsports Programme 1	Help snowsports centres that were forced to close due to level 4 restrictions	SG	HIE, SE	HIE, SE	3	£1.7m
Snowsports Programme 2		SG	HIE, SE	HIE, SE	5	£1.9m

COLLABORATION: REGIONAL AND GROWTH DEAL PARTNERSHIPS

Locally-focused growth deals took major steps forward. With the signing of heads of terms for the Argyll and Bute Deal and the Islands Deal in the last quarter of 2020/21, all of our region is now covered. Our area teams are engaged with partners and we are taking a programme approach to guide consistency in business case development and project implementation.

Key actions in-year included helping develop strategic outline business cases for projects across the emerging deals, such as the *Manufacturing Innovation Centre Moray* (MICM) project, led by HIE. We developed monitoring and evaluation plans for two HIE-led Inverness and Highland City-Region Deal projects – Science Skills Academy and Northern Innovation Hub (NIH) – and commissioned an interim review of NIH to inform future scope and delivery.

COLLABORATION: COHI

The region's pre-eminent partnership forum, the Convention of the Highlands and Islands (COHI), which met in October 2020, focused on COVID-19 impacts, response and recovery planning, including developing the green economy. It also covered Brexit, crofting, Gaelic and community wealth building.

HIE contributed analysis to inform COHI's discussion on demographic challenges in the region – particularly in the north mainland, Outer Hebrides and Argyll and the Islands – and had helped develop papers in partnership with local authorities and the Scottish Government. With the pandemic Brexit likely to exacerbate identified challenges, COHI decided to establish a *Population Working Group*, with HIE as a participant.

UK EXIT FROM THE EU

We worked with partners to advise businesses preparing for and responding to the changing business environment resulting from Brexit.

Until the end of the transition period and the UK's effective departure from the single market in December 2020, the *Prepare for Brexit* (PfB) website was the principal source of information and advice to help business understand and plan for changes across a range of issues including market access, workforce recruitment, data sharing and intellectual property.

Following transition, our emphasis shifted to supporting businesses to adapt and pursue new opportunities, with advice and guidance on trade processes and procedures, global market opportunities, staff recruitment and financial support.

New processes for export to the EU have been particularly disruptive for the food and drink sector. We continue to engage with government, stakeholders and businesses to ensure rural concerns and challenges are recognised and advice and support from all sources are available to our businesses.

Brexit is also significantly changing the subsidy environment, impacting HIE's due diligence and the basis for awarding aid. We stayed close to the UK and Scottish Governments to understand what will be expected of granting authorities including HIE and continue to work on a new subsidy control implementation plan, to be introduced in 2021/22.

NET ZERO

In December 2020, the Scottish Government published a revised *Climate Change Plan*.

Early actions to embed Net Zero into HIE's approach included:

- Engagement with SG, SE and SOSE to prepare a business mobilisation strategy for the global climate change summit COP26, due to be hosted in Glasgow in November 2021;
- Drafting guidance to support project appraisal and development of a *net zero ladder* to track progress across our client portfolio;
- Support for the *Island Green Recovery Programme* (see above) – which addressed decarbonisation of public and community owned housing, the hydrogen economy, decarbonising crab processing, and seaweed-based aquaculture;
- The *Responsible Research and Innovation Policy Experimentations for Energy Transition* (RIPEET) was initiated digitally in February 2021 with 11 European project partners. 2021/22 will see groups in the Outer Hebrides and Shetland work to identify an energy vision and action plan.
- We published our first three-year *Biodiversity Duty Report* (2018-2020);
- 45 HIE staff trained as climate change champions to support colleagues to apply net zero principles.
- HIE staff are piloting an app to measure and reduce a user's carbon footprint.





ENABLE STRONG, CAPABLE AND RESOURCEFUL COMMUNITIES

Communities are at the heart of our region’s social and economic wellbeing.

From March 2020, the pandemic dealt swift and serious impacts to both rural and urban communities in all parts of the Highlands and Islands, affecting health, livelihoods and sustainability. In common with our approach to supporting businesses, we sought to address these effects urgently, utilising additional funding from the Scottish Government (SG) as well as pursuing a range of actions at our own hand, delivered through our area teams.

Through the course of the year, we transitioned from emergency response to recovery support, working with government and partners to identify new funding opportunities, repurpose existing programmes and provide support to community organisations through bespoke packages of advice and funding. Recipients included around 400 social enterprises that play a key role both in generating economic activity and providing vital services, particularly in fragile and rural parts of our region.

SUPPORTING COMMUNITIES FUND

In the first half of the year, we managed and administered the SG Supporting Communities Fund (SCF) to address impacts of COVID-19 across the Highlands and Islands. Through this additional funding, we approved 210 awards supporting 155 community organisations with a total investment of £3.8m.

COMMUNITY AND THIRD SECTOR RECOVERY

Working with SG and partner agencies, we helped develop the *Community and Third Sector Recovery Programme*, which launched in October 2020.

The programme had two strands. The *Communities Recovery Fund (CRF)* was established to support third sector organisations to recommence service delivery in a safe and sustainable manner, while *Adapt and Thrive* focused on organisational recovery and adapting to the post-COVID-19 world.

We delivered CRF across our region, investing £1.5m to support 100 applications. By the year-end, *Adapt and Thrive* had approved 97 applications across the Highlands and Islands, with a total value of £3m.

435.25 JOBS
were supported through COVID-19 funds, 65 in fragile areas.



COMMUNITY ASSETS

In partnership with the National Lottery Community Fund, we awarded £9.4m SG funding through the *Scottish Land Fund* to support 63 projects (30 in the Highlands and Islands) that enabled communities to take ownership of land and property.

2020/21 marked the end of a five-year programme that invested £42m in 232 community acquisitions across Scotland. During that period, the Highlands and Islands secured 50% of the national budget and 48% of the acquisition awards.

HIE continues to be a delivery partner for a new fund (SLF4) which opened in April 2021, with a budget of £10m for 2021/22.

Separately, we approved 15 small-scale capital funding awards amounting to £260k to support communities to acquire and develop assets that will contribute to recovery, resilience and transition to a net zero economy.

COMMUNITY-LED TOURISM

To aid recovery and the safe return of tourism activities and services across the region, we invested £1.6m to support 55 community-led tourism infrastructure projects (see case study).

Our support enabled communities to deliver a range of practical outcomes to help underpin this important sector of our regional and national economy. These included outdoor eating facilities, car parking, campervan hook-ups and waste disposal facilities, e-bikes, COVID-compliant loos, accessibility improvements and tourism information.

We partnered SOSE to continue our pilot *Communities Leading in Tourism* programme, with a third and final cohort of 16 participants. Over the course of the pilot, delivered by Social Enterprise Academy, 47 community leaders from the Highlands and Islands and South of Scotland have been equipped with skills and knowledge to engage stakeholders to deliver new and enhanced tourism opportunities. Although the programme was under way before the pandemic, it has played a valuable role in supporting recovery.

SUPPORTING SOCIAL ENTERPRISE

As lead partner in the Interreg-funded transnational *Support Network for Social Entrepreneurs* (SUNSE), HIE responded to COVID-19 challenges by helping develop an online support toolkit and learning platform. This enabled regional hubs to work together, forming the new *Transnational Support Network for Social Entrepreneurs*, which is set to launch in 2021.

Across our region, over 40 entrepreneurs have been supported through SUNSE, enabling the establishment of 14 new social businesses.

CULTURE AND HERITAGE

Our Interreg-funded *CUPIDO* project with the University of St Andrews delivered an online transnational skills programme to help the cultural heritage sector develop digital products and services including VR and mobile apps.

It attracted an international audience of 1,248 and a further 48,662 Facebook views of livestream events. Five academic collaborations were supported to develop digital heritage products and services, and an online central learning resource was created using workshop material.

RURAL LEADERSHIP

Ten delegates from the Highlands and Islands were among a 40-strong cohort who completed the *Rural Leadership programme*, which was delivered virtually this year in partnership with SE.

Designed to help rural businesses develop leadership skills to work through this period of change, the six-month programme included over 40 hours of virtual workshops, team tasks, group discussion and one-to-one coaching sessions.



Lossiemouth, East Beach footbridge, Moray

CROFTING RESILIENCE

We approved £31,500 to help the Scottish Crofting Federation deliver a well-received, nine-month COVID-19 recovery programme, *Crofting Resilience in Transition*.

The project included vocational training, skills development, knowledge transfer and diversification. It exceeded its targets, delivering 25 courses and supporting 243 training places.

SUPPORT FOR COMMUNITIES

We have commissioned independent consultancy EKOS to evaluate our *Support for Communities framework*, which is due to end in June 2021. EKOS will assess the net additional impact of the programme in supporting communities to achieve their goals and provide recommendations to inform a future delivery model.

Sixty projects have been supported through the framework, ranging from marketing strategy development through to feasibility studies and Social Impact Measurement.

Throughout 2020/21, we continued to support 36 delivery resource projects across our region, enabling community anchor organisations to employ local development officers to shape delivery of income-generating projects. Additional funding will be sought during 2021/22 to maintain delivery over the next three years.

We made 338 approvals for 237 clients in fragile areas, with **INVESTMENT OF £8.9M.**



CASE STUDY SHETLAND AMENITY TRUST (SAT)

Shetland Amenity Trust (SAT) benefited from our *Community-led Tourism Infrastructure* funding, using its award to add new outdoor seating and improve accessibility in preparation for the return of visitors.

Davy Cooper, SAT's head of development said: "When restrictions lift it's really important to us that the tourists and staff at our sites are able to relax and enjoy their visit. This funding from HIE is very welcome.

"At Viking Unst we're doing some work improving paths for wheelchair access. creating ramps and an opening in the hull for easier access to the Skidbladner [Viking longship], and carrying out a range of general modifications and improved signage. We're also putting in a range of new outdoor seating across many of our sites."



BUILD SUCCESSFUL, PRODUCTIVE AND RESILIENT BUSINESSES

Facing both the economic crisis triggered by the pandemic and the challenges presented by Brexit, our activities to support Highlands and Islands businesses in 2020-21 focused to a large extent on aiding recovery and building resilience.

A key activity was administering additional COVID response funding from the Scottish Government, ensuring that millions of pounds worth of vital assistance was delivered swiftly to eligible businesses with a pivotal role in the economy or facing extreme hardship.

With HIE staff working from home, we nonetheless remained close to our account managed clients, working to understand the impacts they were experiencing and reshaping products and services to meet changing needs. This involved helping clients accelerate digitalisation and tailoring our advice on themes including innovation, product and process development, leadership development, financial modelling and sustainability to keep pace with evolving circumstances.

Demand for our services was high and we supported hundreds of businesses to adapt through advice and financial assistance, including almost 300 businesses receiving grants to support adaptations through the Young Company Capital Investment Grant Scheme, Digital Enablement Grant Scheme and Hotel Support Programme. The move to online delivery of services improved accessibility for clients for whom distance had previously been a barrier to participation. However, it also had a negative effect on business networking opportunities.

INNOVATION

We designed our *Innovate Your Business* programme for virtual delivery, so were able to continue seamlessly as the pandemic changed ways of working. We handled 219 enquiries, including responses to COVID such as switching production to PPE and hand sanitiser, adapting business models, or using downtime to focus on developing new products. We also ran a series of online workshops, attracting 54 attendees and awarding 18 small innovation grants.

The five-year, Interreg-funded *Co-Innovate* programme continued to support SMEs in Argyll, Lochaber, Skye and Innse Gall. Three strands have now completed with 176 businesses benefiting from 50% funding of a project manager's salary plus academic support. Strand four approved a further nine innovation project manager placements.

Our pilot *HIE Business R&D Fund* had a successful first year, investing £1.6m in 15 projects spread across the region and sectors.

NORTHERN INNOVATION HUB

Through our participation in the Inverness and Highland City-Region Growth Deal, we continued to support small to medium-sized enterprise (SMEs) across the Highland Council area.

We launched a new *Let's Grow Adventure Tourism* accelerator in August 2020, supporting 27 businesses in Lochaber and the Cairngorms. Our popular *Tune into Tourism* series delivered eight recovery-themed podcasts.

The *IMPACT30* young entrepreneurs' programme supported 45 businesses, including nine from beyond Highland with additional funding from HIE. Nine *technology placements* were approved to help businesses develop products and processes. Fifteen *NEXUS* webinars on life sciences and technology attracted 443 participants.

Our *Pathfinder Accelerator* completed its fifth and sixth cohorts digitally, with 15 businesses participating. *XpoNorth Digital* ran online events attended by 138 businesses throughout the year, while the *Highland Food and Drink Innovation Network* held six sessions with 29 attendees. An independent interim review endorsed the programme and made recommendations to broaden reach and widen impact.

INTERNATIONAL TRADE

In a year of unprecedented difficulty, our *International Highlands and Islands* programme, supported by the European Regional Development Fund (ERDF), helped 75 companies access training, information and advice to prepare for Brexit and trade globally.

Our Brexit Advisory Service ran from December 2020 to March 2021 and provided one-to-one advice to 45 companies, focusing on developing new products to fit with the new trading environment. Two thirds were in the food and drink sector, including craft spirits and seafood.

We continue to promote Brexit advice and support with free resources including a helpline, webinars and checklists. Eleven businesses participated in a pilot training programme 'Preparing for international virtual missions and exhibitions' to learn how to trade virtually.

Working with Scottish Development International (SDI), we helped 17 exporters enter new markets and increase sales. Eighteen businesses from across the region used SDI's export advisory service, and seven received specialist technical advice. Five HIE clients were accepted onto SDI's new *International Recovery* programme for export training, specialist advice and a £9,000 grant.

WE APPROVED £24.1M to support the growth of businesses and social enterprises across the region.



CREATIVE INDUSTRIES

Our *XpoNorth 2020* creative industries conference, comprising 35 seminars and 89 speakers, was reconfigured for online delivery. The event achieved an on-demand audience of 7,000 and content, generated by XpoNorth was accessed by 90,000 people. Ambitions for a hybrid delivery model will be developed for future events.

Beyond the conference, XpoNorth dealt with 166 advice enquiries while 3,800 people attended workshops to adapt to the challenging environment created by the pandemic.

XpoNorth Heritage started in February 2020 and went on to deliver 44 workshops, 20 videos, how to guides, and advice to 41 museums across the region. Almost 40,000 people accessed content and workshops.

We worked with UHI to address skills gap, scoring notable success with *XpoNorth Level Up*, an award winning, commercial industry interface that attracted 83 participants across 17 creative courses. A new business was also established within UHI to increase licensing and secondary rights exploitation of music created by students. We secured access to Sky's in-house music team and music suppliers for brands including Nike and Netflix.

LIFE SCIENCES

HIE is leading the *Highland Health Connect* partnership to ensure growth of the life sciences sector over the next 20 years. Through strengthening partnership between HIE, NHS Highland and UHI we expect to enhance the region's capability to attract new sectoral activity and investment. An assessment of the longer-term benefits of establishing an innovation-driven health campus network has been commissioned and will report in 2021.

In April 2020, *Project Corran* brought 4c Engineering, Aseptium and LifeScan Scotland together to produce PPE visors. Using waste materials, they created an innovative open source design that was adopted internationally.

Our *Pathfinder Accelerator* programme, supported by the ERDF and the Inverness and Highland City-Region Deal, switched to virtual delivery. Two themed cohorts were supported this year: aquaculture and digital. The latter covered five HIE area offices (from Argyll to Caithness) and was supported with additional funding from HIE's Digital team.

We helped develop a successful outline business case for a new *Rural Centre of Excellence for Digital Health and Care* as part of the Moray Growth Deal.





FOOD AND DRINK

Brexit caused significant disruption for our food and drink sector, with seafood and craft spirits in particular impacted by non-tariff barriers. As noted above, we provided specialist advice on Brexit issues to 31 food and drink businesses, mostly in response to lack of preparedness or confusion created by changing information.

We supported the *Scotland Food and Drink Partnership* to develop the national food and drink recovery plan, focusing on outcomes for rural businesses.

A review of the HIE-led *Make Innovation Happen* collaborative innovation fund showed that investment of £927,000 was expected to create growth in turnover of £21.45m, of which almost £7m will be export sales and up to £13m within the UK. More than 60 FTE jobs are expected to be created.

We have partnered with Norwegian research institute Nofima and the Icelandic Ocean Cluster on an EU-funded project. *DisruptAqua* will leverage international research to help businesses use new technology and data-driven solutions to add value to their products, protect authenticity, improve traceability and evidence sustainable production.

HIE continues to manage the £10m public investment into Phase 2 of the *Sustainable Aquaculture Innovation Centre*. Despite the pandemic, SAIC is meeting or exceeding almost all milestones, including attracting innovation funding into the sector.



CASE STUDY

HEBRIDEAN SPA / ISHGA

On the Isle of Lewis, Hebridean Spa makes luxury organic skincare products combining seaweed with spring water, sea water and other natural ingredients. Trading as ishga, the company supplies some of the UK's most prestigious spas.

We awarded a £122,000 research and development grant to develop a ground-breaking digital device to monitor skin health.

Hebridean Spa is collaborating with East Kilbride company Cutitronics, which has developed the technology. Using an app, the device will assess skin hydration to give customers access to a smart skincare plan that updates as their skin changes.

The R&D project aims to help the firm expand capacity and enter new markets. Crucially, it will enable them to respond to demand for contactless solutions in the wake of the pandemic.

All ishga products are developed, manufactured and packaged in Stornoway, where the company began in 2010 and currently employs 13 people. Our funding is expected to create two new jobs.

Commercial director Leon Trayling, said: "This project is very timely as customers cannot visit the spa for a skin consultation like they used to. This smart skin monitoring system will be a first in the skincare industry and we are delighted that, with the support from HIE, we are able to partner with another Scottish SME to take the technology to the market with the ishga brand."

63% OF JOBS we supported were
in the tourism and food and drink sectors.



CREATE THE CONDITIONS FOR GROWTH AND A GREEN RECOVERY

The natural capital and cultural heritage of the Highlands and Islands are unique assets that present significant potential to build foundations for economic growth in every part of our region.

We aim to maximise the value of these assets through investments in sectors that both capitalise and add value, in strategic projects including spaceport development and Cairngorm Estate, in regional partnerships and growth deals, in developing enabling infrastructure, and in skills and education to retain and attract talented people.

ENERGY

We made a major announcement in January 2021, confirming that HIE had approved investment of up to £8.3m of additional Scottish Government funding for an £18.9m project to develop the East Quay at Nigg in Easter Ross. Driven by growth in the renewables market, the investment will greatly expand quayside space, create up to 39 new jobs directly and bring an additional £11m of new business to the region in its first three years.

The energy sector continues to offer significant potential for economic growth in the Highlands and Islands, including new opportunities emerging in the blue economy based on our exceptional marine resource. Realising these benefits will, however, depend on fair and equitable UK regulatory and charging frameworks that recognise both the contribution that rural regions can offer to energy supply and the capacity for the sector to drive growth in all parts of the country.

To that end, we put effort into engagement and influencing national policy. During 2020-21, this included submitting detailed information and views to consultations and calls for evidence in several consultations from Ofgem and the UK Government and Parliament.

We provided input to several key Scottish Government policy statements, including hydrogen. The hydrogen policy statement includes ambitious targets for production and strategic opportunities for our region to re-purpose oil and gas terminals, transfer highly skilled jobs and decarbonise key sectors.

The DeepWind Cluster, supported by HIE, is now firmly established with more than 570 members drawn from industry, academia and public sector. An extensive programme of 20 webinars and more than 2000 participants ensured high awareness of industry opportunities (despite COVID restrictions).

WAVE ENERGY SCOTLAND

HIE subsidiary Wave Energy Scotland (WES), which is fully-funded by the Scottish Government, drew close to the culmination of an ambitious five-year research and development programme to strengthen Scotland's wave energy sector.

In February 2020, the HIE Board approved up to £2.4m to enable two novel wave energy converter devices that have been developed with WES support, to be tested in real-life conditions off Orkney.

The project is an important stepping stone to prove technical validity of devices developed by AWS Ocean Energy and Mocean Energy and will support the companies through a particularly challenging, pre-commercialisation stage where many technologies have faltered in the past.

The next step would be to develop small arrays, leading towards commercial rollout after 2025 and the potential to make a significant contribution to Scotland's target of achieving net zero carbon emissions by 2045.

TOURISM

In 2020/21, HIE approved a total of £45.6m to 224 projects in the tourism sector, a clear indication of the industry's importance as an economic driver in all parts of the Highlands and Islands. This was augmented with a further £9m of Scottish Government COVID response funding through the Pivotal Enterprises Resilience Fund (PERF) and £4.9m from the Creative, Tourism and Hospitality Enterprises Hardship Fund. A £3m COVID-19 recovery fund was invested to support 10 strategic destination marketing organisations (DMOs) across the region over the next three years. In addition, the Scottish Government's Hotel Support Programme provided £3.34m of grant support to 17 larger hoteliers, enabling them to protect and retain employment.

HIE input influenced the national response to the pandemic through participation in the Scottish Tourism Emergency Response Group (STERG) and shared delivery of the National Action Plan. The National Tourism Recovery Plan Phase 1 was announced in March 2021 with a new allocation of £25m from the Scottish Government. Enterprise agencies will collaborate to deliver two work strands – *Tourism's Transition to Net Zero* and *Leadership Development*.



Iona McLachlan from North Coast Watersports on the beach teaching the class

EUROPEAN REGIONAL FUNDING

We continued to use the European Regional Development Fund (ERDF) to support activity, with spend on projects approved as part of the 2014-2020 programme continuing to 2022. ERDF funding supported programmes including *International Highlands and Islands* and *Leadership*, while capital projects include Orkney Research and Innovation Campus and the ILEX building on Inverness Campus. HIE has also participated in several Interreg and Horizon 2020 projects, including SUNSE, CUPIDO and RIPEET.

PROPERTY AND INFRASTRUCTURE

We approved a £4.5m investment in two new stages of the European Marine Science Park at Dunstaffnage, near Oban, to support the continued expansion of the marine economy. The funding will create new laboratory and office space in the existing building, Malin House, and groundworks to support the future growth of the science park. The funding package included a contribution from SUSTRANS to upgrade provision for cyclists and pedestrians.

Design work was commissioned for small business units at Golspie, Wick, Balivanich, Dunoon and Broadford, with construction being taken forward both through HIE investment and private development.

We made good progress with partners, including Scottish Futures Trust, in exploring shared accommodation opportunities for public sector hubs across the region. Work began on a business case for the initial hub, proposed for Portree, and this is expected to be taken forward in 2021.

Developments at HIE's Inverness Campus included full funding, planning permission and contractor confirmed for a new Life Sciences Innovation Centre (LSIC) developed in partnership by HIE and the University of the Highlands and Islands (UHI), with completion anticipated in autumn 2022. We also started fit-out works at Solasta House for medical technology firm Orbital Diagnostics. The Campus North Bridge opened in June 2020, providing new access for cyclists, pedestrians and buses.

DIGITAL

Rollout of the £147m *Digital Scotland Superfast Broadband* project is now complete, with final connections made in Glenshiel and West Harris in January 2021. Owing to efficiency savings and clawback earned from better than forecast take-up, the project delivered 25% more premises than targeted, connecting a total of 166,455 homes and businesses across the region, with speeds of 24Mbps or higher.

During the year most of the build was FTTP (Fibre to the Premises) the gold standard for broadband delivery, demonstrating that a modern future-proofed service can be successfully delivered in some of our most challenging geographical areas. We continue to support the Scottish Government in delivering its R100 Programme to extend superfast broadband coverage further and S4GI, its mobile infill project.

HIE also supported the Highland Council in managing the UK Government-funded *Local Full Fibre Network* and *Rural Gigabit* projects to bring full fibre connections to 190 public buildings.

SCIENCE SKILLS ACADEMY

Although COVID restrictions impeded our ability to deliver hands-on activities to young people, we managed to engage more than 1,600 young people aged 10-14 and 500 teachers in Highland region through outdoor lessons, professional learning and STEM kits.

We also progressed plans to develop the six Newton modules to be delivered to almost 10,000 pupils in the coming academic year. The Dingwall Newton Room was completed and plans for rolling out a pop-up model in the Skye, Lochalsh and Plockton areas are ready to go. The Inverness Newton Room remains a challenge with planning delays affecting Plot 14 on the Campus.

The Science Skills Academy also supported Highland Council's delivery of *Build Back Better* – a STEM module focusing on understanding virus behaviour.

POPULATION AND TALENT ATTRACTION

In light of depopulation projections in parts of our region, we established a new post to support the work of the Convention of the Highlands and Islands (COHI) population working group which is developing *Repopulation Zone* policies and interventions. We also input significantly to the Scottish Government's new *Population Strategy*, particularly in relation to rebalancing Scotland's population. Staff engaged with the place-based approach of the ongoing review of the Scottish Funding Council (SFC), stressing the important contribution of higher education to population growth and economic activity.

UNIVERSITIES

Our engagement continued to influence and support universities and agencies, including contributing to the SFC review and Scottish Environment Food Agriculture Research Institutes (SEFARI). Throughout the year, we worked with senior leadership of the University of the Highlands and Islands (UHI) to align strategies that support economic recovery.

Engagement with national enterprise and skills agencies was strengthened with a new *Regional Education and Skills Partnership* (RESP) comprising the four UHI Vice Principals, SDS, SFC and HIE. Established in June 2020, this met regularly, enabling us to ensure good communication, share intelligence and strengthen the regional voice on education, skills and research.

YOUNG PEOPLE

We enabled 16 young people to secure graduate placements with businesses across the region. Their projects focused on digitalisation and online sales; sustainable local food production, and improved logistics to reduce environmental impact and increase sustainability.

TRANSPORT

HIE contributed to Transport Scotland's *Strategic Transport Project Review* to inform identification of priority transport infrastructure projects over the next 20 years. Focusing on enabling economic growth across our region, we provided evidence to support investment to address challenges in the region's ferries networks, strategic road links in Lochaber and Argyll and air services in areas such as the north Highlands.

HIE is part of the *Sustainable Aviation Test Environment* (SATE) consortium which successfully secured funding from UKRI's *Future Flight Challenge Fund* in January 2021 to create the UK's first operationally-based, low-carbon aviation test centre at Kirkwall Airport in Orkney.

CAIRNGORM

In August 2020, the HIE Board and Scottish Government approved a full business case that recommended reinstatement of the Cairngorm funicular, a range of priority capital investments, and ongoing revenue support for the operating company.

Through the Scape framework, HIE appointed Balfour Beatty as main contractor to undertake reinstatement. Works began in November 2020 for several weeks before pausing over winter and resuming in April 2021.

The planned programme was originally due for completion during winter 2021/22. However, in August 2021, HIE concluded that this timeframe needed to be extended. This was due to a combination of factors including technical challenges, impacts from the ongoing pandemic and extreme weather on the mountain, including unseasonal blizzards in spring 2021. Extra effort has also been required to source vital construction materials that are currently in short supply across the UK.

The revised timetable aims to put the funicular back into service in autumn 2022. HIE will make public the details of budget implications arising from the change once these are known. In the meantime, the construction cost provision in HIE's accounts has been increased by £2.02m.

Over winter 2021/22, nine ski lifts will ensure that access for snowsports will remain open when conditions are suitable.

Due to pandemic measures, the resort was closed for long periods during 2020-21 and all but 13 of its permanent staff furloughed. Although it reopened in July 2020 when restrictions eased, new restrictions forced closure once again on 24 December 2020 and it remained closed for the rest of the financial year.

A masterplan for Cairngorm Estate was developed following significant stakeholder engagement and public consultation. The masterplan, published in June 2021, sets the vision and strategies for the next 25 years of development at Cairngorm, enabling future planning to be co-ordinated and aligned towards shared objectives.

HIE also formed a new Cairngorm Advisory Group, comprising local business, community and sporting organisations and partner bodies, as a forum for discussion and influence on future decisions affecting Cairngorm and its impact on the local area. The group held its first quarterly meeting, by virtual means, on 27 May 2021. Its second virtual meeting took place on 26 August 2021.



During the year,
WE INVESTED £91.7M
across the region.



SPACE

HIE commissioned a review of current global space market opportunities and regional projects to support strategic decision making. This confirmed that the growing international market present a key opportunity for our region, including unique launch locations.

Given global demand for satellite launches and the favourable characteristics of the north of Scotland, space is expected to develop as a priority for the region both in launch and wider manufacturing and supply chain development.

Four spaceport development projects are currently under way in the Highlands and Islands, presenting a significant opportunity for the region. These are: SaxaVord Spaceport (formerly Shetland Space Centre) on Unst; Spaceport 1 on North Uist; MACC at Kintyre (horizontal launch), and Space Hub Sutherland which, in August 2020, became the first UK spaceport project to achieve planning permission.

We are also supporting Forres-based Orbex, which will design and manufacture the innovative Prime vehicle that will launch from Sutherland, and have awarded the company a funding package of up to £1.5m (£825k grant and £675k loan). The loan and £325k of the grant funding were awarded in January 2020 and are therefore not included in the present set of accounts.



CASE STUDY

DESTINATION ORKNEY LIMITED

A three-year project to restore confidence and strengthen resilience in Orkney's tourism sector secured £300,000 from HIE.

The £390,000 project by destination management organisation Destination Orkney Limited (DOL) will provide support, advice and signposting to help communities improve their visitor offering. It will work with existing groups and businesses and help establish new ones.

The HIE funding comes from £3m approved by the agency in September 2020 to support strategically important tourism DMOs over the next three years. It will ensure DOL is resourced to play a vital role in the recovery of tourism across Orkney and two new jobs will be created.

Further investment in the project has been approved by Orkney Islands Council and DOL itself, which currently has 300 members.

Our webinars attracted more than
3,300 PARTICIPANTS
and addressed topics including tourism,
energy, digital and innovation

Purpose

The main purpose of this section is to summarise our performance against finance targets for financial year 2020/21. The detailed results are contained in the financial statements on pages 62 to 1119.

Summary commentary

Our budget comprises resource, capital, financial transactions, ring-fenced expenditure and annually-managed expenditure. All these budgets are supplied by the Scottish Government and in most cases can be supplemented by income generated by HIE.

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

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

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

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

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

In 2020/21, the Scottish Government introduced a new budget heading of expected credit losses (ECL) that covers issues such as loan write-offs that were previously charged to AME. The ECL budget cannot be used to support other types of expenditure.

We entered financial year 2020/21 with an exceptionally challenging budget settlement that included a £4m (13.6%) reduction in our opening resource budget (from £29.5m in 2019/20 to £25.5m in 2020/21). Our opening capital budget remained at the same level in 2019/20 (£25.5m) whilst the FT allocation increased by £1m from £1m to £2m. However, we secured very significant in-year funding from the Scottish Government (SG), including:

- Resource budget of £2.45m for anticipated operating losses at our subsidiary Cairngorm Mountain (Scotland) Limited (CMSL) and a further £0.55m for wider Cairngorm spend.
- Resource budget of £1.89m for Hotel Support Programme
- Resource budget of £2.64m for Scottish Wedding Industry Fund
- Resource budget of £1.74m for Snowsports Programme 1
- An authorised overspend of £1.94m for Snowsports Programme 2
- Resource budget of £0.45m for Digital Enablement Grants
- Capital budget of £0.35m for Digital Enablement Grants
- Capital budget of £2.775m for EMEC Green Hydrogen Demonstration
- Capital budget of £1.1m for Cairngorm funicular reinstatement
- Capital budget of £1.44m for Hotel Support Programme
- Capital budget of £0.5m for Islands Green Recovery Programme
- An authorised overspend of £6.0m for capital

In addition, the region benefited from £25.06m of funding in relation to the Pivotal Enterprise Resilience Fund (PERF) and Creative, Tourism and Hospitality Enterprises Hardship Fund. This funding flowed through Scottish Enterprise's accounts although appraisals were undertaken in HIE. (For a summary of the range of COVID-related funding and outcomes achieved in-year, see Performance Analysis, pages 14 and 15.)

For 2020/21, we achieved our financial targets as agreed with Scottish Government (SG). SG required HIE to stay within all budgets with the exception of an agreed overspend of up to £6m on capital. The final outturn is summarised in the table on p29. The authorised overspend on capital was £5.82m and this enabled the acceleration of projects previously profiled in 2021/22, thereby reducing pressure on 2021/22 budgets. This was partially offset by an underspend on HIE's subsidiary Wave Energy Scotland of £0.10m.

In addition, the Scottish Government agreed to carry forward £5.43m capital budget into 2021/22 to reflect delays in the Nigg East Quay project. There was a £1.94m underspend against the £2.0m FT budget. This reflected a lack of appetite for businesses in the region to take on more debt. The resource budget showed an underspend of £1.12m of which £0.91m related to Cairngorm

activity, £1.41m to expected credit losses and £0.34m related to core HIE funding. These underspends were partially offset by an authorised overspend of £1.54m on COVID-19 support programmes, as agreed with the Scottish Government. As noted above, the ECL budget cannot be utilised for any purpose other than credit losses.

The entire financial year was overshadowed by the continuing impact of the pandemic, which included late changes to forecasts and the impact of remote working for the year. In this context, the performance against financial targets is particularly commendable. In particular, the successful delivery of around £24m of in-year expenditure was a remarkable achievement by an organisation working under lockdown conditions.

The pandemic also had an impact on HIE's balance sheet due to the potential for reduction in the carrying value of loans and debtors. The impact remains uncertain, but reasonable value judgements were made in preparing the accounts.

CMSL recorded break-even position in its accounts, which is in effect consolidated within the overall underspend of £0.914m against the budget available for CMSL and other Cairngorm-related operating costs in the Group accounts.

AME spend of £6.51m was £0.51m over budget, primarily due to an increase in the Cairngorm funicular reinstatement provision

A budget of £1.5m was received from the Scottish Government in relation to expected credit losses. This was a new budget introduced in 2020/21 that reflects changes to accounting treatment in relation to write-off of loans, income or grant payments. In 2020/21, HIE utilised £0.092m of this net of provisions, resulting in an underspend of £1.41m. Although this budget forms part of the resource budget, it can only be utilised for credit losses and the underspend could not be repurposed for other uses.

The table below summarises the out-turn for financial year 2020/21, with comparative figures for 2019/20:

SUMMARY OUT-TURN

FINANCIAL OUT-TURN 2020/21	BUDGET	SPEND	(OVER) / UNDERSPEND
	£'000	£'000	£'000
Resource Budget	38,264	37,142	1,122
Capital Budget	35,318	41,042	(5,724)
Financial Transactions	2,000	60	1,940
Ringfenced Resources	5,095	995	4,100
Annually Managed Expenditure	6,000	6,506	(506)
	86,677	85,745	932

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

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

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

Clearly the financial performance above needs to be seen in the context of non-financial performance targets. Financial targets are not an end in themselves but a means of facilitating the achievement of other targets. This section should therefore be read in the context of the Performance Analysis section.

STATEMENT OF FINANCIAL POSITION

Our statement of financial position summarises our assets and liabilities as at 31 March 2021. For HIE this showed a net deficit (due to liabilities exceeding assets) of £39.12m. This compares with £18.60m as at 31 March 2020. For the Group (including our subsidiaries such as Wave Energy Scotland) the comparative figures are £37.71m and £17.49m.

There were many variables that explain the movement in the position but as noted in the Summary Commentary above, by far the most significant movement was the increase in retirement benefits obligation of £18.60m primarily resulting in changes in estimated inflation, discount rates and interest rates. Total Group non-current assets increased by £2.28m but this was offset by a reduction in current assets of £4.30m (of which reduction in cash held represented the largest movement) resulting in an overall reduction in assets of £2m. Total current liabilities increased by £7.28m, which included a £3.35m reduction in trade payables and an increase of £10.65m increase in current provisions. Non-Current provisions reduced by £10.92m reflecting the increase in current provisions. There were no other movements of significance.

The retirement benefit obligation is split between the HIE pension scheme (£57.086m) and the four local government pension schemes (LGPSs) (£3.494m) of which HIE is a member (£60.580m in total). The liability for the HIE scheme will take decades to crystallise and therefore does not represent an immediate risk to HIE's cashflow. In addition, SG has provided a legally binding guarantee of its willingness to 'stand behind' the HIE pension scheme.

The liability for the LGPSs will crystallise more quickly due to the fact that they are closed to new members – however there are guarantees in place from the Scottish Government that underwrite this risk. HIE has in place a pension recovery plan in relation to the HIE pension scheme which was agreed with the HIE pension trustees. This is due for refresh once the triennial valuation has been finalised in summer 2021. It also makes additional contributions to the local government pension schemes in order to reduce funding deficits over time.

FUTURE OUTLOOK

The financial outlook for the Scottish public sector was challenging before the impact of the pandemic. Our baseline resource budget for 2020/21 was reduced by £4m (13%) from £29.5m to £25.5m but this reduction has been reversed in 2021/22, with the resource budget increasing to £29.8m. In terms of capital, HIE's baseline budget for 2021/22 remained at £25.5m, but there were increases in relation to the Green Jobs Fund (£0.8m) and the Cairngorm funicular reinstatement (£3.9m).

The FT budget increased from £2m to £2.6m. We set a capital budget with a challenging over-commitment and this will be reviewed regularly during the year with a view to re-committing any slippage. Plans are being developed to maximise the usage of the FT budget, alongside a revised intervention framework that will place more emphasis on non-financial interventions and loans rather than grants.

The Scottish Government has set out indicative capital budgets across five years and also its funding towards the reinstatement of the Cairngorm funicular for the duration of the works. It should be noted that it became clear in August 2021 that the timetable for reinstating the funicular will not now be achieved in line with business case. This delay will have cost implications and a provision has been made in the accounts (see 'Events after the statement of financial position', below.) The reasons for the delay are set out in more detail in the Cairngorm section on p26.

A key risk for HIE is inevitably the ongoing economic impact of the pandemic, which is uncertain but likely to be significant. This will affect HIE both in terms of its funding as a public sector body and the expectations of it regarding the recovery phase. The impact of Brexit is becoming clearer and a key issue for HIE is the loss of access to European Union funding and the impact on specific key industries for the region such as tourism and food and drink.

More specifically, HIE faces the following principal financial risks in 2021/22

- Costs associated with Cairngorm Mountain
- Financial implications of opportunities in the space sector
- Increased demand for financial support from businesses and communities
- Possible loss of rental and loan income arising from the impact of the pandemic on tenants etc
- Reduction in EU income

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

MEDIUM-TERM RISKS

In January 2021, the Scottish Government published its third Medium Term Financial Strategy – link below.

<https://www.gov.scot/publications/scotlands-fiscal-outlook-scottish-governments-medium-term-financial-strategy/pages/3/>

This emphasised the significant level of uncertainty surrounding financial forecasts in the current environment. A five-year financial outlook paper was presented to the HIE Board in February 2021 – this was a broad outlook document rather than a forecast.

In the medium-term, our most significant financial risk is the status of the HIE pension scheme. At April 2018 the deficit using the technical provisions basis stood at £30m.

A three-year recovery plan for the period 2019-2022 was agreed with the Board and signed off by the HIE pension scheme trustees. This plan was submitted to the Pensions Regulator alongside the formal valuation and the regulator raised no questions regarding the plan. The deficit is monitored closely and HIE will act to accelerate the recovery plan if required. In 2020/21, we were able to make a contribution of £0.25m towards the recovery plan that exceeded the plan agreed with the trustees.

The deficit was adversely impacted by movements in financial markets arising from the COVID-19 pandemic although those losses had been recovered by spring 2021. However, further adverse movements have arisen from a forecast increase to inflation combined with low discount rates and low interest rates. As noted in previous sections, the viability of the scheme is underpinned by a guarantee from the Scottish Government.

A triennial revaluation was undertaken as at April 2021 (reported in August 2021). This indicated an increase in the deficit from £30.0m (as at the 2018 valuation) to £39.4m. It is important to note that this deficit is estimated on a different basis (technical provisions) from the £57.086m (IAS 19) deficit valuation that is included in the Statement of Financial Position. HIE awaits a formal proposal in relation to the impact of this increased deficit on the current pensions recovery plan. However, preliminary discussions with the Scheme Trustees and Scheme Actuary indicate that the employer's contribution will be maintained in accordance with the existing recovery plan. It must be emphasised that the technical provisions deficit is an estimate that looks far into the future. There is no immediate threat to HIE's cashflow arising from this. The key action required is the agreement of a pensions recovery plan that looks to address the deficit over a prolonged time period.

HIE's activities at Cairngorm seem likely to remain a risk in the medium term, particularly during the period of the funicular reinstatement, which is a challenging project. HIE is working closely with the Scottish Government on this. HIE's involvement with the space sector may also be a medium-term risk if the Board decides to continue to support projects.

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

EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION

Following the year end HIE reached a settlement agreement with a loan debtor. The loan was previously fully provided and the settlement represents significant recovery of the debt. The accounts have been updated to reflect the agreement. £40k accrued Interest and £360k investment provision release.

Following the year end, the Cairngorm funicular reinstatement provision was increased by £2.02 million. This adjustment was made in anticipation of cost impacts arising from technical challenges and the need to extend the timescale of the reinstatement programme.

PAYMENT TO CREDITORS

HIE observes the Government's policy for prompt payment and is committed to paying suppliers within 10 days of receipt of a valid invoice, where no other contract timetable applies.

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

STANDARD	PERFORMANCE 2020-21	PERFORMANCE 2019-20
In line with government policy, HIE aim to pay all invoices promptly - target 10 days Note: excludes items under dispute or where other terms are agreed with a supplier	80%	78%

PUBLIC INTEREST REPORTING

Information request processing

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

In 2020-21, HIE received 97 requests for information. These comprised 93 requests under FOISA (2019/20 = 113); 3 EIRs (4), and 1 Data Protection Act request (1).

INFORMATION REQUEST HANDLING PERFORMANCE	2021	2020
Average time to respond fully and close a request for information	15 Days	13 Days
Percentage of requests requiring a response that received one within statutory timescales	95%	95%
Percentage of requests that received a late response	5%	5%
Percentage of requests requiring a response that were fully or partially disclosed	100%	100%
Percentage of requests that were vexatious	0%	0%
Percentage of requests withdrawn	1%	2%
Percentage of requests for which HIE did not hold information	10%	15%

FOISA EXEMPTIONS AND EIRS EXCEPTIONS APPLIED TO REQUESTS

This table shows the number of occasions when FOISA exemptions or EIR exceptions were applied by HIE when responding to information requests.

SECTION OF ACT (FOISA)	DESCRIPTION OF EXEMPTION.	2020/21	2019/20
30 (b) or (c)	Prejudice effective conduct of public affairs / Free or frank exchange of advice	19	3
33 (1) (b)	Prejudice commercial activities	12	14
38 (1) (b)	Breach of data protection principles / third party personal data	16	11
36 (2)	Confidentiality of communications	0	0
27	Information intended for future publication	0	1
25	Information otherwise accessible	3	2
17	Information not held	11	15
Section of Act (EIR)			
Regulation 10 (5) (a)	Public safety (security arrangements).	1	0
Regulation 10 (5) (g)	Protection of the environment	1	0
Regulation 11 (2)	Breach of data protection principles / third party personal data	2	1

REVIEWS AND APPEALS

We received 4 requests for review under FOISA (2019/20 = 8) and none under EIR (2). No appeals were made to the Office of the Scottish Information Commissioner (2019/20 = 2).

In line with a request from the Scottish Information Commissioner to all Scottish public authorities, we provided quarterly statistics towards the national dataset of FOI and EIR statistics in Scotland covering 2020/21.

CUSTOMER SERVICE

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

COMPLAINTS

Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. During the period from 1 April 2020 – 31 March 2021, a total of 16 complaints were resolved at the frontline (2019/20 = 12) and 3 required an investigation (2019/20 = 1). No complaints were considered by the Scottish Public Services Ombudsman.

COMPLIMENTS

In 2020/21, we recorded a total of 73 compliments.



OUR PEOPLE

2020-21 presented many challenges for HIE staff, but also demonstrated that, with the aid of technology and the engagement, commitment and dedication of our people, we can flex our resource to where it is most needed and can add most value.

In addition, several structural changes were implemented as part of HIE's organisational change programme along with increased opportunities for staff to collaborate across teams, directorates and our geography to deliver our priorities effectively.

The value of flexible and collaborative working was demonstrated clearly by the various, very successful short life and virtual teams brought together to deliver COVID-19 funds, and has become embedded as a mainstream approach for the future.



We are **passionate** about our **region** and **proud** to make a **difference**



We **work together** and **learn from each other**



We **listen** and **communicate clearly**

We are **committed to excellence** and **innovation**



We **encourage diversity** and **respect** each other



We are **outward-looking** and **think long-term**



We **network** and **collaborate**

In line with Scottish Government instructions to address the COVID-19 pandemic, HIE closed our offices from 23 March 2020 and all employees began working from home. Our people proved well able to adapt to remote flexible working and ensure a high degree of business continuity in these unprecedented times.

During 2020/21, our Human Resources and Facilities Management teams supported our staff by focusing on areas including: ensuring effective communication and engagement including focus groups; re-aligning resources to address current pressures; implementing SG guidance on COVID-19 restrictions; preparing for a reintroduction to office-based working, and developing an agreed model and approach for future ways of working.

A future scenario based on remote and flexible working has implications for every aspect of the employee experience. Staff surveys showed that most of our people would welcome greater flexibility in both how and where they work in the future. This has informed our approach, recognising the need to support staff to adopt the cultural changes required to adopting flexible working practices and associated behaviours.

Creating opportunities for collaboration, innovation and creativity as well as safeguarding mental health and wellbeing, work-life balance and caring responsibilities will continue to be key areas of focus. It has been vital to prioritise mental wellbeing and keep this high on our agenda. The introduction of mental health first aiders across HIE during 2020 is part of that approach.

Ongoing areas of focus to support HIE's organisational change agenda are: staff communication and engagement; identification of skills gaps; re-alignment of resources; development needs; line management support and development; health and wellbeing, and succession planning.

This year, although challenging, has accelerated and demonstrated the need to approach and do things differently for all our staff. There have been lots positive outcomes from that in creativity, joint working and engagement that we intend to build on going forward.

SUSTAINABILITY

Utilities and travel

As shown in the table below, electricity consumption fell dramatically in 2020/21, mainly because HIE staff were working from home throughout the year due to the COVID-19 pandemic. There has also been a 33% carbon emission reduction alongside a cost saving of 20%.

Gas usage in our Inverness, Lochgilphead and Forres offices reduced by 14%, with a 20% reduction in cost.

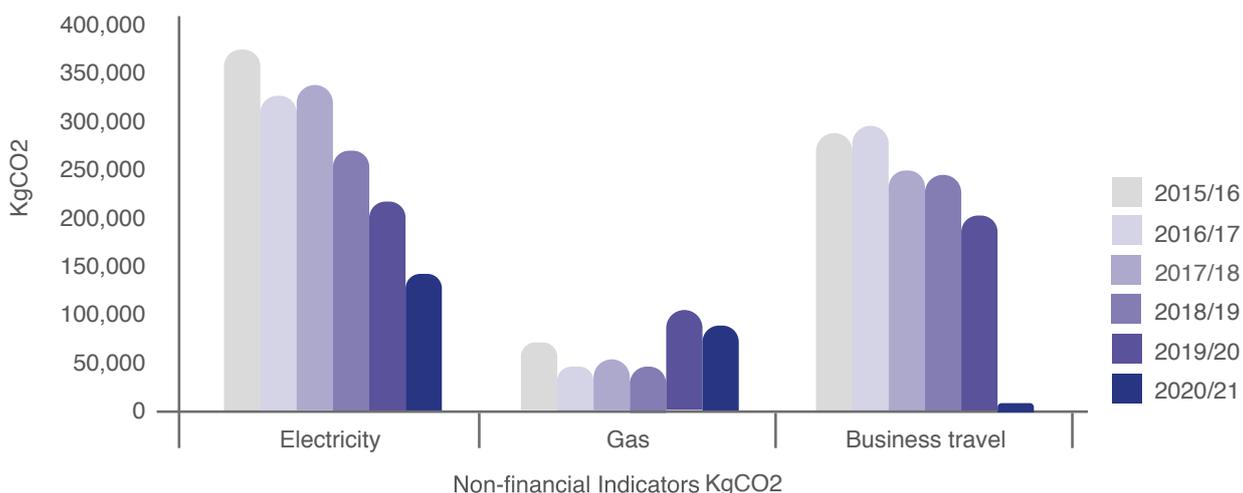
Although consumption and costs relating to electricity and gas may rise as COVID-19 restrictions ease and staff start to return to offices, we aim to continuously reduce our consumption in comparison with pre-pandemic levels.

The pandemic also greatly reduced business travel, which saw a carbon reduction of around 95%, as well as a cost saving of around 95%. Travel restrictions meant that staff adapted to holding meetings virtually. This is a trend that HIE will continue and we have reduced our business travel budget for 2021-22.

Future targets will continue to challenge HIE to seek new initiatives as we move towards meeting the Scottish government's net zero target for 2045.

UTILITIES AND BUSINESS TRAVEL		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Non-financial indicators (KgCO ₂)	Electricity	369,654	324,639	337,080	267,803	218,258	144,612
	Gas	72,274	45,940	54,269	50,267	104,560	89,839
	Business travel	286,437	292,376	248,049	245,274	200,239	6,675
Related energy consumption (KWh)	Electricity	806,224	792,634	966,262	953,442	860,708	625,919
	Gas	390,672	225,139	277,008	234,684	488,163	419,434
Financial indicators (£'s)	Electricity	108,677	117,113	120,675	107,546	102,628	81,904
	Gas	15,865	14,971	14,459	14,563	22,288	17,853
	Business travel	732,738	700,263	694,228	672,018	600,977	23,403

Greenhouse gas emissions from buildings and business travel

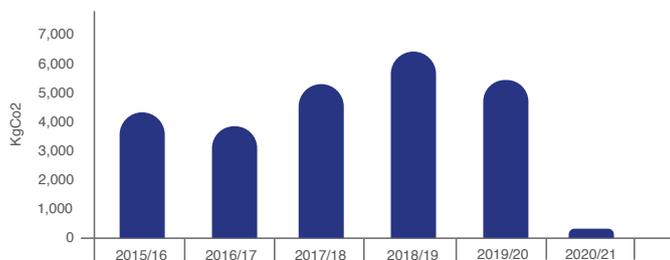


Waste and water

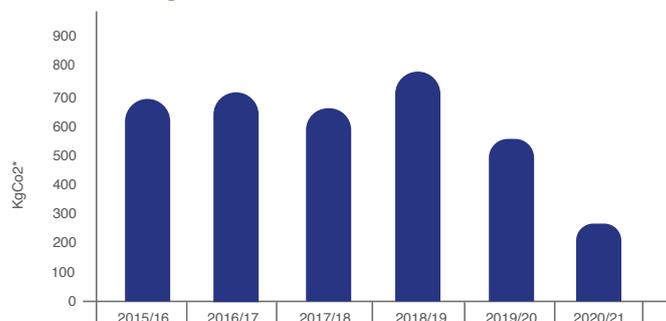
With our offices largely unoccupied for most of the financial year, carbon emissions from general waste fell dramatically by around 95% while emissions from water consumption declined by more than a third. We aim to keep these figures well below pre-COVID levels when offices start to reopen. The cost of waste disposal also fell 45% following the suspension of regular collections from most offices.

WASTE AND WATER		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Non-financial Indicators (KgCO ₂ e)	Total greenhouse emissions from general waste	4,233	3,811	5,183	6,344	5,326	224
	Measurable greenhouse emissions from water	688	707	666	782	460	259
Non-financial Indicators	General waste (kg)	9,222	9,051	8,801	10,817	9,081	489
	Recycled waste(kg)	25,670	22,280	16,520	18,167	14,997	2,651
	Measurable consumption (m ³)	2,000	2,054	1,937	2,272	1,337	752
Financial Indicators (£'s)	Disposal cost	51,849	54,852	47,266	27,705	14,969	8,015
	Measurable water cost	25,850	38,548	18,156	15,814	10,596	17,346

Greenhouse gas emissions from waste



Greenhouse gas emissions from water



C Buxton

C Buxton
Interim Chief Executive and Accountable Officer
Highlands and Islands Enterprise

28 September 2021



ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

DIRECTORS' REPORT

BOARD

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

BOARD MEMBERSHIP

- Mr A Dodds CBE (Chair)*
- Prof D MacRae OBE (Deputy Chair, from 2 December 2020)
- Ms C Wright (Chief Executive)
- Ms A Bryan
- Mr A Campbell
- Mr P Crerar CBE
- Ms A Gray**
- Mr R McIntosh CBE
- Ms F Newton MBE
- Ms A B Oldfield
- Mr C Ross

* Mr A Dodds took on the role of Acting Chair from 1 March 2020 and was appointed as chair on 1 May.

** Ms A Gray resigned from the Board on 31 March 2021.

LEADERSHIP TEAM

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

LEADERSHIP TEAM MEMBERSHIP

- Ms C Wright (Chief Executive) (Resigned 31/07/21)*
- Mr N B Kenton (Director of Finance and Corporate Services)
- Ms C Buxton (Deputy Chief Executive) / (Interim Chief Executive to 20/04/20 and 31/07/21 to date)*
- Mr D Cowan (Director of Communities and Place)
- Mr D J Oxley (Director of Strategic Projects)
- Ms S Dunbar (Director of Business Improvement and Internal Audit)
- Ms K Moncrieff (Director of Human Resources)**
- Ms H Herd (Interim Director of Human Resources)
- Mr M Johnson (Director of Strategy and Regional Economy)
- Ms R Hunter (Director of Service Delivery)

*Ms C Wright undertook extended leave from April 2019 until May 2020. During that period, Ms C Buxton took on the role of Interim Chief Executive and Interim Accountable Officer, including attendance at HIE Board meetings. Ms C Wright resumed the role of Accountable Officer on 21 April 2020. On 31 July 2021

**Ms C Wright resigned her role of Chief Executive and accountable officer. Ms C Buxton has taken on the role of Interim Chief Executive and Interim Accountable Officer, including attendance at HIE Board meetings.

** Ms K Moncrieff commenced a period of extended leave from 17 August 2020. Ms H Herd took on the role of Interim Director of Human Resources from 20 September 2020.



REGISTER OF BOARD MEMBERS' INTERESTS

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

PERFORMANCE REPORT

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

These matters are:

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

FUNDING

Highlands and Islands Enterprise's primary source of funding is Grant-in-Aid from the Scottish Government. The budget allocation for 2021-22 is £67.6m and, together with in-year budget revisions and funds generated by Highlands and Islands Enterprise from the use or sale of assets, European income and other partner contributions, is deemed adequate for HIE to continue for the foreseeable future.

FINANCIAL INSTRUMENTS

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

RETIREMENT BENEFITS

All staff with contracts of three months or more are eligible and automatically join the Highlands and Islands Enterprise Superannuation Scheme, unless they opt out. Further details are provided in the Remuneration and Staff Report and in notes 1 and 19 to the accounts.



DATA LOSS

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

APPOINTMENT OF AUDITORS

The accounts of Highlands and Islands Enterprise are audited by auditors appointed by the Auditor General for Scotland.

The appointed auditor for the year ended 31 March 2021 was Gordon Smail, Audit Director, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £141,390 (2020: £137,970). There were no fees payable to Audit Scotland for non-audit work during the year (2020: nil).

SEVERANCE PAYMENTS

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

STATEMENT OF INTERIM ACCOUNTABLE OFFICER'S RESPONSIBILITIES

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

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

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

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

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

SCOPE OF RESPONSIBILITY

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

I have specific responsibility in relation to:

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

The *Scottish Public Finance Manual* (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety. An element of the accountable officer's responsibility is to ensure HIE's internal control systems comply with the requirements of the SPFM. No written authorities were provided to the accountable officer in 2020-21.

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

GOVERNANCE FRAMEWORK

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

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

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

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

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

We align to the Scottish Government's Scottish Public Finance Manual which provides clear guidance on the approach and methodology for counter fraud, anti-corruption and bribery. HIE is taking part in the National Fraud Initiative for 2020-21 which enhances our consideration of the control environment. The initial results of this exercise were received in-year and a review undertaken.

In year, the COVID-19 pandemic presented HIE with unprecedented challenges both for our economy and how we operate as an organisation. As part of our response we quickly established a new working environment and identified areas where HIE's internal control and governance arrangements needed to be adapted. This included a move to remote working and changes to risk reporting, risk appetite and agile and proportionate decision-making to enable us to meet the needs of our communities and businesses in a time critical manner. Board and other meetings were conducted virtually, using digital technology.

HIE supported the delivery of £47.3m dedicated funding to address the impacts of COVID-19 on businesses and communities across our region (see table on p15 for details).

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

Enterprise and Skills Strategic Board

In 2017, the Scottish Government's Enterprise and Skills Review produced a new blueprint for Scotland's enterprise and skills agencies, which at the time comprised Highlands and Islands Enterprise, Scottish Enterprise, Skills Development Scotland and the Scottish Funding Council. It detailed how the agencies should work together more closely to deliver the Scottish Government's economic agenda. This aimed to maximise the collective impact Scotland makes in enterprise and skills development and to create the best conditions for delivering inclusive and sustainable growth.

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

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

HIE continues to work with our partner agencies on progressing these missions, taking an initial lead on business creation and growth. The actions are reflected in our 2019-22 strategy and operating plan. Progress against the missions, actions and outcomes achieved was provided to aid discussions at the ESSB strategy day in March 2021.

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

OPERATION OF THE BOARD AND SUB-COMMITTEES

As at 31 March 2021, the Board of Highlands and Islands Enterprise comprised the Chair, nine non-executive members and the Chief Executive. This total includes one non-executive member who resigned with immediate effect on 31 March 2021.

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

The Board met in full as planned six times in year. It met a further four times to consider specific, time-critical matters.

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

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

Risk and Assurance Committee

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

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

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

- Prof D MacRae OBE (Chair)
- Ms A B Oldfield
- Mr A Campbell
- Mr C Ross (from August 2020)

The Risk and Assurance Committee held an additional meeting in year for a development session on specific topics, including an effectiveness session. In accordance with good practice, they also met in private with representatives of external audit.

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

REMUNERATION COMMITTEE

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

The members of the committee during the year were:

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

Other Board sub-groups

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

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

The Space sub-group met nine times in year to consider issues related to HIE's space programme activity.

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

OPERATION OF GOVERNANCE-COMMITTEES

Health and Safety Committee

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

An annual stewardship report has been prepared on work undertaken by the Committee in-year. This noted a significant effort on matters arising as a result of the COVID-19 pandemic. No control issues have been noted for inclusion here.

Information Security and Fraud Governance Group

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

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

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

STRATEGIC AND OPERATIONAL FRAMEWORK

Strategy and planning

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

Our operating plan 2020/21 was unusual, owing to the serious impacts of the COVID-19 pandemic on our businesses and communities and the pressing need for us to focus on supporting their survival and building resilience. We iterated operating plans through the year to the HIE Board as circumstances developed and the out-turns are recorded in our performance summary on p10.

Business improvement

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

A significant element of this is a business transformation programme which is focussed on creating a new target operating model to support smarter delivery and extend the reach of our support. This will include a new digital delivery model, bring improved customer experience and greater use of data and analytics to target support and confirm impact.

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

Best value

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

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

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

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

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

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

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

It was considered inappropriate to undertake evaluation work which required consultation and surveys with clients given the pressures they were facing this year. Therefore, a number of key evaluations were planned or commenced near the end of 2020/21 in relation to HIE-led Inverness and Highland City-Region Deal projects, community support and tourism initiatives. These will provide important evidence, alongside our research, to contribute to future strategy and programme development.

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

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

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

BEST VALUE

POLICY DEVELOPMENT, APPRAISAL, RESOURCE ALLOCATION AND IMPLEMENTATION

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

REVIEW, EVALUATION AND BENEFITS REALISATION

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

LEADERSHIP, ACCOUNTABILITY AND GOVERNANCE

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

RESPONSIVENESS, CONSULTATION AND JOINT WORKING

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



Performance management

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

Corporate governance

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

Decision-making

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

Risk management arrangements

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

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

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

Implementation of the strategy includes:

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

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

In year, the risk appetite statements were reviewed and amended to reflect the changed risk profile as a result of the pandemic.

HIE also ensured that a risk-based approach was taken to our delivery environment and internal controls to ensure that these remained fit for purpose as we responded to the impact of COVID. This included adjustments required to meet the demands of new ways of working and in how we responded to the needs of our clients, region and projects, including supporting the delivery of £47.3m of COVID-related funds. HIE put in place a review process to ensure internal control arrangements remain appropriate, in particular considering any ongoing COVID implications.

Significant risks

Principal risks and uncertainties identified at the end of 2020/21 are described in the Performance summary (pages 8 and 9). These concern:

- Impact on regional economy from the pandemic
- Post-EU transition
- Financial and budget
- Cairngorm Mountain
- Space opportunities
- Cyber-security
- Business transformation programme
- Net zero

NON-DORMANT GROUP COMPANIES

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

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

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

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

ASSURANCE ACTIVITY

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

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

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

For 2020/21, each business unit and group company completed a review which is used to identify any control issues, and to allow completion of an organisational internal control checklist and certificate of assurance for HIE. We also received assurance from the EIS Chief Information Officer for IT services that they were not aware of any control issues.

Data security and information security assurance

Procedures are in place to ensure information is being managed in accordance with legislation and that data is held accurately and securely. In-year there was one instance of suspected data breach. This was reported to the ICO who confirmed there was no breach.

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

During 2020/21, the Business Improvement and Internal Audit team liaised with Skills Development Scotland and Scottish Enterprise in undertaking assurance reviews related to the provision of IS services in the period.

An assurance mapping exercise was undertaken and an agreed programme developed of IS assurance work with our partners and for HIE specific activity. Reviews were undertaken in-year, following up on action taken to address recommendations made in reviews undertaken in 2019/20, a Security Operations Centre review and conclusion of a Cyber Maturity review. Areas for improvement were identified and prioritised action plans developed.

Internal audit

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

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed. The annual assurance plan was based on this analysis and was endorsed by the Risk and Assurance Committee.
- Provided me with regular reports on internal audit activity and an annual report which included the Director's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity and from involvement in development meetings
- Supported HIE in developing appropriate and fit for purpose governance arrangements for key investments and complex projects
- Supported HIE in consideration of risk and development and design of tailored internal controls for disbursement of COVID-19 related funding

As part of HIE's internal audit programme of assurance reviews, improvement opportunities have been noted and will be taken forward in 2021/22. These include: access to and benefiting from other funding opportunities; subsidy regime; project appraisal and delivery environment; digital opportunities, and refreshed approach to intervention and risk.

External audit

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland identified no significant control issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2021 and on the regularity of transactions reflected in the accounts.

REVIEW OF EFFECTIVENESS AND CONCLUSION

As Interim Chief Executive and Accountable Officer, I can confirm that I am fully content with the effectiveness of HIE's existing arrangements to ensure appropriate standards of corporate governance and effective risk management. I can also confirm that these systems were in place for the year and there were no significant control weaknesses or identified lapses in data security during the year ended 31 March 2021 and to the date of signature of the accounts.

REMUNERATION AND STAFF REPORT

Section 1 – General information

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

REMUNERATION COMMITTEE

HIE's remuneration committee reviews annually the broad policy framework for the remuneration of the HIE Chief Executive, the HIE Executive Directors and any exceptional issues of remuneration identified by the HIE Chief Executive or Director of Human Resources. This is set within pay policy guidelines and recommendations and are approved by the Scottish Government Pay Policy unit and HIE's Scottish Government sponsor team.

Committee membership

Mr P Crerar CBE (Chair)

Prof D MacRae OBE

Mr A Dodds CBE

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

REMUNERATION OF BOARD MEMBERS

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

Mr A Dodds CBE was acting Chairman from 1 March 2020 to 30 April 2020 and was appointed as Chairman on 1 May 2020.

The remuneration of HIE Board members for the year ended 31 March 2021 was as follows:

	2021 £000	2020 £000	APPOINTMENT EXPIRES
Mr A Dodds CBE (Acting Chair from 1 March 2020, Chair from 1 May 2020)	40-45	10-15	30 April 2023
Ms A Bryan	10-15	10-15	31 March 2022
Mr A Campbell	10-15	10-15	31 August 2021
Mr P Crerar CBE	10-15	10-15	31 March 2022
Ms A Gray	10-15	10-15	Resigned 31 March 2021
Prof D MacRae OBE (Deputy Chair from 2 December 2020)	10-15	10-15	31 March 2022
Mr R McIntosh CBE	10-15	10-15	31 March 2022
Ms F Newton MBE	10-15	10-15	31 August 2021
Ms A B Oldfield	10-15	10-15	31 March 2022
Mr C Ross	10-15	10-15	31 August 2021
Prof L Crerar CBE (Chair to 29 February 2020)	Nil	40-45	29 February 2020
Ms M Gibson (Shadow)	Nil	5-10	17 December 2019

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

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2021 £58,417 (2020 - £59,904) was paid to these former members.

REMUNERATION OF MEMBERS OF THE HIE LEADERSHIP TEAM

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

Active members of the Highlands and Islands Enterprise Superannuation scheme contribute 6.0% of pensionable salary with HIE contributing 26.9% of the employees' pensionable salary throughout the year. C Wright contributes 9.9% of pensionable salary to the Highland Council LGPS while D Cowan contributes 9.5% of pensionable salary to the Strathclyde LGPS. HIE contributes 30.1% to all members of the Highland Council LGPS and 33.6% towards the Strathclyde LGPS. All HIE and the LGPS members are in a Career Average Revalued Earning (CARE) scheme. Further information about the pension funds can be found in the Notes to the accounts (note 19).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2021 was as follows:

	2020/21			2019/20		
	SALARY	PENSION BENEFITS	TOTAL	SALARY	PENSION BENEFITS	TOTAL
	£000	£000	£000	£000	£000	£000
C Wright, Chief Executive	110-115	34*	145-150	85-90	33*	120-125
C Buxton, Deputy Chief Executive (Interim Chief Executive 1- 20 Apr 2020)	100-105	55	155-160	110-115	80	190-195
D Cowan, Director Communities & Place	95-100	33*	130-135	95-100	54*	145-150
D J Oxley, Director Strategic Projects	90-95	26	115-120	90-95	27	115-120
N Kenton, Director Finance and Corporate Services	90-95	21	110-115	90-95	21	110-115
S Dunbar, Director Business Improvement and Internal Audit	75-80	35	110-115	75-80	20	95-100
K Moncrieff, Director Human Resources	70-75	43	115-120	75-80	38	110-115
R Hunter, Director Service Delivery (appointed 1 May 2019)	65-70	37	105-110	60-65	13	70-75
Full year equivalent				65-70	17	80-85
M Johnson, Director Strategy and Regional Economy (appointed 1 October 2019)	80-85	24	100-105	35-40	1	40-45
Full year equivalent				75-80	20	95-100
H Herd, Interim Director Human Resources (appointed 20 September 2020)	30-35	25	55-60	-	-	-
Full year equivalent salary	60-65			-	-	-

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

Note: In line with Government guidance on pay restraint there were no Performance Related Pay payments in 2020/21 or 2019/20.

No member of the leadership team received any benefits in kind in 2020/21 or 2019/20.

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

The banded salary of the most highly paid director in Highland and Islands Enterprise in 2020/21 was £110k-£115k (2019/20 £110k-£115k). This was 2.6 times (2019/20 2.7 times) the median salary of the workforce, which was £42,642 (2019/20 £41,400). In 2020/21, remuneration (excluding the highest paid director) ranged from £19k to £97k (2019/20 £18k to £95k). The movement in the median pay ratio reflects the pay and progression policy for employees.

No employee received remuneration in excess of the highest paid director in 2020/21 or 2019/20.

	2020/21	2019/20
Highest Paid Director's Total	£110k - £115k	£110-£115k
Median Total Remuneration	42,642	41,400
Ratio of highest paid director to median salary of workforce	2.6	2.7

Retirement benefits of members of HIE Leadership Team:

	ACCRUED PENSION AT AGE 65 AS AT 31/3/21 AND RELATED LUMP SUM	REAL INCREASE IN PENSION AND RELATED LUMP SUM AT AGE 65	CETV AT 31/3/21	CETV AT 31/3/20	REAL INCREASE IN CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
C Wright	55-60 Lump sum 95-100	2.5-5 Lump sum 0-2-5	1,008	936	45
C Buxton	30-35 Lump sum 90-95	2.5-5 Lump sum 7.5-10	837	751	67
D Oxley	15-20 Lump sum 55-60	0-2.5 Lump sum 5-7.5	513	467	33
D Cowan	35-40 Lump Sum 55-60	2.5-5 Lump Sum 0-2.5	738	681	36
N Kenton	0-5 Lump sum 10-15	0-2.5 Lump sum 2.5-5	89	61	21
S Dunbar	30-35 Lump sum 95-100	0.2-5 Lump sum 5-7.5	865	799	48
K Moncrieff	25-30 Lump sum 85-90	0-2.5 Lump sum 5-7.5	798	624	159
R Hunter	15-20 Lump sum 55-60	0-2.5 Lump sum 5-7.5	489	430	48
M Johnson	15-20 Lump sum 55-60	0-2.5 Lump sum 2.5-5	487	440	35
H Herd (appointed 20 September 2020)	15-20 Lump sum 50-55	0-2.5 Lump sum 0-2.5	477	*494	-28

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

*CETV at date of appointment

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

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

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

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

Section 3 - Other information

Retirement Benefits - Cash equivalent transfer values

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

Real increase in CETV

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

Staff Report

STAFF NUMBERS & COSTS

STAFF NUMBERS AND COST - GROUP						
	GROUP			GROUP		
	2021			2020		
	Permanent	Other	Total	Permanent	Other	Total
	UK Staff	Staff	Staff	UK Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	8,484	3,314	11,798	8,469	3,468	11,937
Voluntary severance packages	-	-	-	-	-	-
Social security costs	1,046	322	1,368	1,009	326	1,335
Other pension costs	2,745	710	3,455	2,930	686	3,616
Contract/temporary staff	-	126	126	-	258	258
	12,275	4,472	16,747	12,408	4,738	17,146
Board members' remuneration	457	-	457	522	-	522
	12,732	4,472	17,204	12,930	4,738	17,668

The average number of employees was as follows:						
	GROUP			GROUP		
	2021			2020		
	Permanent	Other	Total	Permanent	Other	Total
	UK Staff	Staff	Staff	UK Staff	Staff	Staff
Senior management	55	20	75	53	22	75
Operational staff	33	35	68	19	70	89
Administration and support staff	130	69	199	149	40	189
	218	124	342	221	132	353

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

STAFF NUMBERS AND COST - HIE

	HIE			HIE		
	2021			2020		
	Permanent	Other	Total	Permanent	Other	Total
	UK Staff	Staff	Staff	UK Staff	Staff	Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	7,631	2,633	10,264	7,765	2,586	10,351
Voluntary severance packages	-	-	-	-	-	-
Social security costs	945	278	1,223	929	269	1,198
Other pension costs	2,666	685	3,351	2,861	657	3,518
Contract/temporary staff	-	126	126	-	258	258
	11,242	3,722	14,964	11,555	3,770	15,325
Board members' remuneration	372	-	372	504		504
	11,614	3,722	15,336	12,059	3,770	15,829

The average number of employees was as follows:

	HIE			HIE		
	2021			2020		
	Permanent	Other	Total	Permanent	Other	Total
	UK Staff	Staff	Staff	UK Staff	Staff	Staff
Senior management	54	13	67	52	16	68
Operational staff	33	11	44	19	45	64
Administration and support staff	118	46	164	136	14	150
	205	70	275	207	75	282

COMPENSATION AND EXIT PACKAGES

No staff left under voluntary severance terms between 1st April 2020 and 31 March 2021 (2019/20 nil). The total cost of lump sum payments to staff was nil (2019 nil).

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

Employees by sex

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

Highlands and Islands Enterprise Staff:

	MALE	FEMALE	TOTAL
Board*	6	5	11
Leadership Team*	4	5	9
Other employees	101	183	284

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

Sickness absence

Highlands and Islands Enterprise Staff:

The attendance record for HIE employees for the year to 31 March 2021 was 1,356 (2020 1,861) days sick leave out of a total of 59,382 (2020 61,751) possible working days representing a lost time through sickness rate of 2.28% (2020 3.01%).

Staff turnover

HIE had a turnover rate of 6.5% for 2020/21.

Trade union facility time

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

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

There was 1 staff member who was a trade union official during 2020/21.

PERCENTAGE OF WORKING HOURS SPENT ON FACILITY TIME	UNION OFFICIALS
1 – 50%	1

The total cost of facility time amounted to 0.01% of the total pay bill, including the gross amount spent on wages, pension contributions, and national insurance contributions. 2% of the total paid facility time hours was spent on trade union activities.

Staff Policies in respect of disabled persons

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

Getting the right people for your business (7 criteria)

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

Keeping and developing your people (6 criteria)

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

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

Diversity and Inclusion

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

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

To promote and encourage greater diversity and inclusion, we ensure that the default position for all roles advertised in HIE is that they can be done from a flexible location unless there is a specified overriding business consideration. We have also adopted the "Happy to Talk Flexible Working" strapline which is featured on our website recruitment pages and for specific job adverts.

Our equal pay audit demonstrates that HIE's gender pay gap is continuing to narrow particularly for women in higher grades. Women on average earn more than men at Director level.

HIE's employment equality outcomes have been refreshed to look at how we can further advance and support equality of opportunity for all employees. HIE is recognised as a Disability Confident employer, and as such has reached the 2nd level of the Government's Disability Confident Scheme. We are in the process of reviewing the criteria associated with the next and top level of the Scheme, to seek accreditation as Disability Confident Leader.

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

PARLIAMENTARY ACCOUNTABILITY REPORT

The results for the year to 31 March 2021 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Sources of finance

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

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2021 (excluding non-cash costs) was as follows:

SOURCES OF FINANCE 2020-2021			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
	£000	£000	£000
Expenditure			
Operations	45,937	67,504	77,356
Management and administration	14,963	15,054	15,059
Total Expenditure	60,900	82,558	92,415
Income			
Grant in Aid allocation*	52,995	75,582	75,582
European Union	3,200	1,776	1,365
Other receipts	4,705	5,200	12,806
Total Income	60,900	82,558	89,753
Net authorised over/(under) spend	-	-	2,662
Cash budget outturn			
Revenue expenditure		37,530	37,530
Capital expenditure		41,318	41,318
Financial Transactions		2,000	60
Net cash drawn down		80,848	78,908
The group outturn against the elements of the budget allocation from the Scottish Government was as follows:			
Resource Budget outturn			
Resource DEL		38,264	37,142
Capital DEL		35,318	41,042
Financial Transactions		2,000	60
Ringfenced resource DEL cost including depreciation, provisions, property revaluation		5,095	995
Total Resource budget		80,677	79,239
AME cost including pension, provisions, property revaluation		6,000	6,506
Total funding provision		86,677	85,745

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

SOURCES OF FINANCE

Expenditure

HIE spent £92.4 million during the year.

Income

The Scottish Government made £75.6 million of grant in aid available to HIE. At the year-end HIE had an agreed overspend of £2.7 million. The agreed overspend related to lower additional capital projects the Scottish Government agreed HIE could progress post spring budget review.

HIE received an additional £12.8 million in other receipts and EU income of £1.4 million during the year. The largest elements of the additional other receipts related to Covid support funds for Communities £4.9 million and property sales £2.1 million.

Cash Budget Outturn

HIE drew down £78.9 million of grant in aid of the £80.8 million made available by the Scottish Government.

An additional £6.0 million of capital cash and £0.8 million of resource cash was provided by the government post spring budget review. This additional funding was drawn down in full.

Funding for financial transactions has a restricted use. HIE did not draw down £1.9 million of funding as we were unable to utilise the funding during the year.

Resource Budget Outturn

The resource outturn of £37.1 million was £1.1 million lower than the budget. The main element of the underspend related to lower credit losses than the budget provided by SG.

The capital expenditure outturn of £41.0 million was £5.7 million higher than budget. The Scottish Government agreed HIE could overspend capital by up to £6.0 million.

The ringfenced resource outturn was £1.0 million, £4.1 million under the provision set by the Scottish Government.

The Annually Managed Expenditure was £6.5 million against a budget of £6.0 million. The main elements of the overspend related to an increase in the funicular reinstatement provision.

The Resource Budget for 2021/22 of £70.5 million awarded by the Scottish Government comprises Grant-in-Aid and 'ringfenced' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

LOSSES AND CLAIMS WAIVED

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

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

LOSSES AND CLAIMS WAIVED

	GROUP		HIE	
	No of cases	£000	No of cases	£000
Financial Asset losses (losses arising from the disposal of financial assets)	6	712	6	712
Claims Waived (Grant obligations, unpaid rent, service charges and other revenue debts)	12	2,949	12	2,949

In the year to 31 March 2021 there was 1 (2020 - 0) financial asset loss which exceeded £250,000.

	2021
	£000
Ortak - Preference Shares	325
	325

In the year to 31 March 2021 there was 2 (2020 - 1 case) claims waived which exceeded £250,000.

	2021
	£000
Inside Biometrics	2,015
Burntisland Fabrications Limited	305
	2,320

FEES AND CHARGES

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

C Buxton

C Buxton
Interim Chief Executive and Accountable Officer
Highlands and Islands Enterprise
28 September 2021

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

REPORTING ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Highlands and Islands Enterprise and its group for the year ended 31 March 2021 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group and Highlands and Islands Enterprise Statement of Comprehensive Net Expenditure, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group and Highlands and Islands Enterprise Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2020/21 Government Financial Reporting Manual (the 2020/21 FReM).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the affairs of the body and its group as at 31 March 2021 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

Risks of material misstatement

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

Responsibilities of the Accountable Officer for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

REPORTING ON REGULARITY OF EXPENDITURE AND INCOME

Opinion on regularity

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

Responsibilities for regularity

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

REPORTING ON OTHER REQUIREMENTS

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

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

Statutory other information

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

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

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

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

USE OF MY REPORT

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

Gordon Smail

Gordon Smail

Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN
28 September 2021

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF COMPREHENSIVE NET EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2021

		Group		HIE	
					Restated
		2021	2020	2021	2020
	Notes	£000	£000	£000	£000
Expenditure					
Operating expenditure	6	75,125	75,857	77,407	75,554
Net management expenditure on staff costs	7	12,646	12,912	11,613	12,059
Other management expenditure	7	6,725	6,716	5,662	6,337
Depreciation and amortisation	7	(536)	1,309	(649)	1,232
		93,960	96,794	94,033	95,182
Income					
Income from activities	5	(2,371)	(4,292)	(2,390)	(4,294)
Other income	5	(11,251)	(16,701)	(10,901)	(15,465)
		(13,622)	(20,993)	(13,291)	(19,759)
Net operating expenditure from activities		80,338	75,801	80,742	75,423
Net operating expenditure		80,338	75,801	80,742	75,423
Interest payable and similar charges	9	(9)	262	(25)	254
Amounts written off financial assets measured at amortised cost		-	-	-	-
Share of (profits)/losses in equity accounted investees	12	91	(471)	-	-
Income from investments		-	-	-	-
Interest receivable	8	(323)	(298)	(323)	(298)
Other finance charges/(income)	8	1,025	1,131	1,025	1,131
Net expenditure after interest		81,122	76,425	81,419	76,510
Taxation	10	480	213	480	213
Net expenditure after taxation		81,602	76,638	81,899	76,723
Minority interests		2	(6)	-	-
Net expenditure		81,604	76,632	81,899	76,723
Other comprehensive expenditure/(Income)					
Items that will not be reclassified to net expenditure					
Net (gains)/losses on revaluation of property, plant and equipment		(169)	(34)	(169)	(34)
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		-	-	-	-
Actuarial (gains)/losses recognised in retirement benefit scheme	19	17,636	(5,996)	17,636	(5,996)
Items that may be reclassified to net expenditure					
(Gains)/ losses in revaluation of available for sales assets		-	-	-	-
Reclassification to net expenditure in the year		-	-	-	-
Other comprehensive expenditure/(income) for the year		17,467	(6,030)	17,467	(6,030)
Total comprehensive net expenditure/(Income) for the year		99,071	70,602	99,366	70,693

See note 26 for details of restatement

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Notes	GROUP		HIE	
		Restated		Restated	
		2021	2020	2021	2020
		£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	11	32,493	31,186	31,912	30,497
Intangible Assets	11A	1,257	-	1,257	-
Financial Assets	12	1,965	2,243	3,400	3,814
Receivables due over 1 year		-	-	-	-
Investment in associate	12	1,076	1,087		
Total non-current assets		36,791	34,516	36,569	34,311
Current assets					
Inventories		26	16	-	-
Trade and other receivables	14	9,949	10,246	9,907	13,322
Cash and cash equivalents	15	2,663	5,065	617	868
Assets classified as held for sale	16	1,701	3,316	1,701	3,316
Total current assets		14,339	18,643	12,225	17,506
Total assets		51,130	53,159	48,794	51,817
Current liabilities					
Trade payables and other current liabilities	17	(7,752)	(11,101)	(6,884)	(10,958)
Taxation	17	(389)	(409)	(329)	(321)
Provisions	18	(13,096)	(2,450)	(13,096)	(2,450)
Total current liabilities		(21,237)	(13,960)	(20,309)	(13,729)
Non-current assets plus net current assets less current liabilities		29,893	39,199	28,485	38,088
Non-current liabilities					
Trade payables and other liabilities	17	(3,022)	(2,545)	(3,022)	(2,545)
Provisions	18	(4,005)	(12,163)	(4,005)	(12,163)
Retirement benefit obligation	19	(60,580)	(41,984)	(60,580)	(41,984)
Total non-current liabilities		(67,607)	(56,692)	(67,607)	(56,692)
Assets less liabilities		(37,714)	(17,493)	(39,122)	(18,604)
Tax Payers' Equity					
Revaluation reserve		2,061	1,877	2,061	1,877
Government grant reserve		-	-	-	-
Other reserve		5	5	2	2
Pension reserve		(60,580)	(41,984)	(60,580)	(41,984)
Minority Interests		394	392	-	-
General reserve		20,406	22,217	19,395	21,501
		(37,714)	(17,493)	(39,122)	(18,604)

See note 26 for details of restatement

C Buxton 28 September 2021

C Buxton

Interim Chief Executive and Accountable Officer, Highlands and Islands Enterprise

The Interim Accountable Officer authorised these financial statements for issue on 28 September 2021

GROUP AND HIGHLANDS AND ISLANDS ENTERPRISE
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Group		HIE	
		Restated		Restated	
		2021	2020	2021	2020
		£000	£000	£000	£000
Cash flow from operating activities					
Net expenditure after interest		(81,122)	(76,425)	(81,419)	(76,510)
Adjustments for non-cash items:					
Depreciation	7	(536)	1,309	(649)	1,232
Provision for irrecoverable debts and losses		(547)	905	(547)	905
Investments written off, net of provision		(291)	290	(75)	125
Surplus of disposal of investments	5	-	1	-	-
Deficit on revaluation of property		4,714	6,112	4,714	6,112
Surplus on disposal of property, plant and equipment		(240)	(1,510)	(240)	(1,511)
Share of Associates profit/(loss)	12	91	(471)	-	-
Interest payable	9	(9)	262	(25)	254
Interest receivable	8	(323)	(298)	(323)	(298)
Retirement benefit scheme net changes	8	1,025	1,131	1,025	1,131
		(77,238)	(68,694)	(77,539)	(68,560)
(Increase)/decrease in inventories		(10)	2	-	-
(Increase)/decrease in trade and other receivables		1,179	3,069	4,287	823
Increase/(decrease) in trade and other payables		(1,086)	(5,599)	(1,773)	(6,047)
(Decrease)/Increase in provision for future liabilities		(65)	(581)	(65)	(581)
Net cash outflow from operating activities		(77,220)	(71,803)	(75,090)	(74,365)
Cash flows from investing activities					
Investment in associates		(80)	-	(80)	-
Proceeds of disposal of property, plant and equipment		1,547	10,681	1,547	10,682
Interest received		326	301	326	301
Loans advanced in year	12	(111)	(1,050)	(111)	(1,350)
Loans repaid in year	12	352	417	352	417
Purchase of intangible assets		(1,257)	-	(1,257)	-
Purchase of property, plant and equipment		(4,816)	(7,924)	(4,811)	(7,793)
Net cash inflow from investing activities		(4,039)	2,425	(4,034)	2,257
Cash flows from financing activities					
Grants from Scottish Government		78,848	72,419	78,848	72,419
Interest paid	9	9	(262)	25	(254)
Net cash inflow from financing activities		78,857	72,157	78,873	72,165
Net increase/(decrease) in cash and cash equivalents in the period	15	(2,402)	2,779	(251)	57
Cash and cash equivalents at the beginning of the period	15	5,065	2,286	868	811
Cash and cash equivalents at the end of the period	15	2,663	5,065	617	868

The presentation of the statement of cashflows has been revised in 20/21

GROUP STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2021

	Revaluation reserve	Other reserve	Pension reserve	Government grant reserve	Minority Interest	General reserve	Total reserves
						Restated	
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	1,883	15	(47,430)	-	398	25,830	(19,304)
Financial Assets Adjustment (Note 26)							-
Balance at 31 March 2019	1,883	15	(47,430)	-	398	25,830	(19,304)
Changes in taxpayers' equity for 2019-20							
Net gain/(loss) on revaluation of property, plant and equipment	34	(10)				10	34
Net gain/(loss) on revaluation of intangible assets							-
Net gain/(loss) on investments							-
Grants received in year							-
Release of reserves to the I&E							-
Equity accounted investees							-
Transfers between reserves (IAS19)	(40)		(550)			590	-
Actuarial Gain/(loss)			5,996				5,996
Retained Surplus/Deficit					(6)	(76,632)	(76,638)
Total recognised income and expense for 2019-20	(6)	(10)	5,446	-	(6)	(76,032)	(70,608)
Grant from Scottish Government						72,419	72,419
Balance at 31 March 2020	1,877	5	(41,984)	-	392	22,217	(17,493)
Changes in taxpayers' equity for 2020-21							
Net gain/(loss) on revaluation of property, plant and equipment	169	-					169
Net gain/(loss) on revaluation of intangible assets							-
Net gain/(loss) on investments							-
Grants received in year							-
Release of reserves to the I&E							-
Equity accounted investees					-		-
Transfers between reserves	15		(960)			945	-
Actuarial Gain/(loss)			(17,636)				(17,636)
Retained Surplus/Deficit					2	(81,604)	(81,602)
Total recognised income and expense for 2020-21	184	-	(18,596)	-	2	(80,659)	(99,069)
Grant from Scottish Government						78,848	78,848
Balance at 31 March 2021	2,061	5	(60,580)	-	394	20,406	(37,714)

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

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve £2k (2020 £2k) and the share of equity accounted investee reserves £3k (2020 £3k).

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

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

**HIGHLANDS AND ISLANDS ENTERPRISE STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
FOR THE YEAR ENDED 31 MARCH 2021**

	Revaluation reserve	Other reserve	Pension reserve	Government grant reserve	General reserve	Total reserves
	£000	£000	£000	£000	Restated £000	£000
Balance at 31 March 2019	1,883	12	(47,430)	-	24,764	(20,771)
Financial Assets Adjustment (Note 26)					441	441
Balance at 31 March 2019	1,883	12	(47,430)	-	25,205	(20,330)
Changes in taxpayers' equity for 2019-20						
Net gain/(loss) on revaluation of property, plant and equipment	34	(10)			10	34
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments						-
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves (IAS19)	(40)		(550)		590	-
Actuarial Gain/(loss)			5,996			5,996
Retained Surplus/Deficit					(76,723)	(76,723)
Total recognised income and expense for 2019-20	(6)	(10)	5,446	-	(76,123)	(70,693)
Grant from Scottish Government					72,419	72,419
Balance at 31 March 2020	1,877	2	(41,984)	-	21,501	(18,604)
Changes in taxpayers' equity for 2020-21						
Net gain/(loss) on revaluation of property, plant and equipment	169	-				169
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments						-
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves	15		(960)		945	-
Actuarial Gain/(loss)			(17,636)			(17,636)
Retained Surplus/Deficit					(81,899)	(81,899)
Total recognised income and expense for 2020-21	184	-	(18,596)	-	(80,954)	(99,366)
Grant from Scottish Government					78,848	78,848
Balance at 31 March 2021	2,061	2	(60,580)	-	19,395	(39,122)

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

Other reserves are the balance arising on unrealised gains from the revaluation of assets not included within the revaluation reserve £2k (2020 £2k).

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

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

1. Accounting policies

BASIS OF PREPARATION

The financial statements have been prepared in accordance with the 2020-21 Government Financial Reporting Manual (FRoM) and Accounts Direction issued by Scottish Ministers, in accordance with Section 30(1) of the Enterprise and New Towns (Scotland) Act 1990

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

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

- property (note 11)
- financial assets (note 12)
- assets classified as held for sale (note 16)
- financial commitments (note 20)

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

GOING CONCERN

The financial statements for the year ended 31 March 2021 show net liability position of £39.1m (Group £37.7m net liabilities). The position of net liabilities has arisen due to the HIE pension fund and Local Government Pension Scheme deficits. Net current liabilities will be funded by the Scottish Government as they arise. The financial statements have therefore been prepared on a going concern basis.

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

BASIS OF CONSOLIDATION

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

(a) Subsidiaries

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

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

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

(b) Associates and joint arrangements

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

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

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

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

(c) Other

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

ACCOUNTING FOR GRANT-IN-AID

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

EUROPEAN UNION FUNDING AND OTHER GRANTS

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

INCOME

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

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

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

EXPENDITURE

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

PROPERTY, PLANT AND EQUIPMENT

HIE has 4 categories of property, plant and equipment:

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

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

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

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

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

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

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

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

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

FINANCIAL ASSETS - EQUITY

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

FINANCIAL ASSETS - LOANS AND RECEIVABLES

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

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

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

INTANGIBLE ASSETS GOODWILL

Goodwill arising on the purchase of subsidiaries is recognised at fair value on acquisition. Amortisation is calculated on a straight-line basis over a period of 5 years.

ASSETS CLASSIFIED AS HELD FOR SALE

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

IRRECOVERABLE INCOME

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

LEASE COMMITMENTS

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

RESEARCH EXPENDITURE

All research expenditure is charged in the year it occurs.

INSURANCE

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

TAXATION

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

EMPLOYEE BENEFITS

Retirement Benefits

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

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

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

Additional information is disclosed in note 19.

Short term employee benefits

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

TRADE RECEIVABLES AND PAYABLES

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

CASH AND CASH EQUIVALENTS

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

PROVISIONS

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

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

ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

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

■ IFRS 16 – Leases

IFRS 16 replaces IAS 17 – Leases and largely removes the distinction between operating and finance leases for leases by introducing a single lessee accounting model that requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. As a result of the current COVID-19 response implementation of IFRS 16 has been deferred to 1 April 2022. If IFRS 16 had been adopted the effect would have been to increase leased assets and financial liabilities by £9.586m as at 31 March 2021. In addition, expenditure would have been reduced by £1.246m and depreciation charges would have increased by £1.127m.

2. Critical judgements made in applying accounting policies

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

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

(a) Retirement benefit obligations

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

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

(b) Fair value of financial instruments

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

(c) Held-to-maturity investments

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

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

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

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

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

(e) EU Income

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

(f) Property

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

The valuation report has been used to inform the measurement of assets in these financial statements. Although the valuer has reported on the basis of material valuation uncertainty, the valuer has continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to the Group at 31 March 2021 and can be relied upon.

Following an independent revaluation of assets at Arnish during the year an adjustment was made to the useful lives of these assets. In line with IAS8, the adjustment was made on a prospective basis as the revision of an accounting estimate and prior year adjustments are not recognised.

(g) Provisions

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

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

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

The balance sheet of HIE at 31 March 2021 includes the following items for which there is significant risk of material adjustment in the forthcoming financial year:

ITEM	UNCERTAINTIES	EFFECT IF RESULTS DIFFER FROM ASSUMPTIONS
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which pay is projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The HIE Pension Scheme has engaged a firm of consulting actuaries to provide expert advice about the assumptions to be applied.	The impact of changes in assumptions used to calculate the pension liability has been assessed by the actuaries as described in note 19.
COVID -19 Impact on valuations	The global pandemic has impacted on global financial markets and therefore less weight can be attached to the previous market evidence for comparison purposes and to inform opinions of value.	<p>Any significant change in market valuations would require categories of asset (in particular Land and Buildings) to be revalued and would therefore impact on the asset valuations on the statement of financial position.</p> <p>The risk of movement is uncertain and an upwards or downwards revaluation in future years is possible. It is estimated that a change in value of 10% in Land and Buildings would adjust the total value of plant, property and equipment by £2.78m.</p>

4. Segmental Information

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

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2020 and 2021 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the group net operating cost before taxation.

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

SEGMENTAL INFORMATION		
	2021	2020
	£000	£000
Expenditure		
Block A		
Discretionary spend	18,546	18,787
Priority Investment	21,079	26,010
Business support	5,969	8,801
Cairngorm Mountain (Scotland) Limited	1,973	2,925
WES	7,295	9,532
Total Block A	54,862	66,055
Block B		
Management, staff and administration cost	15,059	16,004
Total Block B	15,059	16,004
Total Gross Expenditure	69,921	82,059
Income		
Loan repayments	352	417
Equity sales	-	-
Property sales	1,546	10,682
Property rental	2,144	2,774
Loan interest / dividend	271	298
Scottish Government Grant	4,917	-
Other income	1,583	1,169
Total other income	10,813	15,340
Net expenditure funded by core SG income	59,108	66,719

Other income and expenditure		
Expenditure		
European Funds	1,776	3,344
Broadband	-	5,986
Digital Communities (formerly CBS)	-	26
Scottish Land Fund (SLF)	396	420
City Region Deal - Science Skills Academy	407	528
City Region Deal - Northern Innovation Hub	1,116	957
Covid Support	18,633	-
Orkney the Brand	74	76
Other expenditure	92	-
	22,494	11,337
Income		
European Funds	1,365	3,344
Broadband	-	5,986
Digital Communities (formerly CBS)	-	26
Scottish Land Fund (SLF)	396	420
City Region Deal - Science Skills Academy	407	528
City Region Deal - Northern Innovation Hub	1,116	957
Orkney the Brand	74	76
	3,358	11,337
Financial position (I&E)	78,244	66,719
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	(78,244)	(66,719)
Pension (IAS19)	(960)	(550)
Depreciation	535	(1,308)
Provisions and charges	(2,479)	(6,443)
Timing differences	1	3
Property cost of sales	(1,288)	(9,163)
Capital revaluation and additions	1,306	2,450
Taxation provision and charges	(25)	4,466
HIE Ventures Limited	(1)	-
Associate companies	(11)	471
Consolidation adjustments	44	368
Group net operating cost before taxation	(81,122)	(76,425)

COVID SUPPORT EXPENDITURE

	Capital	Revenue	Total
	£000s	£000s	£000s
Funded via GIA increase			
Hotel Support Programme	1,443	1,894	3,337
Islands' Green Recovery	440	-	440
Wedding Industry Fund	-	2,210	2,210
Snowsports Fund 1	-	1,719	1,719
Snowsports Fund 2	-	1,944	1,944
Additional Covid Response Funding	-	263	263
Digital Enablement Grant	-	-	-
Funded via GIA increase	1,883	8,030	9,913

	Capital	Revenue	Total
	£000s	£000s	£000s
Funded via SG grant			
Strengthening Communities Fund	-	3,464	3,464
Communities Recovery Fund	-	1,453	1,453
Funded via SG Grant	-	4,917	4,917

	Capital	Revenue	Total
	£000s	£000s	£000s
Funded via HIE Baseline budget			
Digital Enablement Grant*	1,386	-	1,386
Community Tourism*	1,450	-	1,450
Young Company Capital*	923	-	923
Destination Management Organisation	-	44	44
Funded from HIE Baseline Budget	3,759	44	3,803
* Capital spend funded by £6.0m authorised overspend			
Total HIE direct Covid funding	5,642	12,991	18,633

	Capital	Revenue	Total
	£000s	£000s	£000s
Funded via Scottish Enterprise			
Pivotal Enterprise Resilience Fund	-	20,000	20,000
Creative, Tourism & Hospitality Hardship Fund	-	4,949	4,949
Funded via Scottish Enterprise	-	24,949	24,949
Total HIE Covid funding	5,642	37,940	43,582

	Capital	Revenue	Total
	£000s	£000s	£000s
Local Covid Interventions			
Hotel Support Programme Legacy*	365	6	371
Pivotal Enterprise Resilience Fund Legacy	-	1,078	1,078
Additional Covid Response Funding**	-	349	349
Other Covid spend	2,005	1,189	3,194
Local Covid Interventions	2,370	2,622	4,992

* Capital spend funded by £6.0m authorised overspend

**Budget shown above

Total HIE Covid Response	8,012	40,562	48,574
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5. Income from operating activities

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

5. INCOME FROM OPERATING ACTIVITIES

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Income from Activities				
Property rentals	2,125	2,774	2,144	2,775
Gain/(loss) on financial assets at fair value	-	-	-	-
Surplus/(loss) on disposal of property	246	1,519	246	1,519
Surplus/(loss) on disposal of investments	-	(1)	-	-
	2,371	4,292	2,390	4,294
Other Income				
Other European contributions	1,351	3,351	1,351	3,351
Scottish Government receipts	4,917	6,138	4,917	6,138
Other external income	4,983	7,212	4,633	5,976
	11,251	16,701	10,901	15,465

6. Expenditure on operating activities

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

	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2020
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	24,160	14,681	29,414	-	68,255	66,159
Cairngorm Mountain (Scotland) Limited	-	-	-	781	781	1,366
Community Broadband	-	-	-	-	-	33
Wave Energy Scotland	6,089	-	-	-	6,089	8,299
HIE Ventures Limited	-	-	-	-	-	-
Group	30,249	14,681	29,414	781	75,125	75,857
2020	41,450	14,703	18,338	1,366	75,857	

Expenditure includes grants of £45,455,738 (2020 - £25,732,428) of which £212,485 (2020- £561,917) were made to the public sector and £45,243,253 (2020 - £25,170,510) to the private sector.

Property revaluation and management costs of £3,915,666 (2020 - £4,208,763) are included within Business Support expenditure above.

	PRIORITY INVESTMENTS	BUSINESS SUPPORT	GROWTH INVESTMENT	TOURISM ATTRACTION OPERATOR	TOTAL	2020
	£000	£000	£000	£000	£000	£000
Highlands and Islands Enterprise	33,312	14,681	29,414	-	77,407	75,521
Cairngorm Mountain (Scotland) Limited	-	-	-	-	-	-
Community Broadband	-	-	-	-	-	33
Wave Energy Scotland	-	-	-	-	-	-
HIE Ventures Limited	-	-	-	-	-	-
Highlands and Islands Enterprise	33,312	14,681	29,414	-	77,407	75,554
2020	42,513	14,703	18,338	-	75,554	

7A. ADMINISTRATION AND MANAGEMENT CHARGES BY ORGANISATION

	GROUP	
	2021	2020
	£000	£000
Highlands and Islands Enterprise	16,114	18,708
Cairngorm Mountain (Scotland) Limited	1,342	698
Wave Energy Scotland Limited	1,377	1,517
Former LECs	-	-
HIE Ventures Limited	2	14
Continuing operations	18,835	20,937

7B. ADMINISTRATION AND MANAGEMENT CHARGES

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Continuing operations				
Staff and board member salaries	12,711	13,493	11,678	12,640
IAS 19 adjustment in respect of service costs and curtailments	(65)	(581)	(65)	(581)
	12,646	12,912	11,613	12,059
Travel and subsistence - board members	-	90	-	14
Travel and subsistence - staff	40	623	38	623
Accommodation	1,170	954	1,141	918
Hospitality – board members	-	2	-	2
Hospitality – staff	5	38	5	38
Audit fees	157	155	141	138
Operating lease rentals – equipment	40	34	18	21
Equipment and furnishings	152	62	152	62
Provision for irrecoverable debts and losses and write off of debts	46	693	46	693
Movement in investment provisions and write off of investments	(411)	351	(361)	621
Investment fair value adjustments	119	(61)	286	589
Other provisions	2,487	498	2,487	498
Other administration costs	2,920	3,277	1,709	2,120
	6,725	6,716	5,662	6,337
Depreciation of fixed assets	(536)	1,309	(649)	1,232
Total administration and management charges	18,835	20,937	16,626	19,628

Fees chargeable for audit services provided by Audit Scotland amounted to £141,390 (2020 - £137,970).

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

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

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Investment income				
Dividends received	-	-	-	-
Interest receivable				
Loan interest receivable	(315)	(263)	(315)	(263)
Bank interest receivable	(8)	(35)	(8)	(35)
Other Interest receivable	-	-	-	-
	(323)	(298)	(323)	(298)
Other finance (income) / charges				
Interest income on retirement benefit assets	(2,797)	(2,824)	(2,797)	(2,824)
Interest on retirement benefit scheme obligations	3,822	3,955	3,822	3,955
	1,025	1,131	1,025	1,131

9. INTEREST PAYABLE

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Other	(9)	262	(25)	254
	(9)	262	(25)	254

10. Taxation

Corporation tax is charged at 19% (2020 19%) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10% and 20% on the taxable incomes of its subsidiaries.

10. TAXATION

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Current tax				
Current tax on profits for the year	-	-	-	-
Adjustment in respect of prior years	-	-	-	-
Total current tax	-	-	-	-
Deferred tax				
Current year	564	81	564	81
Adjustment in respect of previous periods	(219)	141	(219)	141
Effect of changes in tax rates	135	(9)	135	(9)
Total deferred tax	480	213	480	213
Tax per statement of comprehensive net expenditure	480	213	480	213
Factors affecting tax charge for the period				
Net expenditure after interest	81,122	76,425	81,419	76,510
Tax on loss at 19% (2020 19%)	(15,413)	(14,521)	(15,470)	(14,415)
Tax under/(over) provided in previous years	(219)	141	(219)	141
Non-taxable income and disallowable expenditure	15,826	14,602	15,883	14,496
Effect of changes in Tax Rates	135	(9)	135	(9)
Revaluation	151	-	151	-
Current tax charge	480	213	480	213

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

11. Property Plant and Equipment

At 31 March 2021, 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.

During the year an adjustment was made to the useful life of some assets. This has resulted in an adjustment to write back depreciation resulting in the overall negative depreciation charge for the year.

PROPERTY PLANT AND EQUIPMENT - GROUP

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2019	24,650	3,478	1,785	29,913	1,289	857	7,290	39,349
Additions	1,780	16	4,896	6,692	51	584	598	7,925
Write down	-	-	-	-	-	-	-	-
Disposals	(208)	-	-	(208)	(21)	(225)	(28)	(482)
Reclassifications	(864)	-	(1,785)	(2,649)	-	-	-	(2,649)
Revaluations	(1,613)	(16)	-	(1,629)	-	-	-	(1,629)
Impairment	-	-	(4,721)	(4,721)	-	-	-	(4,721)
At 31 March 2020	23,745	3,478	175	27,398	1,319	1,216	7,860	37,793
Depreciation								
At 1 April 2019	-	-	-	-	1,229	613	3,953	5,795
Charged in year	235	48	-	283	13	231	773	1,300
Write down	-	-	-	-	-	-	9	9
Disposals	-	-	-	-	(19)	(169)	(26)	(214)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(235)	(48)	-	(283)	-	-	-	(283)
At 31 March 2020	-	-	-	-	1,223	675	4,709	6,607
Net Book Value								
At 31 March 2020	23,745	3,478	175	27,398	96	541	3,151	31,186
At 1 April 2020	23,745	3,478	175	27,398	1,319	1,216	7,860	37,793
Additions	1,706	-	3,261	4,967	-	-	41	5,008
Write down	-	-	-	-	-	-	-	-
Disposals	(179)	-	-	(179)	-	(292)	(264)	(735)
Reclassifications	499	-	-	499	-	-	-	499
Revaluations	(1,587)	2	-	(1,585)	-	-	-	(1,585)
Impairment	-	-	(3,261)	(3,261)	-	-	-	(3,261)
At 31 March 2021	24,184	3,480	175	27,839	1,319	924	7,637	37,719
Depreciation								
At 1 April 2020	-	-	-	-	1,223	675	4,709	6,607
Charged in year	252	49	-	301	11	197	(1,049)	(540)
Write down	-	-	-	-	-	-	4	4
Disposals	-	-	-	-	-	(292)	(252)	(544)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(252)	(49)	-	(301)	-	-	-	(301)
At 31 March 2021	-	-	-	-	1,234	580	3,412	5,226

Net Book Value									
At 31 March 2021	24,184	3,480	175	27,839	85	344	4,225	32,493	
At 1 April 2020	23,745	3,478	175	27,398	96	541	3,151	31,186	
At 1 April 2019	24,650	3,478	1,785	29,913	60	244	3,337	33,554	

Analysis of asset financing:

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	23,475	3,478	175	27,128	96	541	3,047	30,812
Finance leased	270	-	-	270	-	-	104	374

Net Book Value								
At 31 March 2020	23,745	3,478	175	27,398	96	541	3,151	31,186
Owned	23,884	3,480	175	27,539	85	344	4,225	32,193
Finance leased	300	-	-	300	-	-	-	300

Net Book Value								
At 31 March 2021	24,184	3,480	175	27,839	85	344	4,225	32,493
At 1 April 2020	23,745	3,478	175	27,398	96	541	3,151	31,186
At 1 April 2019	24,650	3,478	1,785	29,913	60	244	3,337	33,554

PROPERTY PLANT AND EQUIPMENT - HIE

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2019	24,650	3,478	1,787	29,915	1,289	858	6,588	38,650
Additions	1,780	16	4,896	6,692	51	584	466	7,793
Write down	-	-	-	-	-	-	-	-
Disposals	(208)	-	-	(208)	(21)	(225)	(28)	(482)
Reclassifications	(862)	-	(1,787)	(2,649)	-	-	-	(2,649)
Revaluations	(1,613)	(16)	-	(1,629)	-	-	-	(1,629)
Impairment	-	-	(4,721)	(4,721)	-	-	-	(4,721)
At 31 March 2020	23,747	3,478	175	27,400	1,319	1,217	7,026	36,962
Depreciation								
At 1 April 2019	-	-	-	-	1,230	614	3,886	5,730
Charged in year	235	48	-	283	13	231	696	1,223
Write down	-	-	-	-	-	-	9	9
Disposals	-	-	-	-	(19)	(169)	(26)	(214)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(235)	(48)	-	(283)	-	-	-	(283)
At 31 March 2020	-	-	-	-	1,224	676	4,565	6,465
Net Book Value								
At 31 March 2020	23,747	3,478	175	27,400	95	541	2,461	30,497
At 1 April 2020								
At 1 April 2020	23,747	3,478	175	27,400	1,319	1,217	7,026	36,962
Additions	1,706	-	3,261	4,967	-	-	36	5,003
Write down	-	-	-	-	-	-	-	-
Disposals	(179)	-	-	(179)	-	(292)	(264)	(735)
Reclassifications	499	-	-	499	-	-	-	499
Revaluations	(1,587)	2	-	(1,585)	-	-	-	(1,585)
Impairment	-	-	(3,261)	(3,261)	-	-	-	(3,261)
At 31 March 2021	24,186	3,480	175	27,841	1,319	925	6,798	36,883
Depreciation								
At 1 April 2020	-	-	-	-	1,224	676	4,565	6,465
Charged in year	252	49	-	301	11	197	(1,162)	(653)
Write down	-	-	-	-	-	-	4	4
Disposals	-	-	-	-	-	(292)	(252)	(544)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(252)	(49)	-	(301)	-	-	-	(301)
At 31 March 2021	-	-	-	-	1,235	581	3,155	4,971
Net Book Value								
At 31 March 2021	24,186	3,480	175	27,841	84	344	3,643	31,912
At 1 April 2020	23,747	3,478	175	27,400	95	541	2,461	30,497
At 1 April 2019	24,650	3,478	1,787	29,915	59	244	2,702	32,920

Analysis of asset financing:

	Land and buildings held for regeneration purposes	Land and buildings held for own use	Assets under construction	Total land and buildings	Tenants improvements	IT equipment	Plant and equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	23,477	3,478	175	27,130	95	541	2,461	30,227
Finance leased	270	-	-	270	-	-	-	270
Net Book Value								
At 31 March 2020	23,747	3,478	175	27,400	95	541	2,461	30,497
Owned	23,886	3,480	175	27,541	84	344	3,643	31,612
Finance leased	300	-	-	300	-	-	-	300
Net Book Value								
At 31 March 2021	24,186	3,480	175	27,841	84	344	3,643	31,912
At 1 April 2020	23,747	3,478	175	27,400	95	541	2,461	30,497
At 1 April 2019	24,650	3,478	1,787	29,915	59	244	2,702	32,920

Land and Buildings held for industrial and commercial use were valued at 31 March 2021 by Graham & Sibbald, Chartered Surveyors, on a fair value basis as defined in the Valuation Standards 2020 (Red Book) issued by The Royal Institution of Chartered Surveyors and had a total value of £29.7m (2020: £30.7m).

Reconciliation of profit on sales:

	GROUP	
	2021	2020
	£000	£000
Sales value of disposals	1,522	10,681
Net book value of disposals	(1,275)	(9,162)
Profit on sales	247	1,519

Analysis of funding of asset additions (including assets under construction)

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Government Grant in Aid	4,351	7,925	4,351	7,793
EU and other income	657	0	652	0
Total	5,008	7,925	5,003	7,793

11A. INTANGIBLE ASSETS

At 31 March 2021, HIE had an internally generated intangible asset under construction.

INTANGIBLE ASSETS - GROUP

	Intangible assets in development	Intangible assets	Total Intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2020	-		-
Additions	1,257		1,257
Write down	-		-
Disposals	-		-
Reclassifications	-		-
Revaluations	-		-
Impairment	-		-
At 31 March 2021	1,257	-	1,257
Amortisation			
At 1 April 2020	-		-
Charged in year	-		-
Write down	-		-
Disposals	-		-
Reclassifications	-		-
Revaluations	-		-
At 31 March 2021	-	-	-
Net Book Value			
At 31 March 2021	1,257	-	1,257
At 1 April 2020	-	-	-

INTANGIBLE ASSETS - HIE

	Intangible assets in development	Intangible assets	Total Intangible assets
	£000	£000	£000
Cost or valuation			
At 1 April 2020	-		-
Additions	1,257		1,257
Write down	-		-
Disposals	-		-
Reclassifications	-		-
Revaluations	-		-
Impairment	-		-
At 31 March 2021	1,257	-	1,257
Amortisation			
At 1 April 2020	-		-
Charged in year	-		-
Write down	-		-
Disposals	-		-
Reclassifications	-		-
Revaluations	-		-
At 31 March 2021	-	-	-
Net Book Value			
At 31 March 2021	1,257	-	1,257
At 1 April 2020	-	-	-

12. Financial Assets

FINANCIAL ASSETS - GROUP

	2021	2020
	£000	£000
Financial assets at fair value through profit and loss		
Unlisted equity shares	2	20
Investment through membership	0	0
	<u>2</u>	<u>20</u>

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

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

Loans and receivables				
	Preference shares	Loans and receivables	Total	Total
	£000	£000	£000	£000
Amortised cost				
At 1 April 2020	2,773	6,177	8,950	9,142
Additions	-	111	111	1,050
Repayments	-	(352)	(352)	(417)
Disposals	-	-	-	-
Fair value adjustment	-	(117)	(117)	56
Reclassification	-	-	-	-
Written off	(497)	(1)	(498)	(881)
At 31 March 2021	<u>2,276</u>	<u>5,818</u>	<u>8,094</u>	8,950
Diminution in value				
At 1 April 2020	2,773	3,725	6,498	7,208
Additions	-	29	29	111
Disposals	-	-	-	-
Released	-	(606)	(606)	(122)
Reclassification	-	-	-	-
Risk premium	-	150	150	182
Written off	(497)	(1)	(498)	(881)
At 31 March 2021	<u>2,276</u>	<u>3,297</u>	<u>5,573</u>	6,498
Net book value				
At 31 March 2021	-	2,521	2,521	2,452
At 1 April 2020	-	2,452	2,452	
Analysis of loans and receivables				
Due within 1 year	-	558	558	229
Due over 1 year	-	1,963	1,963	2,223

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

Risk premium represents the movement in risk premium in year

FINANCIAL ASSETS - HIE

	2021	2020
	£000	£000
Financial assets at fair value through profit and loss		
Unlisted equity shares	529	649
Investment through membership	850	883
	1,379	1,532

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

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

Loans and receivables	Preference Shares	Loans and receivables	Total	Total
	£000	£000	£000	£000
	2021	2021	2021	2020
	£000	£000	£000	£000
Amortised cost				
At 1 April 2020	2,773	6,597	9,370	9,862
Additions	-	111	111	1,350
Repayments	-	(352)	(352)	(417)
Disposals	-	-	-	-
Fair value adjustment	-	(117)	(117)	56
Converted to unlisted equity shares	-	-	-	(600)
Written off	(497)	(1)	(498)	(881)
At 31 March 2021	2,276	6,238	8,514	9,370
Diminution in value				
At 1 April 2020	2,773	4,086	6,859	7,838
Additions	-	29	29	111
Disposals	-	-	-	-
Released	-	(605)	(605)	(121)
Reclassification	-	-	-	-
Risk premium	-	150	150	(88)
Written off	(497)	(1)	(498)	(881)
At 31 March 2021	2,276	3,659	5,935	6,859
Net book value				
At 31 March 2021	-	2,579	2,579	2,511
At 1 April 2020	-	2,511	2,511	
Analysis of loans and receivables				
Due within 1 year	-	558	558	229
Due over 1 year	-	2,021	2,021	2,282

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

Risk premium represents the movement in risk premium in year

SUBSIDIARIES

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

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

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

On 30 March 2012 50,000 ordinary shares of £1.00 each were acquired in HIE Ventures Limited, this increased HIE's holding from 30% to 55% of the ordinary shares. HIE acquired the shares to ensure the continuity of the HIE Ventures investment fund. The non-controlling interest amounts to 45% as at 31 March 2021.

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

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

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

LIMITED BY GUARANTEE

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

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

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

LIMITED BY SHARES

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

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

LIMITED LIABILITY PARTNERSHIPS

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

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

	NON CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	CURRENT LIABILITIES	NON CURRENT LIABILITIES	TOTAL LIABILITIES	REVENUE	EXPENSES	PROFIT/ (LOSS)
	£000	£000	£000	£000	£000	£000	£000	£000	£000
As at March 2019	634	5,258	5,892	(5,061)	(123)	(5,184)	2,185	(10,896)	(8,711)
As at March 2020	688	6,297	6,985	(5,436)	(523)	(5,959)	1,305	(10,803)	(9,498)
As at March 2021	580	2,626	3,206	(1,455)	(498)	(1,954)	1,230	(8,475)	(7,245)

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

	NON CURRENT ASSETS	CURRENT ASSETS	TOTAL ASSETS	CURRENT LIABILITIES	NON CURRENT LIABILITIES	TOTAL LIABILITIES	REVENUE	EXPENSES	PROFIT/ (LOSS)
	£000	£000	£000	£000	£000	£000	£000	£000	£000
As at March 2019	7,320	2,313	9,633	(4,315)	(3,550)	(7,865)	3,586	(7,097)	(3,511)
As at March 2020	7,843	2,621	10,464	(4,613)	(3,290)	(7,903)	3,640	(4,682)	(1,042)
As at March 2021	8,257	1,395	9,652	(2,723)	(4,455)	(7,178)	2,453	(2,699)	(246)

2019/2020 expenses figure has been restated

MOVEMENTS IN CARRYING AMOUNT OF INVESTMENT IN EQUITY ACCOUNTED INVESTEES					
					£000
Carrying amount as at 1 April 2019					616
Share of reserves					-
Share of net profit/(Loss)					471
Carrying amount as at 31 March 2020					1,087
Carrying amount as at 1 April 2020					1,087
Share of net profit/(Loss)					(91)
Carrying amount as at 31 March 2021					996

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

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

SIGNIFICANT HOLDINGS

Name of company	Activity	Percentage Holding as at 31 March 2021 of voting rights	Share value paid £000	Original loan capital £000
Balcas Limited	Production of renewable wood pellet fuel	Nil 29,811 cumulative convertible participating redeemable preferred shares	2,000	
Inverness Airport Business Park Limited	Construction and operation of Business park	25% 500 class 'C' ordinary shares	-	1,423
		24,997 class 'D' ordinary shares	29	-
		275,000 redeemable preference shares	550	-
HIE Ventures Limited	Equity investment company	55% 110,000 Ordinary Shares	61	1,000
		40,000 class 'A' ordinary shares	40	-
Cairngorm Mountain (Scotland Limited)	Tourism Attraction Operator	100% 1,060,952 Ordinary Shares	1,061	700
Investments in 29 other businesses			770	5,249
			4,511	8,372

13. Fair Value and impairments

Revaluations to fair value and impairment charges for the year.

FAIR VALUE AND IMPAIRMENTS				
GROUP				
	Statement of comprehensive net expenditure	Revaluation reserve	Total	2020
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	1,453	(169)	1,284	1,346
Equity accounted investees			-	-
Financial assets	118	-	118	(61)
	1,571	(169)	1,402	1,285
Impairments				
Property, plant and equipment	3,261	-	3,261	4,721
Assets classified as held for sale	-	-	-	-
Financial assets	(195)	-	(195)	(351)
	3,066	-	3,066	4,370
HIE				
	Statement of comprehensive net expenditure	Revaluation reserve	Total	2020
	£000	£000	£000	£000
Revaluations to fair value				
Property, plant and equipment	1,453	(169)	1,284	1,346
Financial assets	173	-	173	(54)
	1,626	(169)	1,457	1,292
Impairments				
Property, plant and equipment	3,261	-	3,261	4,721
Assets classified as held for sale	-	-	-	-
Financial assets	244	-	244	(621)
	3,505	-	3,505	4,100

14. TRADE AND OTHER RECEIVABLES

	Note	GROUP		HIE	
		2021 £000	2020 £000	2021 £000	2020 £000
Trade receivables		7,850	8,925	7,851	8,922
Impairment for bad debts		(1,116)	(1,333)	(1,116)	(1,333)
		6,734	7,592	6,735	7,589
Taxation recoverable		901	469	833	469
Accrued income and prepayments		1,756	1,956	1,490	1,838
Owed by subsidiary undertakings		-	-	291	3,197
Loans and other receivables	12	558	229	558	229
		9,949	10,246	9,907	13,322

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

		GROUP		HIE	
		2021 £000	2020 £000	2021 £000	2020 £000
Balances with other central government bodies		1,093	907	1,093	907
Balances with local authorities		365	536	365	536
Balances with NHS bodies		212	-	212	-
Balances with similar public bodies		269	326	269	326
		1,939	1,769	1,939	1,769
Balances with bodies external to government		8,010	8,477	7,968	11,553
		9,949	10,246	9,907	13,322

15. CASH AND CASH EQUIVALENTS

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Balance at 1 April	5,065	2,286	868	811
Net change in cash and cash equivalent balances	(2,402)	2,779	(251)	57
Balance as at 31 March	2,663	5,065	617	868

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Group and HIE funds	2,254	4,442	208	245
Other scheme funds held	409	623	409	623
	2,663	5,065	617	868

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

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Community Broadband Scotland	409	623	409	623
	409	623	409	623

16. Assets Classified as Held for Resale

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

ASSETS CLASSIFIED AS HELD FOR RESALE - GROUP

	Land and Buildings	Plant and equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2019	9,579	-	-	9,579
Transfers to/(from) assets held for resale	2,649	-	-	2,649
Other costs associated with sale of assets	(48)	-	-	(48)
Disposals of non current assets held for sale	(8,864)	-	-	(8,864)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2020	3,316	-	-	3,316
	Land and Buildings	Plant and equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2020	3,316	-	-	3,316
Transfers to/(from) assets held for resale	(498)	-	-	(498)
Other costs associated with sale of assets	(22)	-	-	(22)
Disposals of non current assets held for sale	(1,095)	-	-	(1,095)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2021	1,701	-	-	1,701

During the year it was decided 6 assets (2020 - 3) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

ASSETS CLASSIFIED AS HELD FOR RESALE - HIE

	Land and Buildings	Plant and equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2019	9,579	-	-	9,579
Transfers to/(from) assets held for resale	2,649	-	-	2,649
Other costs associated with sale of assets	(48)	-	-	(48)
Disposals of non current assets held for sale	(8,864)	-	-	(8,864)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2020	3,316	-	-	3,316
	Land and Buildings	Plant and equipment	Financial Assets	Total
	£000	£000	£000	£000
As at 1 April 2020	3,316	-	-	3,316
Transfers to/(from) assets held for resale	(498)	-	-	(498)
Other costs associated with sale of assets	(22)	-	-	(22)
Disposals of non current assets held for sale	(1,095)	-	-	(1,095)
Impairment recognised on re-measurement	-	-	-	-
At 31 March 2021	1,701	-	-	1,701

During the year it was decided 6 assets (2020 - 3) would no longer be marketed for sale. The assets were transferred out of assets held for resale back into non-current assets.

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

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Trade payables	4,205	5,655	3,858	4,056
Accruals and deferred income	3,205	5,127	2,448	4,689
Prepaid rental income	342	319	342	319
Owed to subsidiary undertakings	-	-	236	1,894
	7,752	11,101	6,884	10,958
Taxation and social security	389	409	329	321
Corporation tax	-	-	-	-
	389	409	329	321
	8,141	11,510	7,213	11,279

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

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Balances with other central government bodies	389	1,634	329	1,546
Balances with local authorities	546	52	546	52
Balances with similar public bodies	372	300	372	300
	1,307	1,986	1,247	1,898
Balances with bodies external to government	6,834	9,524	5,966	9,381
	8,141	11,510	7,213	11,279

AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Deferred income – other schemes	238	300	238	300
Scottish Government	934	875	934	875
Deferred tax	1,850	1,370	1,850	1,370
	3,022	2,545	3,022	2,545

18. PROVISIONS

	GROUP			HIE		
	Tax	Construction costs	Total	Tax	Construction costs	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2019	4,535	9,581	14,116	4,535	9,581	14,116
Increase during the year	-	4,962	4,962	-	4,962	4,962
Released during the year	(4,465)	-	(4,465)	(4,465)	-	(4,465)
Reversed during the year	-	-	-	-	-	-
Recognised on re-measurement	-	-	-	-	-	-
At 31 March 2020	70	14,543	14,613	70	14,543	14,613
Timing of provisions		restated			restated	
Due within 1 year	70	2,380	2,450	70	2,380	2,450
Due over 1 year	-	12,163	12,163	-	12,163	12,163
	70	14,543	14,613	70	14,543	14,613

	GROUP			HIE		
	Tax	Construction costs	Total	Tax	Construction costs	Total
	£000	£000	£000	£000	£000	£000
As at 1 April 2020	70	14,543	14,613	70	14,543	14,613
Increase during the year	44	4,894	4,938	44	4,894	4,938
Released during the year	(70)	(2,380)	(2,450)	(70)	(2,380)	(2,450)
Reversed during the year	-	-	-	-	-	-
Recognised on re-measurement	-	-	-	-	-	-
At 31 March 2021	44	17,057	17,101	44	17,057	17,101
Timing of provisions						
Due within 1 year	44	13,052	13,096	44	13,052	13,096
Due over 1 year	-	4,005	4,005	-	4,005	4,005
	44	17,057	17,101	44	17,057	17,101

TAX PROVISION

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

CONSTRUCTION COST

This provision relates to a programme of engineering works to reinstate the Cairngorm funicular railway. During 2021, the programme was impacted by the pandemic and extreme weather, as well as technical challenges and supply issues in the UK construction industry. HIE is working with its designers and contractors on a revised schedule for the remainder of the project, and to finalise the cost of the works, which are expected to complete in autumn 2022.

19. Retirement Benefit Obligation

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

HIE also have staff in the LGPS between Highland, Orkney and Strathclyde which are all now closed schemes. In 2020-21 there were 26 HIE employees in the LGPS. HIE has no active members in the Shetland Islands Pension fund which is also a closed scheme.

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

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

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

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

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

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

HIGHLANDS AND ISLANDS ENTERPRISE SUPERANNUATION SCHEME

The IAS 19 valuation at 31st March 2021, indicated a potential deficit of £57.1 million in the HIE pension fund.

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

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

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

PENSION DISCLOSURE UNDER IAS 19

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

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 5 April 2018 by a qualified independent actuary and updated to 31 March 2021 by a qualified independent actuary.

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

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

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

	31 MARCH 21	31 MARCH 20	31 MARCH 19	31 MARCH 18	31 MARCH 17
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	2.50	3.00	3.45	3.35	3.40
Rate of pension increase CPI (% per annum)	2.87	1.92	2.45	2.35	2.40
Discount rate (% per annum)	2.03	2.44	2.40	2.65	2.60
Inflation rate RPI (% per annum)	3.47	2.82	3.45	3.35	3.40

During the year, Highlands and Islands Enterprise paid contributions equivalent to 26.9% of pensionable salaries.

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

	Value at 31 March 2021 £000	Value at 31 March 2020 £000	Value at 31 March 2019 £000	Value at 31 March 2018 £000	Value at 31 March 2017 £000
Equities	69,560	55,074	70,318	70,623	70,592
Gilts	25,756	23,911	16,127	12,965	13,261
Bonds	-	-	-	-	-
Property	8,859	8,638	8,438	8,182	7,869
Cash	7,530	8,076	2,880	2,239	1,513
Estimated employer assets	111,705	95,699	97,763	94,009	93,235
Present value of scheme liabilities	(168,790)	(134,576)	(139,518)	(128,691)	(143,441)
Deficit in the scheme	(57,085)	(38,877)	(41,755)	(34,682)	(50,206)
Related deferred tax asset/ (liability)	-	-	-	-	-
Net pension liability	(57,085)	(38,877)	(41,755)	(34,682)	(50,206)

The current values show an increase in the deficit from 31 March 2020 of £18.2m to £57.1m at 31 March 2021.

LOCAL GOVERNMENT PENSION FUNDS

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

PENSION DISCLOSURE UNDER IAS 19

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

The local government pension fund is a defined benefit scheme. A full actuarial valuation was made at 31 March 2018 and updated to 31 March 2021 by a qualified independent actuary.

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

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

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

	31 MARCH 21	31 MARCH 20	31 MARCH 19	31 MARCH 18	31 MARCH 17
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	2.59	3.00	3.45	3.35	3.40
Rate of pension increase CPI (% per annum)	2.87	1.92	2.45	2.35	2.40
Discount rate (% per annum)	2.02	2.44	2.40	2.65	2.60
Inflation rate RPI (% per annum)	3.37	2.82	3.20	3.35	3.40

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

	Value at 31 March 2021 £000	Value at 31 March 2020 £000	Value at 31 March 2019 £000	Value at 31 March 2018 £000	Value at 31 March 2017 £000
Equities	18,269	12,997	13,896	12,726	12,476
Gilts	287	273	130	658	515
Bonds	2,641	2,829	2,975	1,940	1,876
Property	1,834	1,705	1,692	2,098	1,910
Cash	1,370	1,135	703	425	464
Estimated employer assets	24,401	18,939	19,396	17,850	17,241
Present value of scheme liabilities	(27,123)	(21,367)	(24,088)	(21,442)	(22,529)
Present value of unfunded liabilities	(772)	(679)	(787)	(745)	(819)
Deficit in the scheme	(3,494)	(3,107)	(5,479)	(4,337)	(6,107)
Related deferred tax liability	-	-	-	-	-
Net pension liability	(3,494)	(3,107)	(5,479)	(4,337)	(6,107)

The pension contributions with effect from 1 April 2021 for the local government pension funds are:

	2021	2020
Highland Council Pension Fund	30.1%	30.1%
Orkney Islands Council Pension Fund	17.0%	17.6%
Strathclyde Pension Fund	33.6%	33.6%

HIE paid £32k for unfunded pension contributions in 2020/21 for the Shetland Islands Pension Fund.

RETIREMENT BENEFIT OBLIGATION - GROUP AND HIE

	HIE	LGPS	Total	HIE	LGPS	Total
	2021	2021	2021	2020	2020	2020
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to SCNE						
Current service cost	2,740	471	3,211	2,971	584	3,555
Past service cost	-	-	-	-	(114)	(114)
Admin expenses	265	-	265	292	-	292
Interest income on retirement benefit assets	(2,333)	(464)	(2,797)	(2,354)	(470)	(2,824)
Interest on retirement benefit scheme obligations	3,283	539	3,822	3,350	605	3,955
Net pension scheme expense	3,955	546	4,501	4,259	605	4,864
Analysis of the amount recognised in SOCEs						
Actual return less expected return on pension scheme assets	13,912	4,791	18,703	(5,035)	(1,270)	(6,305)
Experience gains and (losses) arising on the scheme liabilities	2,324	(7)	2,317	(5,227)	128	(5,099)
Changes in financial assumptions underlying the present value of the scheme liabilities	(33,436)	(5,220)	(38,656)	13,682	3,718	17,400
Defined benefit income/(cost) recognised in SOCE	(17,200)	(436)	(17,636)	3,420	2,576	5,996
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	134,576	22,046	156,622	139,518	25,071	164,589
Movement in year						
Current Service costs	3,005	471	3,476	3,263	584	3,847
Contributions by members	637	97	734	643	99	742
Past service costs	-	-	-	-	(114)	(114)
Estimated unfunded benefits paid	-	(32)	(32)	-	(31)	(31)
Estimated benefits paid	(3,823)	(453)	(4,276)	(3,743)	(322)	(4,065)
Interest cost	3,283	539	3,822	3,350	605	3,955
Actuarial losses/(gains)	31,112	5,227	36,339	(8,455)	(3,846)	(12,301)
Closing defined benefit obligation	168,790	27,895	196,685	134,576	22,046	156,622
Present value of funded liabilities	168,790	27,123	195,913	134,576	21,367	155,943
Present value of unfunded liabilities	-	772	772	-	679	679
Reconciliation of fair value of assets						
Opening fair value of assets	95,699	18,939	114,638	97,763	19,396	117,159
Expected return on assets	2,333	464	2,797	2,354	470	2,824
Contributions by members	637	97	734	643	99	742
Contributions by employer	2,946	563	3,509	3,717	566	4,283
Contribution in respect of unfunded benefits	-	32	32	-	31	31
Actuarial gains/(losses)	13,912	4,791	18,703	(5,035)	(1,270)	(6,305)
Estimated unfunded benefits paid	-	(32)	(32)	-	(31)	(31)
Estimated benefits paid	(3,823)	(453)	(4,276)	(3,743)	(322)	(4,065)
	111,704	24,401	136,105	95,699	18,939	114,638
Net pension liability	(57,086)	(3,494)	(60,580)	(38,877)	(3,107)	(41,984)
Estimated employer contributions for the year ended 31 March 2022	5,698	537	6,235	3,743	570	4,313

Expenditure recognised in the Statement of Comprehensive Net Expenditure

	2021	2020
	£000	£000
Net management expenditure on staff costs	(65)	(581)
Other finance charges/(income)	1,025	1,131

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				
	2021	2020	2019	2018	2017
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	13,912	(5,035)	2,497	(616)	10,395
Value of assets	111,704	95,699	97,763	94,009	93,235
Percentage of scheme assets	12.5%	(5.3)%	2.6%	(0.7)%	11.1%
Experience gains and (losses) on scheme liabilities	2,324	(5,227)	1,269	8,200	(63)
Present value of liabilities	(168,790)	(134,576)	(139,518)	(128,691)	(143,441)
Percentage of scheme liabilities	(1.4)%	3.9%	(0.9)%	(6.4)%	0.0%

	LGPS				
	2021	2020	2019	2018	2017
	£000	£000	£000	£000	£000
Experience gains and losses					
Difference between expected and actual return on scheme assets	4,791	(1,270)	676	38	2,491
Value of assets	24,401	18,939	19,396	17,850	17,241
Percentage of scheme assets	19.6%	(6.7)%	3.5%	0.2%	14.4%
Experience gains and (losses) on scheme liabilities	(7)	128	(26)	1,562	(51)
Present value of liabilities	(27,895)	(22,046)	(25,071)	(22,187)	(23,348)
Percentage of scheme liabilities	0.0%	(0.6)%	0.1%	(7.0)%	0.2%

The total loss amount recognised in the statement of other comprehensive net expenditure in respect of net actuarial gains and losses is £17,636k loss (2020 £5,996k gain).

Cumulative actuarial gains and losses recognised in the statement of comprehensive net expenditure since 1 April 2002 are net losses of £40,719k (2020 £23,083k loss).

MORTALITY

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

	HIE		LGPS	
	UK	UK	UK	UK
	2021	2020	2021	2020
1. Male member aged 65 (current life expectancy)	23.0	22.9	20.7	21.1
2. Male member age 45 (life expectancy at 65)	24.4	24.3	22.2	22.3
3. Female member aged 65 (current life expectancy)	24.6	24.5	23.3	23.1
4. Female member aged 45 (life expectancy at 65)	27.0	26.9	25.4	24.9

Defined benefit obligation analysed by participant status:

	HIE			
	2021		2020	
	%	£000	%	£000
Active members	38.3%	64,646	35.9%	48,313
Vested deferred members	22.6%	38,147	21.5%	28,934
Retired members	39.1%	65,997	42.6%	57,329
		168,790		134,576

	LGPS			
	2021		2020	
	%	£000	%	£000
Active members	59.5%	16,590	62.5%	13,769
Vested deferred members	23.9%	6,657	20.7%	4,573
Retired members	16.7%	4,648	16.8%	3,704
		27,895		22,046

SENSITIVITY ANALYSIS

	HIE		LGPS	
	2021		2021	
	%	£000	%	£000
0.5% decrease in real discount rate	11.5%	19,411	9.9%	2,761
1 Year increase in member life expectancy	4.2%	7,107	4.0%	1,116
0.5% increase in the salary increase rate	0.9%	1,519	1.1%	313
0.5% increase in pension increase rate	8.7%	14,685	8.6%	2,388

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

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

RISKS

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

ASSET VOLATILITY

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

CHANGES IN BOND YIELDS

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

INFLATION RISK

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

LIFE EXPECTANCY

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

LIFE EXPECTANCY

	HIE	LGPS
	Years	Years
Weighted average duration of defined benefit obligation	22.1	20.3

20. COMMITMENTS

	GROUP		HIE	
	2021	2020	2021	2020
	£000	£000	£000	£000
Commitments				
Property	34,187	10,627	34,187	10,627
Grants and loans	64,185	60,602	60,450	56,273

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

21. Financial Commitments

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

FUTURE MINIMUM PAYMENTS DUE UNDER NON CANCELLABLE OPERATING LEASES

GROUP	Property	Plant and Equipment	Total	Total
	£000	£000	£000	£000
			2021	2020
Obligations under operating and similar leases				
Within one year	743	19	762	956
Within two to five years	944	5	949	1,687
In over five years	-	-	-	-
	1,687	24	1,711	2,643

HIE	Property	Plant and Equipment	Total	Total
	£000	£000	£000	£000
			2021	2020
Obligations under operating and similar leases				
Within one year	743	15	758	852
Within two to five years	944	-	944	1,687
In over five years	-	-	-	-
	1,687	15	1,702	2,539

HIE has sublet space in certain properties. The future minimum sublease payments expected to be received under non-cancellable sublease agreements as at 31 March 2021 is £440k (2020 £1,105k).

Highlands and Islands holds office and manufacturing buildings as investment properties, which are let to third parties. These non-cancellable leases have remaining terms between 1 and 30 years.

FUTURE MINIMUM RENTALS RECEIVABLE UNDER NON-CANCELLABLE OPERATING LEASES

GROUP				
	Property	Plant and Equipment	Total	Total
			2021	2020
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	2,274	170	2,444	3,580
Within two to five years	5,681	554	6,235	6,612
In over five years	12,042	256	12,298	12,156
	19,997	980	20,977	22,348

HIE				
	Property	Plant and Equipment	Total	Total
			2021	2020
	£000	£000	£000	£000
Receivable under operating and similar leases				
Within one year	2,274	170	2,444	3,580
Within two to five years	5,681	554	6,235	6,612
In over five years	12,042	256	12,298	12,156
	19,997	980	20,977	22,348

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

FUTURE MINIMUM COMMITMENTS DUE UNDER NON-CANCELLABLE FINANCE LEASES

GROUP				
	Property	Plant and Equipment	Total	Total 2020
	£000	£000	£000	£000
Obligations under Finance and similar leases				
Within one year	284	-	284	284
Within two to five years	1,137	-	1,137	1,137
In over five years	6,233	-	6,233	6,517
	7,654	-	7,654	7,938
Finance charges allocated to future periods	-	-	-	-
	7,654	-	7,654	7,938
Present Value of minimum lease payments				
Within one year	284	-	284	284
Within two to five years	1,137	-	1,137	1,137
In over five years	6,233	-	6,233	6,517
	7,654	-	7,654	7,938
HIE				
	Property	Plant and Equipment	Total	Total 2020
	£000	£000	£000	£000
Obligations under Finance and similar leases				
Within one year	284	-	284	284
Within two to five years	1,137	-	1,137	1,137
In over five years	6,233	-	6,233	6,517
	7,654	-	7,654	7,938
Finance charges allocated to future periods	-	-	-	-
	7,654	-	7,654	7,938
Present Value of minimum lease payments				
Within one year	284	-	284	284
Within two to five years	1,137	-	1,137	1,137
In over five years	6,233	-	6,233	6,517
	7,654	-	7,654	7,938

22. Contingent Liabilities

As the owner of the Cairngorm Mountain Estate, HIE has responsibility for the costs of removal of equipment and reinstatement of the funicular railway and associated buildings to a natural condition. The liability arises where a permanent discontinuance of operation occurs, and alternative operation is not secured within three years. The funicular is currently not operational pending reinstatement (see page 26). The cessation of operation of the funicular for reinstatement does not crystallise the liability for its removal and reinstatement of the site.

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

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

23. Transactions involving Board members' and Directors registered interests

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

TRANSACTIONS WHERE A DIRECTOR HAD A FINANCIAL INTEREST.

DIRECTORS INTERESTS

Business	Approvals brought forward	Amount approved/ (withdrawn) in year	Amount paid/ (billed) in year	Nature of transaction	Board member and interest
	(£)	(£)	(£)		
Crerar Hotels	-	704,920	463,350	Covid Support and development grants	P Crerar - Chief Executive Officer
Inverness College UHI	-	40,000	1,250	ICUHI feasibility study funding and catering	A Bryan - Lecturer
Loch Melfort Hotel	-	58,000	42,658	Covid Support grant	C Ross - Partner
	-		(200)	Training course fees	
Midton Acrylics Ltd	-	44,372	28,703	Covid support grant	C Ross - Non Exec Chairman
Scottish Water	-	26,069	26,069	Water charges	B Oldfield - Senior Manager

TRANSACTIONS WHERE A SENIOR MANAGER HAD A FINANCIAL INTEREST.

SENIOR MANAGEMNT INTERESTS

Business	Approvals brought forward	Amount approved/ (withdrawn) in year	Amount paid/ (billed) in year	Nature of transaction	Senior Manager
	(£)	(£)	(£)		
Shetland Amenity Trust	-	60,884	60,283	COVID 19 Support Funding	R Hunter

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

- Argyll and the Isles Tourism Cooperative Limited
- Datalab Innovation Centre Board
- HIE Ventures Limited
- Highland Print Studio
- High Life Highland (Trading) CIC
- Jacobite Cruises Ltd
- Mull & Iona Community Enterprise
- News Start Highland
- NHS Highland
- People Matters Ltd
- Scottish Aquaculture Innovation Centre Board
- SSE Plc
- Remarkable Limited
- University of Highlands & Islands
- Visit Inverness Loch Ness Ltd
- Wave Energy Scotland Limited
- Weber Shandwick Media Relations

24. Related party transactions

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

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

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

Transactions have taken place with:

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

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 24.

Compensation of key management personnel

Key management personnel are considered to be the non-executive board members and the executive directors. Detail of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £7K (2020: £6K) employers national insurance contributions and Nil (2020 Nil) employer pension contributions.

25. Financial instruments

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

- Liquidity risk
- Credit risk
- Market risk

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

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

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

LIQUIDITY RISK

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

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

The table below details the contractual maturities of financial liabilities.

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2021 (2020: £nil).

CONTRACTUAL MATURITIES OF FINANCIAL LIABILITIES

2021				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	6,590	6,590	6,590	-
	6,590	6,590	6,590	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	5,656	5,656	5,656	-
	5,656	5,656	5,656	-
2020				
GROUP				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	10,384	10,384	10,384	-
	10,384	10,384	10,384	-
HIE				
	Carrying Amount	Contractual Cashflows	Within one year	After more than one year
	£000	£000	£000	£000
Financial Liabilities				
Trade and other payables	8,435	8,435	8,435	-
	8,435	8,435	8,435	-

CREDIT RISK

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

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

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

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

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

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

CREDIT RISK EXPOSURE

GROUP	Carrying Amount	Carrying Amount
	2021	2020
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	2	20
Preference shares	-	-
Loans and other receivables	2,521	2,452
Financial assets		
Trade and other receivables	7,715	8,993
Cash and cash equivalents	2,663	5,065
	12,901	16,530
HIE	Carrying Amount	Carrying Amount
	2021	2020
	£000	£000
Financial assets - other investments		
Financial assets at fair value through profit and loss	529	649
Preference shares	-	-
Loans and other receivables	2,579	2,511
Financial assets		
Trade and other receivables	7,716	8,989
Cash and cash equivalents	617	868
	11,441	13,017

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

Movements in impairment of trade and other receivables is shown in Note 14. Impairment provisions are used to record impairment losses unless the Group and Highlands and Islands Enterprise is satisfied that no recovery of the amount owing is possible; at that point, the amount is considered irrecoverable and is written off directly against the financial asset.

AGEING

GROUP	2021		2020	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	8,424	-	10,532	-
Past due 0 to 30 days	171	(18)	69	(21)
Past due more than 31 days	1,011	(1,098)	280	(1,312)
	9,606	(1,116)	10,881	(1,333)

HIE	2021		2020	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	8,159	-	10,411	-
Past due 0 to 30 days	171	(18)	69	(69)
Past due more than 31 days	1,011	(1,098)	280	(1,264)
	9,341	(1,116)	10,760	(1,333)

MARKET RISK

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

INTEREST RATE RISK

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

INTEREST RATE RISK

GROUP	Carrying Amount	Carrying Amount
	2021	2020
	£000	£000
Fixed rate instruments		
Financial assets	2,521	2,452
Financial liabilities	-	-
	2,521	2,452
Variable rate instruments		
Cash and cash equivalents	2,663	5,065
	2,663	5,065
HIE		
	Carrying Amount	Carrying Amount
	2021	2020
	£000	£000
Fixed rate instruments		
Financial assets	2,579	2,511
Financial liabilities	-	-
	2,579	2,511
Variable rate instruments		
Cash and cash equivalents	617	868
	617	868

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

INTEREST RATE RISK - CASH

	GROUP	HIE
	100 basis points change	100 basis points change
	£000	£000
Cash and cash equivalents		
31 March 2020	37	8
31 March 2021	39	7

CURRENCY RISK

Highlands and Islands Enterprise is exposed to currency risk on transactions and balances that are denominated in currencies other than Sterling. Whenever practical, Highlands and Islands Enterprise enters into agreements in its functional currency in order to minimise currency risks. Highlands and Islands Enterprise is exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

Fair values

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

FAIR VALUES				
GROUP				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2021	2021	2020	2020
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	2	2	20	20
Preference shares	-	-	-	-
Loans and other receivables	2,521	2,521	2,452	2,452
Trade and other receivables	7,715	7,715	8,993	8,993
Cash and cash equivalents	2,663	2,663	5,065	5,065
Trade and other payables	(6,590)	(6,590)	(10,384)	(10,384)
Taxation recoverable	901	901	469	469
	7,212	7,212	6,615	6,615
HIE				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2021	2021	2020	2020
	£000	£000	£000	£000
Financial assets at fair value through profit and loss	529	529	649	649
Preference shares	-	-	-	-
Loans and other receivables	2,579	2,579	2,511	2,511
Trade and other receivables	7,716	7,716	8,989	8,989
Cash and cash equivalents	617	617	868	868
Trade and other payables	(5,656)	(5,656)	(8,435)	(8,435)
Taxation recoverable	833	833	469	469
	6,618	6,618	5,051	5,051

Financial assets at fair value through profit and loss are not being actively marketed and there is no expectation that completed sales will occur within one year.

NON-CURRENT ASSETS

Valuation Process

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

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

FAIR VALUE HIERARCHY

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

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

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

FAIR VALUES CONT.

GROUP					
		Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	2021				
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	2	-	-	2	-
Non-recurring Measurements					
Property classified as held-for-resale	1,701	-	1,701	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-
HIE					
		Quoted prices in active markets for identical instruments (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains/ (Losses)
	2021				
	£000	£000	£000	£000	£000
Recurring Measurements					
Fair value through profit and loss unlisted equity shares	529	-	-	529	-
Non-recurring Measurements					
Property classified as held-for-resale	1,701	-	1,701	-	-
Plant and Equipment classified as held-for-resale	-	-	-	-	-

- Level 1 inputs for recurring measurements include observable market data. Private sector investors have purchased shares at the same share price as HIE within the last financial year.
- Level 2 non-recurring measurements include annual valuations from independent Chartered Surveyors, Graham & Sibbald.

- Level 3 Equity shares are valued using recent marketplace transactions, where available, or using a net worth basis of valuation

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

CHANGES IN RECURRING FAIR VALUE MEASUREMENTS

	GROUP	HIE
	£000	£000
Opening Balance	20	649
Transfers into Level 3	-	-
Transfers out of Level 3	-	-
Additions	-	-
Disposals	-	-
Impairment	(18)	(120)
Total Gains or Losses for the period:	-	-
Included in other income and expenses	-	-
Included in other comprehensive income	-	-
Closing Balance	2	529

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

QUANTITATIVE INFORMATION

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Equity	£2k	Net Asset Value (a)	n/a	n/a

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

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

ESTIMATION OF FAIR VALUES

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

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

26. Prior Year Adjustments

26. PRIOR YEAR ADJUSTMENT

	Audited Accounts	Financial Transactions	ORIC Investment	Provisions	Restated Balance
	£000	£000	£000	£000	£000

Group Statement Of Financial Position at 31 March 2020

Trade payables and other liabilities due greater than 1 year	(1,670)	(875)	-	-	(2,545)
Financial Assets	1,965	-			1,965
Provisions due within 1 year	(12,863)			10,483	(2,380)
Provisions due greater than 1 year	(1,680)			(10,483)	(12,163)
General reserve	(23,092)	875		-	(22,217)

	Audited Accounts	Financial Transactions	ORIC Investment	Provisions	Restated Balance
	£000	£000	£000	£000	£000

HIE Statement Of Financial Position at 31 March 2020

Trade payables and other liabilities Due greater than 1 year	(1,670)	(875)	-	-	(2,545)
Financial Assets	2,931	-	883		3,814
Provisions due within 1 year	(12,863)			10,483	(2,380)
Provisions due greater than 1 year	(1,680)			(10,483)	(12,163)
General reserve	(21,493)	875	(883)	-	(21,501)

HIE Statement of Comprehensive Net Expenditure

Operating expenditure	76,639		(1,085)		75,554
Other Management Expenditure	5,694	-	643		6,337
Total comprehensive net expenditure/(Income) for year	71,135	-	(442)	-	70,693

HIE Statement Of Financial Position at 31 March 2019

General reserve	(24,764)	-	(441)	-	(25,205)
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FINANCIAL TRANSACTIONS

A prior year adjustment has been made to record liabilities in relation to repayable Scottish Government funding received in 2019/20 which had been accounted for as income in that year. The effect of the adjustment in the single entity and group accounts is to increase trade payables and reduce the general reserve balance at 31 March 2020 by £875k.

ORIC INVESTMENT

A prior year adjustment has been recognised in the accounts to reclassify prior year investments in ORIC which had been accounted for as expenditure in prior years. The effect of the adjustment in the single entity accounts is to increase financial assets and the general reserve balance at 31 March 2020 by £883K.

PROVISIONS

A prior year adjustment has been recognised in the accounts to reclassify prior year construction provision between due within 1 year and due greater than 1 year. The effect of this adjustment is to decrease provisions due within 1 year by £10,483K and increase provisions due greater than 1 year by £10,483K.

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 are set out in Schedule 1 attached.
4. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 14 December 2005 is hereby revoked.

Signed by the authority of the Scottish Ministers

A handwritten signature in blue ink, consisting of several stylized, overlapping loops and lines, positioned below the text 'Signed by the authority of the Scottish Ministers'.

Head of Enterprise Policy Delivery Division

10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

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



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Highlands and Islands Enterprise
Iomairt na Gàidhealtachd 's nan Eilean