

ANNUAL REPORT AND ACCOUNTS

2012-2013



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 2013 together with the independent auditor's report to the members of Highlands and Islands Enterprise, the Scottish Parliament and the Auditor General for Scotland.

Highlands and Islands Enterprise Annual Report and Accounts 2012-13

Contents

	Page
Management Commentary	3
Remuneration Report	15
Accountable Officers Responsibilities	18
Governance Statement	19
Independent auditors report to the members of Highlands and Islands Enterprise, the Auditor General for Scotland and the Scottish Parliament	22
Group Statement of Comprehensive Net Expenditure	24
Group and HIE Statement of Financial Position	25
Group statement of Cash Flows	26
Group statement of changes in Tax Payers' Equity	27
HIE statement of changes in Tax Payers' Equity	28
Notes to the Accounts	29
Accounts Direction	63

Management Commentary

Background and principal activities

Statutory background

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

Strategic aims

The second Government Economic Strategy was unveiled in September 2011. The strategy focuses actions on the six strategic priorities which aim to strengthen the recovery, drive sustainable growth and develop a more resilient and adaptable economy. Five of these priorities are in keeping with those set out in the 2007 strategy: Supportive Business Environment; Learning, Skills and Well-being; Infrastructure Development and Place, Effective Government; and Equity.

The new priority – Transition to a Low Carbon Economy – reflects Scotland’s leading work in areas such as renewable energy and climate change. For further information on the Government Economic Strategy please see <http://www.hie.co.uk/about-hie/what-we-do.html>

Principal activities

As the Scottish Government’s economic and community development agency for north and west Scotland, HIE’s purpose is to generate sustainable economic growth across the Highlands and Islands. Our vision is for the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest.

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

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

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

Board membership

Prof. L D Crerar (Chair)
Mr A L Paterson (Chief Executive)
Prof. M Bownes OBE
Mr J Royan OBE
Mr C Spence
Mr S Thomson
Mr W Swann
Mr D MacDonald
Ms I MacTaggart

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

Leadership Team

Mr A L Paterson (Chief Executive)
Mr F C Duthie
Mr J A Watt (Retired 16 April 2012)
Mrs C Buxton
Ms C Wright
Ms R McCormack (Appointed 30 April 2012)

Financial performance

Results

The results for the year to 31 March 2013 are contained in the attached accounts which have been prepared in accordance with section 30 (1) of the Enterprise and New Towns (Scotland) Act 1990 and are in the form directed by Scottish Ministers.

Sources of finance

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

The net expenditure for Highlands and Islands Enterprise for the year ended 31 March 2013 (excluding non-cash costs) was as follows:

Sources of Finance 2012-2013	Original Budget £000	Final Budget £000	Actual £000
Expenditure			
Operations	48,200	67,038	64,432
Management & Admin.	15,100	15,100	15,076
Total Expenditure	63,300	82,138	79,508
Income			
Grant in Aid	48,800	71,337	71,337
European Union	5,000	2,575	2,575
Business Receipts	9,500	8,226	8,296
Total Income	63,300	82,138	82,208
Net Under spend		-	2,700
Cash Budget Outturn			
Revenue Expenditure		28,851	28,851
Capital Expenditure		42,486	39,786
Net spend		71,337	68,637

The group outturn against the elements of the budget allocation from the Scottish Government was as follows:

	Budget £000	Actual £000
Resource Budget Outturn		
Grant in aid	71,337	68,637
Non-cash DEL cost including depreciation, provisions, property revaluation	5,000	4,045
Total Resource budget	76,337	72,682
Non-cash AME cost including pension, provisions, property revaluation	19,500	17,023
Total Funding Provision	95,837	89,705

Financial commentary

Investment Spend

During the year HIE successfully bid for additional funding of £22.5 million from the Scottish Government shovel ready capital funding programme. This increased baseline grant in aid from £48.8 million to £71.3 million. Shovel ready funding is ring fenced and may only be spent on projects for which it is awarded.

Income from property activities of £6.6 million was consistent with the prior year. Other income of £13.2 million was £2.4 million higher than 2011/12. This was mainly due to an improvement in trading by CairnGorm Mountain Limited. There was a reduction of European income of £1.1 million to £2.6 million for the year

HIE drew down its full grant in aid allocation from the Scottish Government. At the year end HIE had an under spend on the cash budget of £2.7 million due to a delay on one shovel ready capital project. Due to restriction on the use of shovel ready capital funding HIE was not able to reallocate and utilise this under spend elsewhere. This was subsequently transferred to reserves at the year end.

During the year HIE also transferred £3.0m of revenue funding to its capital programme to augment capital spending on Regionally Significant Investments (RSI) and other investments across the Highlands and Islands region which included £21.7m on property construction and plant and equipment additions.

Expenditure on operating activities within HIE increased by 25.7% to £61.6 million as a result of the additional Grant in Aid funding. Group operating expenditure rose by 24.7% to £63.7 million for the year.

Underlying management and administration expenditure in HIE showed a reduction of £300k in line with budget. Overall group management and administration expenditure increased by £1.4 million due to reductions in the valuation of financial assets and increased pension charges

Non Cash Financial Budgets

The non cash resource accounting and budget (RAB) spend was £3.7 million under the provision set by the Scottish Government, which was mainly due to the slippage in the Shovel Ready Capital Projects.

The Annually Managed Expenditure was £17.0 million against a budget of £19.5 million. The under spend of £2.5 million was primarily driven by better than expected property valuations.

The Resource Budget for 2013/14 of £61.1 million and the AME budget of £10.5 million awarded by the Scottish Government comprise Grant-in-Aid and 'non-cash' budget provision. This is deemed to be adequate for HIE to continue for the foreseeable future.

Fixed Assets

During 2012/13 Highlands and Islands Enterprise spent £21.7 million (Group £21.8 million) on property construction projects, plant and equipment additions.

At 31 March 2013 the net book value of HIE property, plant and equipment was £42.8 million (Group £43.1 million). This is an increase of £5.1 million (Group £5.0 million) on the prior year. Commercial properties were valued at market value.

Financial assets amounted to £6.7 million (Group £7.4 million).

Current Assets

Current assets stood at £10.3 million (Group £11.9 million) at 31 March 2013, £4.0 million (Group £4.9 million) higher than the prior year. The increase is due to an insurance claim for a fire damaged building amounting to £1.9 million and higher year end cash balances within Highlands and Islands Enterprise and CairnGorm Mountain Limited

Current Liabilities

Current liabilities stood at £10.0 million (Group £10.7 million) at 31 March 2013, £1.5 million (Group £1.8 million) higher than the prior year. The increase is primarily due an increase in taxation charges.

Pension Liabilities

The group pension liability has increased from £13.7 million to £25.6 million in 2012/13. This increase in the group pension liability has arisen from the increase in liability on the Highlands and Islands Enterprise Superannuation Scheme of £11.9 million. This movement is due to a revision of the expected life-span of scheme members and reduction of yields on corporate bonds adversely impacting the annuity costs in providing pensions.

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

Events after the Statement of Financial Position

Following the completion of the year end Statement of Financial Position, a company to which Highlands and Islands Enterprise had granted a loan of £553k was placed in administration. HIE have strong securities over the assets of the company and are currently working with the administrators to establish if the loan will be fully recoverable under the securities.

Year end performance

Key measures

Excellent out-turns were achieved across the range of key measures highlighted in the HIE Operating Plan 2012-15. These measures relate to HIE's activity where our intervention and engagement aims to accelerate the economic and social impacts generated by client businesses, social enterprises and communities. Despite challenging economic conditions, throughout the year we witnessed strong demand from clients for business support services.

International sales accounted for almost 60% of the increase in turnover generated by supported businesses, demonstrating that sustained effort in this area from HIE and SDI is making an impact on the interventions made with the business base. Turnover generated in the social economy exceeded the expected range by some margin.

2012/13 Measure	Target Range	Actual Outturn
Forecast increase in turnover by supported businesses (£m, Year 3)	70-90	89.8
Forecast increase in sales out with Scotland by supported businesses (£m, year)	20-30	48.8
Jobs Supported (Created/retained) FTE*	700-900	809
Of which in fragile areas	100-150	158
Forecast increase in turnover in the social economy (£m/year 3)	1.5-2.5	2.3
- of which generated by community owned assets (£m/year 3)	0.5-1.0	1.9
Account managed communities delivering increased community benefit	25-30	27

*FTE - Full time equivalent.

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

Account management continues to be the main approach used by HIE to provide financial and advisory support to businesses and social enterprises across the region.

Throughout the year, interaction with our account managed clients resulted in significant contributions towards our key measures. HIE investment support to businesses and social enterprises is expected to generate increases in turnover of £89.8m and £2.3m respectively. This growth investment is also expected to support the creation/retention of 809 full time equivalent jobs while efforts to increase internationalisation are expected to generate a forecast increase in turnover of £48.8m through international sales over the next three years.

In partnership with SDI, HIE supported 156 businesses to develop international trade activity, including 31 who participated in the Accelerated Export Support Programme (AESP). A number of significant inward investment projects were also secured during the year.

Innovation continues to be key to business growth, with account managed clients seeking out opportunities to diversify or develop new products and processes. Over the year, 103 businesses received advice on intellectual property or undertook technology audits. HIE's Enterprise Europe team supported 97 negotiations between Highlands and Islands companies with those located elsewhere in Europe. HIE awarded 23 innovation vouchers to businesses, which resulted in 100% of these moving beyond their initial grant to further develop their research. Increasing capacity for innovation in businesses and social enterprises resulted in 52 full graduate placements, with 50% being retained in full time roles. In addition, we supported 30 summer placements in 27 businesses. HIE has deepened its relationship with the Scottish Manufacturing Advisory Service (SMAS) to provide expert advice and support on productivity and efficiency with 66 organisations benefiting from this support.

Priority 2 - Strengthening Communities and Fragile Areas

HIE responded to a request from Scottish Government to scope a proposal to deliver the £5m Community Broadband Scotland (CBS) initiative. This programme forms part of the national digital strategy to deliver future-proofed digital connectivity across all of Scotland. HIE is leading the delivery of CBS - a partnership between Scottish Government, HIE, Scottish Enterprise, COSLA, Carnegie UK Trust and both national parks - throughout the whole of Scotland. Launched in October 2012, CBS provides advice, guidance and project funding to help communities deliver improved digital connectivity in the 10-15% of rural areas least likely to be reached by the superfast broadband core investment programmes.

The Scottish Land Fund was launched in June 2012 and since then HIE has actively supported 30 SLF referrals. A total of four SLF approvals have been made to date with a combined SLF investment of £733,000. The SLF is already making a positive impact with regards to land reform; two of the supported projects were acquisitions under the Community Right to Buy legislation and a third was a purchase of forest land via the National Forest Land Scheme.

Four wind turbine projects were completed and a further 11 projects gained planning permission. Generating capacity increased from 7.7 MW to over 18 MW more than doubling the community energy output with the potential to double again in the next year. A further 32 projects are at various stages of development.

HIE assistance of £2.2m supported growth investment of circa £6m by social enterprises. This investment will boost the social economy of the region through increases in turnover, a significant proportion of which will be generated by community owned assets.

Business development support has been provided through Just Enterprise to 58 social enterprises mainly on business/financial planning and marketing, along with 49 organisations having received start-up advice.

Through our engagement with account managed businesses in fragile areas, HIE investment of £2.3m supported the delivery of 26 projects which are expected to generate an increase in turnover of £10m.

Throughout the year, HIE worked with a total of 52 Community groups to support them in the process of delivering enhanced community benefit and we are working with 48 communities through community account management (CAM).

HIE support for culture included Fèisean nan Gaidheal's 2012-15 Cultural Development programme designed to create opportunities for community groups and individuals to access Gaelic language and Fèisean / cultural skills development in communities across Scotland. To date, the programme has engaged 17,622 participants in and attracted 679 volunteers to support Fèisean related activities; staged 410 cultural events; and engaged 164 trainees in skills development activities. HIE's Gaelic Development contract with Comunn na Gaidhlig (CnaG) was extended for a final year.

HIE's Gaelic Language Plan was approved by Bòrd na Gàidhlig and launched at the end of 2012. It sets out a number of commitments that HIE will deliver to promote and develop the language within our organisation and in communicating with our customers.

Priority 3 - Developing Growth Sectors, particularly distinctive regional opportunities

HIE's efforts to develop the growth sectors are built around three areas; support for businesses and social enterprises to deliver their growth aspirations; specialist programmes and intervention to create the conditions for strong sectoral growth; and influencing sectoral and public policy within Scotland, the UK and Europe. A series of routemaps were developed during the year to clearly articulate areas of priority and enable monitoring of progress against key milestones.

Energy

Securing significant investment in key ports and harbours in the area to support offshore renewable developments (both offshore wind and marine) remains a priority with HIE funding support to a number of sites now agreed. Steps taken to ensure that the Highlands and Islands facilities are at the forefront of their thinking include the establishment of memoranda of understanding with Port of Ardersier, Global Energy (Nigg) Ltd, Cromarty Firth Port Authority and Kishorn Port Limited aimed at facilitating the development of these sites and attracting new users to them. In addition, HIE continues to work closely with port owners and operators at Scrabster, Wick, Campbeltown, Buckie, Arnish, Hatston, Stromness and Lyness.

Life sciences

HIE continues to develop the growing life science sector in the Highlands and Islands and build on the 80 organisations already active within the region. During 2012-13 HIE continued to invest in the development of state-of-the-art life science facilities including the European Marine Science Park, Alexander Graham Bell Centre, Enterprise Park Forres the Inverness Campus. These initiatives will provide new opportunities and strengthen industry collaboration, research and development and commercialisation. Enterprise Area status for life sciences at the Inverness Campus and Enterprise Park Forres will bring further opportunities to organisations and businesses choosing to locate within the areas.

Food and drink

2012-13 saw an increased focus on growing turnover from retail, foodservice and wholesale markets across the UK; increasing levels of innovation and new product development; increasing export sales. Over calendar years 2011 and 2012 the 'Access to Markets' programme, led by HIE for the whole of Scotland, and managed by Scotland Food & Drink on our behalf, supported over 60 Highlands and Islands companies and comfortably exceeded its sales uplift target of £4m across Scotland. Participation by HIE businesses in the Food and Health Innovation Service has developed over the second half of 2012. This service helps clients tap into growing markets for healthier products through stimulating and supporting new product development.

Creative industries

In creative industries, goNORTH continued to grow as Scotland's leading sector conference and show case. 2012 was the best year so far in terms of delegates, with 714 people attending from all over the UK, Europe, North America, Russia, Japan and Australia. In 2012 the HIE-supported screen and broadcast trade network won two BBC broadcast commissions providing contracts for four directors locally, and a Highland TV production company were supported to bring the production of a 26-part children's TV series to the Western Isles. HIE supported the development of Mareel in Shetland and the Creative Industries and Media Centre in Stornoway.

Sustainable tourism

2012 saw the launch of Tourism Scotland 2020, the industry strategy which aims to grow the size of the sector by an additional £1.5bn. HIE part funded and supported the development of the strategy in tandem with our efforts to put in place a strong industry body in the Scottish Tourism Alliance. The HIE supported redevelopment of John O'Groats opened during the year.

Financial and business services

Despite the challenging economic climate, significant expansion and growth is evident in the business services sector across the region. Achievements in 2012-13 included the opening of the Citizen's Advice Direct facility in Stornoway and further development of higher value roles at the nearby TalkTalk site along with continued growth of Atos, one of the worlds leading IT service providers, based in Moray.

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

HIE continued to play a key role in developing the conditions to enable the Highlands and Islands to fulfil its potential as a globally competitive and low carbon region.

HIE has continued its programme of providing key strategic business infrastructure across the Highlands and Islands. Major projects which HIE has progressed during the year include completion of the first building on the European Marine Science Park in Argyll, significant progress on the Phase One infrastructure on the Inverness Campus site, the further development of Enterprise Park Forres and site development works at Arnish.

Following HIE's approval of temporary aid to HIAL to assist with Year 1 route support costs, Flybe commenced operations on the Inverness-Amsterdam route on 4 September 2011. Nearly 25,000 passengers were carried in the first 12 months, with numbers increasing significantly following conclusion of a codeshare agreement with Air France KLM in May 2012.

Following the award of funding from BDUK to establish a pilot Next Generation Access Broadband project in the Highlands and Islands, HIE launched a major procurement exercise to identify a private sector partner to deliver NGA services throughout the region. This procurement concluded in March 2013 with the award of a contract to BT plc. The public sector funding contribution to the project is £126.7 million, including funding from Scottish Government, UK Government (BDUK) and HIE. This is the first project to be rolled out in Scotland and will contribute significantly to the achievement of the Scottish Government's digital targets.

Capitalising on opportunities where the Highlands and Islands has a comparative advantage – such as renewable energy – combined with the development of the University of the Highlands and Islands and the provision of superfast broadband, will put this region in a very strong position to attract the ideas, investment and people that will underpin future success.

To that end HIE will pursue a number of long-term ambitions. By 2020, we aim to see a Highlands and Islands that is:

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

The Highlands and Islands Enterprise Operating Plan for 2012-15 can be found on our web-site at www.hie.co.uk

Corporate governance**Overview**

Highlands and Islands Enterprise has procedures in place to ensure the highest standards of Corporate Governance are maintained at all times. Further information is provided within the Governance Statement. Risk associated with HIE's financial instruments is detailed in note 28

UK corporate governance code

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

Risk Management

Highlands and Islands Enterprise has a Risk Management Policy and operates an internal control assessment framework to complement its risk management and internal audit arrangements. The framework requires Leadership Team members to carry out an annual review of the internal controls within the business units for which they are accountable based on a detailed internal control checklist. The results of this exercise, and other internal control arrangements, are reflected in the Governance Statement. Reference is also made to risk management in the Resources and Risk section of this commentary.

Conflicts of interest procedures

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

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

Public interest reporting

Information request processing

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

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

In 2012-13, HIE received 95 Information enquiries .

Freedom of Information (Scotland) Act 2002 (FOISA):	83
Environmental Information (Scotland) Regulations 2004 (EIRs):	11
Data Protection Act 1998	01
Total	95

Details of our response times and information request handling is as follows

Information request handling performance	
Average time to fully respond and close a request for information:	13 days
Percentage of requests which received a response within the statutory timescales:	92%
Percentage of requests which received a late response:	8%
Average time to fully respond and close a request for review:	19 days
Percentage of requests for reviews which received a response within the statutory timescales:	100%

FOISA exemptions and EIRs exceptions applied to requests for information

The number of occasions exemptions were applied to requests received under the Freedom of Information (Scotland) Act in 2012/2013.

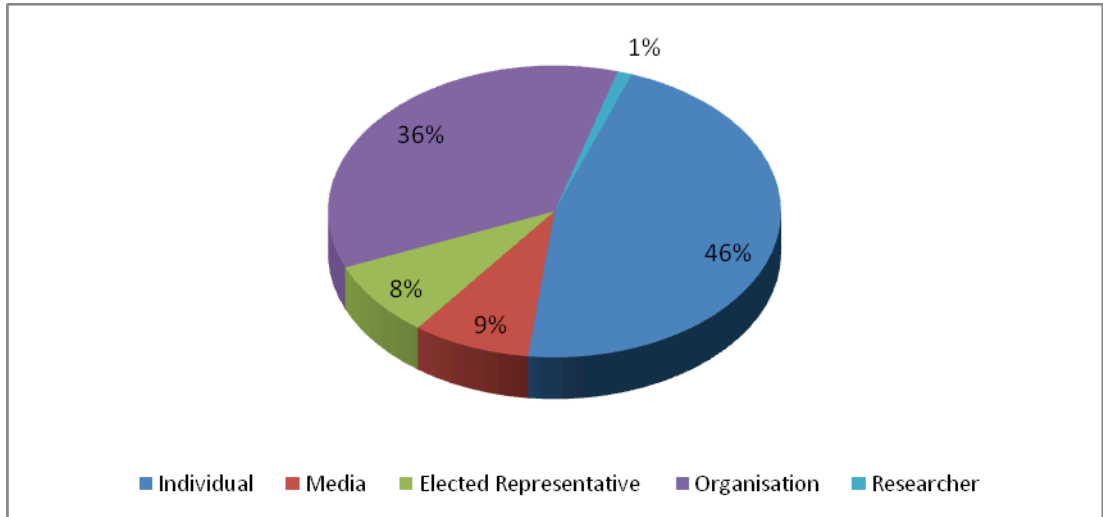
Section of the Act	Description of exemption	Total
25	Information otherwise accessible	1
30 (c)	Prejudice effective conduct of public affairs	1
33 (1) (b)	Prejudice commercial interests	2
36 (2)	Breach of confidence	12
38 (1) (b)	Breach of Data Protection Principles	22

The number of occasions exceptions were applied to requests received under the Environmental Information (Scotland) Regulations in 2012/2013:

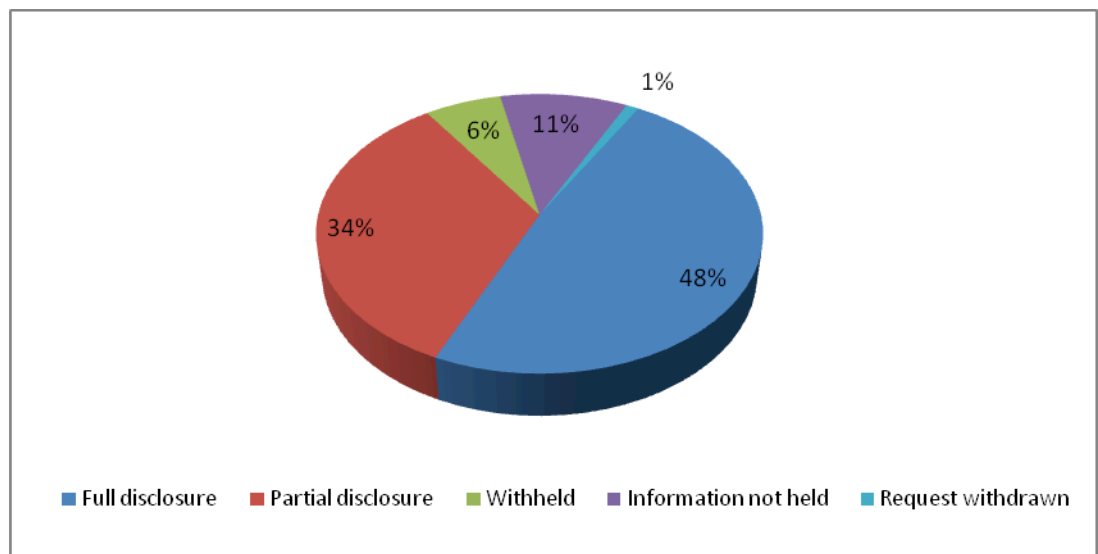
Section of the Regs	Description of exception	Total
10 (4) (e)	Internal communications	1
10 (5) (e)	Confidentiality of commercial or industrial information, provided for by law to protect legitimate economic interest	10
11 (2)	Personal data relating to third party	7

Number of requests for reviews:	
Freedom of Information (Scotland) Act 2002	1
Environmental Information (Scotland) Regulations 2004	1
Total	2
Number of appeals to the Office of the Scottish Information Commissioner:	0

The following chart illustrates the types of applicant who submitted requested for information in 2012/13



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



The HIE website contains a Freedom of Information section which publishes FOI-related questions and answers –

<http://www.hie.co.uk/about-hie/policies-and-publications/freedom-of-information/default.html>

Customer Service

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

Complaints

We take all complaints seriously and have an effective, easy to use complaints procedure. Where possible, we try to resolve complaints at the first point of contact through frontline resolution. If we are not able to do this, a complaint investigation will be carried out. A total of 6 complaints investigations were carried out during the period from 1 April 2012 – 31 March 2013.

When a complaint cannot be resolved internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman (SPSO) Act 2002 to have their complaint considered by the SPSO. Four complaints were referred to the SPSO during the year and none of the complaints were upheld.

On 28 March 2013 the SPSO published a new Model Complaints Handling Procedure which applies to organisations such as HIE. Over the course of 2013 we will ensure alignment and compliance with the new guidance.

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

Standard	Performance 2012/13	Performance 2011/12
In line with government policy, aim to pay all invoices promptly - target 10 days <i>Note: excludes items under dispute or where other terms are agreed with a supplier</i>	84%	85%

Diversity and equality

We want the Highlands and Islands to be a highly successful and competitive region in which increasing numbers of people choose to live, work, study and invest. As an economic and community development agency HIE's influence can help ensure that sustainable economic growth also achieves equality for the people who live and work in our communities.

Equality outcomes, developed during 2012/13, articulate how we can maximise our strategic impact through realising economic, social and community benefits for groups of people, particularly young people and women. They maximise the contribution which currently under-represented groups of people can make in supporting businesses and social enterprises to shape and realise their growth aspirations and in developing growth sectors. A shared outcome with Highland public sector partners enables us to contribute to increasing the resilience of our communities as welcoming and inclusive environments in which to live, study and work.

This approach delivers economic benefit and demonstrates how HIE complies with the General Equality Duty, to consider the need to :-

- eliminate unlawful discrimination, harassment and victimisation
- advance equality of opportunity e.g. by removing or minimising disadvantage, taking steps to meet people's needs and encouraging participation in public life
- foster good relations between people e.g. by tackling prejudice and promoting understanding

Assessing the impact of HIE's functions on people considers not only the characteristics protected by the Equality Act 2010 – age, disability, gender, gender re-assignment, maternity or pregnancy, marriage and civil partnership, race, religion or belief and sexual orientation – but also considers their relevance for Gaelic language, rural location and social inclusion.

Mainstreaming equality across HIE's functions helps identify opportunities to address persistent inequalities such as the gender pay gap and under-representation of groups of people in employment.

Making effective use of employee data helps develop HIE's role as an exemplar employer.

Information on HIE's workforce demographics, equality outcomes and other equality topics is available on the HIE website. Go to www.hie.co.uk on About HIE and follow the link to Equality and Diversity.

Resources and Risks**Employee involvement and communication**

Over the course of 2012/13, the Human Resources team worked across the organisation on a number of strategic and tactical initiatives.

As part of HIE's overall business improvement plan, HR continue to work to create a working environment where:

- staff resources are aligned to deliver HIE's priorities and regional outcomes
- there is increased flexibility, transparency and simplicity in workforce planning and the allocation of resources
- the sharing of skills, knowledge and experience is supported and facilitated.

Consistent with HIE's current remit and SG's commitment to deliver continually increasing tax payer value, we have made significant progress with reducing our Block B staffing costs and are continuing to take positive action in generating further savings. There has been a considerable shift from the traditional route of automatically backfilling vacancies to considering more innovative practices.

Working with the business a range of approaches have been employed to match the available staffing resources with specific challenges and opportunities across the agency to ensure delivery of HIE's priorities and regional outcomes.

Given the scale of the youth employment situation, HR continue to focus on how as an employer HIE can meet this challenge. This year we have increased our contribution and currently employ eight graduates through our own Graduate Placement Programme. The Graduates are undertaking a range of priority projects across the Agency as part of their year long placement. In addition we have recruited five modern apprentices who are all working towards an SVQ qualification.

In terms of learning and development, a range of training approaches are being developed with the aim of supporting the continual development of staff to help them be confident in their role, credible and on message. These include the introduction of the applied skills portal, development and delivery of project management workshops tailored to HIE's new guidance and methodology, access to SDI Academy training and the sharing of knowledge and experience via case conferencing and lessons learned.

We have also delivered a number of team development workshops with business units across the Agency. Using the Insights Discovery model, the approach has provided participants with a language and framework for understanding themselves and others better which can be put into practice immediately. The Insights Discovery model has been very well received by staff and has made a difference in improving the interpersonal dynamics and communication within teams.

We continue to run our senior leadership programme, ACHIEVE 2 Inspire providing managers with a tailored and integrated approach to leadership and change management with participants from different parts of the Agency working together in teams to identify and address business improvement ideas. A Personal Impact Programme has also been run in-house for a group of staff not identified for ACHIEVE, but who nonetheless have a key influencing role and/or line management responsibility.

Our computerised HR information systems have been upgraded so that staff can now access and update their own personal data online e.g. home address, emergency contact details. This has big benefits in making sure the data held is accurate and up-to-date. The upgraded system also helps reduce the need for some of our paper-based systems, e.g. annual leave, equality data and register of interests.

As part of the agenda to move HIE to an online organisation, we have introduced a new intuitive, user friendly performance review system that encourages all staff and line managers to engage with the performance review process in order to get the best out of performance review and development planning discussions. The system encourages real-time feedback and also enables better sharing of knowledge, skills and expertise across the Agency, through a searchable database.

Enhancing employee engagement has been a long standing corporate priority. Working with other teams across the agency, we launched a staff survey in May 2012 which provided positive and informative feedback. The survey results have been used together with other information, to inform the development of a strategic business improvement plan for HIE.

A regular online communication update, "Human Perspective", has been introduced providing staff with the latest, HR news, features and updates. It focuses on sharing the latest HR news stories and announcing any new organisational developments, appointments and staff changes. It also provides staff with online HR help and guidance.

Sickness absence

The attendance record for HIE employees for the year to 31 March 2013 was 1,205 (2012 968) days sick leave out of a total of 59,024 (2012 53,382) possible working days representing a lost time through sickness rate of 2.0% (2012 1.8%).

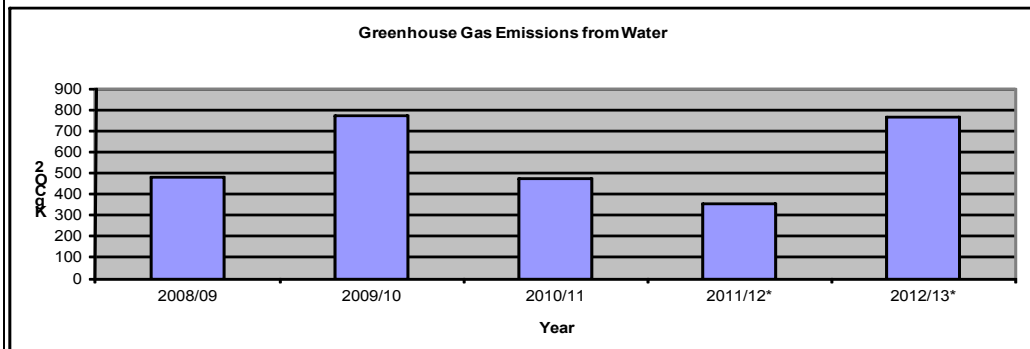
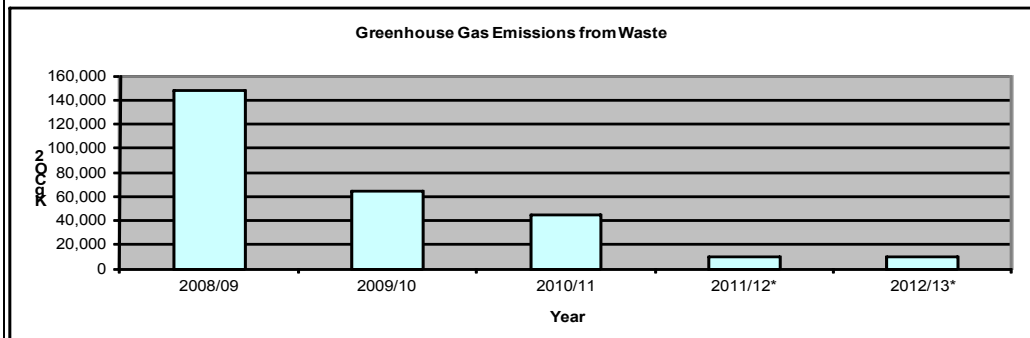
Sustainability

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

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

Waste and Water		2008/09	2009/10	2010/11	2011/12*	2012/13*
Non-financial Indicators (KgCO ₂)	Total greenhouse emissions from general waste	148,332	64,670	44,906	9,322	9,602
	Measurable greenhouse emissions from water	483	768	470	352	767
Non-financial Indicators	General Waste (kg)	331,839	144,675	100,460	46,284	61,029
	Recycled Waste(kg)	49,564	52,099	64,895	25,430	39,548
	Measurable Consumption (m3)	1,195	1,901	1,163	872	1,898
Financial Indicators	Disposal Cost	48,283	50,351	51,559	44,135	52,709
	Measurable Water Cost	49,489	39,615	43,215	43,615	38,784

Graphical Analysis



Performance Commentary

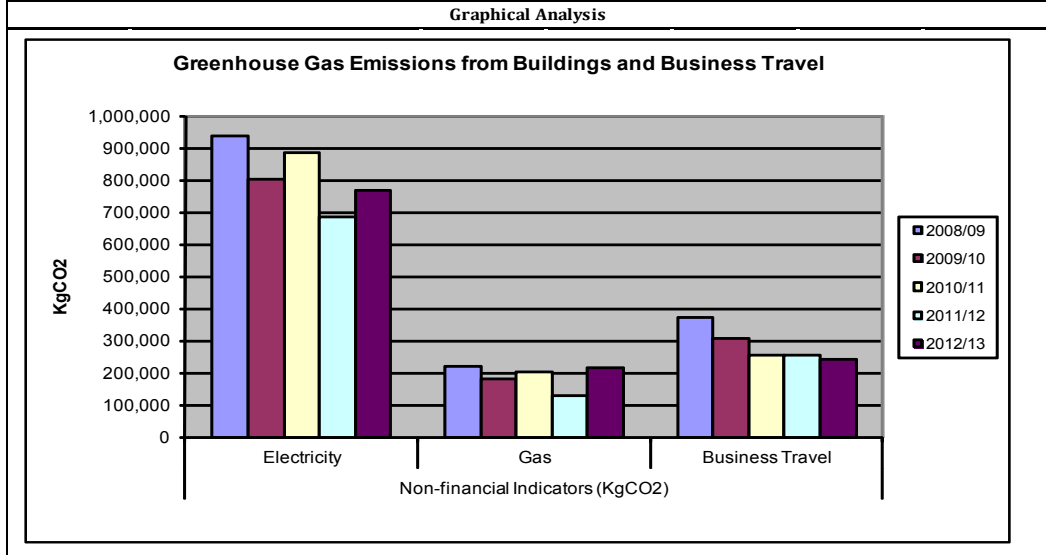
Waste figures have reduced considerably over the past few years due to the on-going drive within the business to reduce waste and a change in the method that Northern Recycling uses to weigh the waste collected. Water costs have reduced following an agreement with Business Stream for advanced billing resulting in an annual discount being applied to HIE's account.

*Waste figures reduced considerably during 2011-12 following a change in the method that Northern Recycling uses to weigh the waste collected.

Controllable Impacts Commentary

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

Utilities and Business Travel		2008/09	2009/10	2010/11	2011/12	2012/13
Non-financial Indicators (KgCO2)	Electricity	938,224	801,632	885,145	683,920	769,564
	Gas	220,783	179,842	203,435	128,891	214,638
	Business Travel	371,011	306,096	252,929	254,410	243,140
Related Energy	Electricity	1,747,158	1,492,797	1,648,314	1,323,285	1,433,080
	Gas	1,193,421	972,119	1,099,648	1,012,666	1,160,206
Financial Indicators (£'s)	Electricity	209,659	183,242	145,077	125,480	147,557
	Gas	27,547	28,941	29,226	29,015	39,538
	Business Travel	781,151	745,070	653,677	724,806	713,179



Performance Commentary
 HIE's electricity and gas use over the past year has increased in comparison to the previous year due to a longer cold spell over the winter months. A new supplier contract will come into effect during 2013/14.

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

Data loss

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

Retirement benefits

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

Risks

Highlands and Islands Enterprise has a standard approach to risk management which is described in more detail in the Governance Statement. Risks are classified **strategic and tactical** and both likelihood and impact are assessed on a consistent basis. Risk registers are maintained at project, business unit and corporate level, with the Corporate Risk Register being **reviewed on a regular basis** by the Highlands and Islands Enterprise Board.

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

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 2013 was Brian Howarth, Assistant Director of Audit, Audit Scotland. Fees chargeable for audit services provided by Audit Scotland amounted to £128,150 (2012 - £133,250). There were no fees payable to Audit Scotland for non-audit work during the year (2012 Nil)

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

Remuneration Report

Unaudited

Section 1 – General information

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

Remuneration Committee

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

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

Committee membership

Mr J Royan OBE (Chair)
 Prof. L Crerar
 Prof. M Bownes OBE

Audited

Remuneration of Board members

Board members of Highlands and Islands Enterprise are appointed by Scottish Ministers normally for a period of three years. Under certain circumstances Board members may be eligible for re-appointment for a second term. Their remuneration is set by the Scottish Government and is normally not pensionable. No benefits in kind were made to members of the Board during the year ended 31 March 2013.

Professor L Crerar was appointed the Chairman on the 20 February 2012. Mr Roe's appointment ended as chairman on the 29 February 2012.

The remuneration of HIE Board members for the year ended 31 March 2013 was as follows:

	2013	2012	Appointment
	£000	£000	Expires
Prof L Crerar (Chairman – Appointed 20 February 2012)	35-40	10-15	19 February 2015
W Roe (Chairman – Appointment ended 29 February 2012)	-	45-50	29 February 2012
Prof M Bownes	10-15	10-15	31 March 2014
J Royan	10-15	10-15	31 March 2014
S Thomson	10-15	10-15	31 March 2015
C Spence	10-15	10-15	31 March 2015
W Swann	10-15	10-15	31 March 2014
D MacDonald	10-15	10-15	31 March 2014
I Mactaggart	10-15	10-15	31 March 2014

The above figures represent emoluments earned as Board members during the relevant financial year. The figure for Mr Roe includes £nil (2012 - £2,518) of travel expenses which have been subject to tax and national insurance. The cost to HIE for contributions to the pension fund for Mr Roe was £nil (2012 - £10,934) while Mr Roe contributed £nil (2012 - £659) being 1.5% of his remuneration as Chair of HIE.

Highlands and Islands Enterprise is also required to meet the pension benefits due to former full-time Chairmen and Board members of Highlands and Islands Development Board who were not members of the superannuation scheme. During the year ended 31 March 2013 £91,080 (2012 - £87,515) was paid to these former members.

Remuneration of Chief Executive

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

Mr A L Paterson’s remuneration, for the year ended 31 March 2012 and the year ended 31 March 2013 was as follows:

	2013	2012
	Remuneration as Chief Executive	Remuneration as Chief Executive
	<u>£</u>	<u>£</u>
Salary	105,000	105,000
Performance-related bonus (paid in respect of the previous financial year)	-	-
Pension contributions	26,145	26,145
	<u>131,145</u>	<u>131,145</u>

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

Remuneration of other members of the HIE Leadership Team

The contracts of members of the HIE Leadership Team are permanent and have a three-month notice period. There are no early termination payment clauses within these contracts. No benefits in kind were made to senior members of the HIE Leadership Team. All members of the HIE Leadership Team are ordinary members of the Highland and Islands Enterprise Superannuation scheme, with the exception of C Wright who is a member of the Highland Council Local Government Pension Scheme (LGPS). The ordinary members of the Highlands and Islands Enterprise Superannuation scheme contribute 1.5% of pensionable salary and HIE contributes 24.9% of the employees’ pensionable salary. C Wright contributes 9.3% of pensionable salary to the LGPS and HIE contributes 18.2%. Both schemes are final salary schemes. The HIE scheme provides benefits at a normal retirement age of 60 and the LGPS has a normal retirement age of 65. Further information about the pension funds can be found in the Notes to the accounts (note 20).

The remuneration of members of the HIE Leadership Team for the year ended 31 March 2013 was as follows:

	2012-13				2011-12			
	Salary	Bonus (for 11/12)	Other	Total	Salary	Bonus (for 10/11)	Other	Total
	£000	£000	£000	£000	£000	£000	£000	£000
A Paterson	105-110	-	-	105-110	105-110	-	-	105-110
F C Duthie	80-85	-	-	80-85	80-85	-	-	80-85
J A Watt (Resigned 31 May 2012)	10-15	-	-	10-15	80-85	-	-	80-85
	80-85*			80-85*				
C Buxton	75-80	-	-	75-80	70-75	-	-	70-75
R McCormack (appointed 24 April 2012)	75-80	-	-	75-80	-	-	-	-
	75-80*			75-80*				
C Wright	75-80	-	-	75-80	70-75	-	-	70-75

(* Full year equivalent of actual salary paid)

Note: In line with Government guidance on pay restraint there were no payments of performances bonuses in 2012/13.

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

The banded salary of the most highly paid director in Highland and Islands Enterprise in the financial year 2013 was £105k-£110k (2012 £105k-£110k). This was 3.5 times (2012 3.5times) the median salary of the workforce, which was £30,481 (2012 £30,481)

In 2013 no employees (2012 None) received remuneration in excess of the highest paid director.

	2012-13	2011-12
Highest Paid Director’s Total	£105k - £110k	£105k - £110k
Median Total Remuneration	30,481	30,481
Ratio	3.5	3.5

Retirement benefits of members of HIE Leadership Team:

	Accrued pension at age 60 as at 31/3/13 and related lump sum	Real increase in pension and related lump sum at age 60	CETV at 31/3/13	CETV at 31/3/12	Real increase in CETV
	Bandings of £5,000	Bandings of £2,500	£000	£000	£000
A L Paterson	15-20 Lump sum 45-50	0-2.5 Lump sum 2.5-5	277	239	36
F C Duthie	20-25 Lump sum 60-65	0-2.5 Lump sum 0-2.5	474	424	49
J A Watt	25-30 Lump sum 85-90	0-2.5 Lump sum 0-2.5	749	755	(6)
C Buxton	10-15 Lump sum 30-35	0-2.5 Lump sum 2.5-5	183	159	23
R McCormack	0-2.5 Lump sum 2.5-5	0-2.5 Lump sum 2.5-5	11	n/a	10
	Accrued pension at age 65 as at 31/3/13 and related lump sum	Real increase in pension and related lump sum at age 65	CETV at 31/3/13	CETV at 31/3/12	Real increase in CETV
C Wright	25-30 Lump sum 65-70	0-2.5 Lump sum 0-2.5	413	365	22

The Chief Executive and senior members of the HIE Leadership Team are members of the Highlands and Islands Enterprise Superannuation Scheme or the LGPF. These schemes provide benefits based on final pensionable salary. The assets of the schemes are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the schemes' trustees.

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

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

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

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.

A L Paterson

Date

Highlands and Islands Enterprise

Statement of Accountable Officer's responsibilities

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

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

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

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

A L Paterson

Highlands and Islands Enterprise

Date

Governance Statement

Scope of responsibility

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

As Accountable Officer I have specific responsibility in relation to:

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

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

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

Governance framework

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

A Management Statement and associated financial memorandum, drawn up by the Scottish Government's Business Directorate, sets out the broad framework within which HIE will operate. It does not convey any legal powers or responsibilities.

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

Operation of the Board and sub-committees

As at 31 March 2013, the Board of Highlands and Islands Enterprise comprised the Chair, seven non-executive members and myself, as Chief Executive. 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 eight times in the year. They met a further one time to consider a specific item. The Board is responsible for the overall direction of the organisation within the strategic and funding framework set by Scottish Ministers. It has general corporate responsibility for:

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

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

The Risk and Assurance Committee comprises a Chair and three non-executive members. Representatives of the Scottish Government departmental accountable officer and Audit Scotland, the Director of Finance and Corporate Services and the Head of Business Improvement and Internal Audit and myself as Chief Executive, attend these meetings. The Committee met four times in the year. Minutes of the Risk and Assurance Committee are provided to the full Board for information and an annual report on its activities is also provided.

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

Mr S Thomson (Chair)
Mr J Royan
Mr D MacDonald
Mr C Spence

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

The Remuneration Committee, chaired by a non-executive member, exists to review the reward arrangements of HIE directors and myself. This Committee met once in the year.

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

Operational framework

Strategy and planning

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

Performance management

HIE has a Corporate Reporting Framework which is in place to consider organisational performance throughout the year. This was discussed quarterly by the Board during the financial year.

Decision making

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

Risk management arrangements

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

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

Implementation of the strategy includes:

- Assessment of risk by management on at least a quarterly basis
- Maintenance of organisation-wide risk registers
- Maintenance of a high level risk register
- Assessment of risk at individual project level
- Independent project reviews for high risk projects
- Action plans with clear accountability and timescales to address significant risks
- Provision of the high level risk register to the Board on at least a quarterly basis
- Alignment to the HIE corporate reporting framework

The risk register was considered at each Board meeting and Risk and Assurance Committee meeting during the year.

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

Assurance Activity

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

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

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

In addition, to enhance assurances further we are currently working with the Enterprise Information Team which is part of SDS who are the contracting authority for the Managed Services arrangement in place with Atos, our IT service provider, to conclude an ISAE 3402 service audit. A draft report following this review has been obtained and no high level risks have been identified.

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

The Business Improvement and Internal Audit team:

- Informed its work by an analysis of the risk to which HIE is exposed and the annual Business Improvement and Internal Audit plan was based on this analysis. The plan was endorsed by the Risk and Assurance Committee
- Provided me with regular reports on internal audit activity and provided me with an annual report which included the Head of Business Improvement and Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement
- Supported HIE's continuous improvement activities through the identification of action points arising from ongoing audit activity.

The Auditor General for Scotland has appointed Audit Scotland to undertake the statutory audit of HIE. Audit Scotland have identified no significant issues as part of their audit process and have given unqualified opinions on the accounts for the year ended 31 March 2013 and on the regularity of transactions reflected in the accounts.

Review of effectiveness and conclusion

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

A L Paterson
Accountable Officer (Chief Executive)

Date

Independent Auditor's Report

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

I have audited the financial statements of Highlands and Islands Enterprise for the year ended 31 March 2013 under the Enterprise and New Towns (Scotland) Act 1990. The financial statements comprise the Group Statement of Comprehensive Net Expenditure, the Group and Highlands and Islands Enterprise Statement of Financial Position, the Group Statement of Cash Flows, the Group Statement of Changes in Taxpayers' Equity, Highlands and Islands Enterprise Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

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

Respective responsibilities of Accountable Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2013 and of its 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 2012/13 FReM; and
- have been prepared in accordance with the requirements of the Enterprise and New Towns (Scotland) Act 1990 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

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

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

Date

Group Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

		2013	2012
	Notes	£000	£000
Expenditure			*restated
Operating expenditure	4	63,939	51,088
Net management expenditure on staff costs	5	10,016	9,522
Other management expenditure	5	5,824	5,046
Depreciation and amortisation	5	1,407	1,401
		<u>81,186</u>	<u>67,057</u>
Income			
Income from activities	3	(6,630)	(6,624)
Other income	3	(13,163)	(10,764)
		<u>(19,793)</u>	<u>(17,388)</u>
Net Operating Expenditure		61,393	49,669
Interest payable and similar charges	7	14	-
Share of (profits)/losses in equity accounted investees	12	454	588
Income from investments	6	(76)	(74)
Interest receivable	6	(108)	(104)
Other finance charges/(income)	6	1,060	85
Net Expenditure after interest		62,737	50,164
Taxation	9	953	587
Net expenditure after taxation		63,690	50,751
Minority interests		(22)	-
Net Expenditure		<u>63,668</u>	<u>50,751</u>
Other Comprehensive Expenditure/(Income)			
Net (gains)/losses on revaluation of property, plant and equipment		(82)	65
Net (gains)/losses in fair value of available for sale assets		3,118	(224)
Net (gains)/losses on revaluation of property, plant and equipment by equity accounted investee		(249)	(421)
Actuarial (gains)/losses recognised in retirement benefit scheme		10,994	5,082
Other Comprehensive Expenditure/(Income) for the year		<u>13,781</u>	<u>4,502</u>
Total Comprehensive Net Expenditure/(Income) for the year		<u>77,449</u>	<u>55,253</u>

*2012 restated following the inclusion of additional equity accounted investees and change in depreciation methodology. See note 1 (accounting policies) for further details

Group and Highlands and Islands Enterprise Statement of Financial Position as at 31 March 2013

	Notes	GROUP			HIE		
		2013 £000	2012 *restated £000	2011 *restated £000	2013 £000	2012 *restated £000	2011 *restated £000
Non-current assets							
Property, plant and equipment	10	43,129	38,128	42,121	42,756	37,633	41,645
Intangible assets	11	-	3	6	-	-	-
Financial Assets	12	6,701	8,202	4,301	5,907	7,324	4,559
Investment in associate	12	664	869	1,036	-	-	-
Total non current assets		50,494	47,202	47,464	48,663	44,957	46,204
Current Assets							
Inventories	13	102	99	116	-	-	-
Trade and other receivables	15	9,035	5,612	5,150	8,817	5,300	4,706
Cash and cash equivalents	16	2,333	298	1,670	1,097	-	690
Assets classified as held for sale	17	535	1,021	942	535	1,021	942
Total current assets		12,005	7,030	7,878	10,449	6,321	6,338
Total Assets		62,499	54,232	55,342	59,112	51,278	52,542
Current Liabilities							
Trade payables and other current liabilities	18	(9,423)	(8,611)	(10,550)	(8,965)	(8,361)	(9,704)
Taxation	18	(1,401)	(308)	(512)	(1,041)	(220)	(462)
Total current Liabilities		(10,824)	(8,919)	(11,062)	(10,006)	(8,581)	(10,166)
Non-current assets plus net current assets less current liabilities		51,675	45,313	44,280	49,106	42,697	42,376
Non-current liabilities							
Trade payables and other liabilities	19	(2,017)	(1,394)	(967)	(1,974)	(1,301)	(874)
Retirement benefit obligation	20	(25,616)	(13,722)	(9,332)	(25,724)	(14,021)	(9,638)
Total Non-current liabilities		(27,633)	(15,116)	(10,299)	(27,698)	(15,322)	(10,512)
Assets less Liabilities		24,042	30,197	33,981	21,408	27,375	31,864
Minority Interests		(289)	(311)	-	-	-	-
		23,753	29,886	33,981	21,408	27,375	31,864
Tax Payers' Equity							
Revaluation reserve		237	155	220	237	155	220
Government grant reserve		-	21	26	-	-	-
Other reserve		682	435	414	1	1	3
Pension reserve		(25,616)	(13,722)	(9,332)	(25,724)	(14,021)	(9,638)
General reserve		48,450	42,997	42,653	46,894	41,240	41,279
		23,753	29,886	33,981	21,408	27,375	31,864

*2012 restated following the inclusion of additional equity accounted investees and change in depreciation methodology. See note 1 (accounting policies) for further details

A L Paterson
Accountable Officer

Date

The Accountable Officer authorised these financial statements for issue on

Group statement of Cash Flows

for the year ended 31 March 2013

	Notes	2013 £000	2012 £000
Cash flow from operating activities			
Profit/(Loss) before Taxation	22	(62,208)	(51,163)
Share of Associates profit/(loss)	12	454	154
Depreciation	5	1,404	1,398
Surplus on disposal of assets	3	623	704
Amortisation of Intangibles	5b	3	3
Government Grant Release		(21)	-
Gain on investment		-	(337)
Dividend income	6	(76)	(74)
Interest Income	6	(108)	(104)
Interest expense	7	14	-
		<u>(59,915)</u>	<u>(49,419)</u>
(Increase)/decrease in trade and other receivables		(2,900)	(258)
Provision for irrecoverable debts & losses		(62)	(68)
(Increase)/decrease in Inventories		(3)	18
Increase/(decrease) in trade and other payables		(643)	(2,027)
Movement in pension provision		(160)	(777)
Investments written off, net of provision		211	82
Loss/(profit) on sale of property, plant & equipment		(478)	(473)
Loss/(profit) on sale of assets classified as held for sale		(185)	(237)
Surplus of investments		(21)	-
Revaluation of assets property plant & equipment		14,739	12,425
Movement in deferred income		95	427
		<u>(49,322)</u>	<u>(40,307)</u>
Cash outflow from operating activities		(49,322)	(40,307)
Taxes paid		582	(761)
Net cash outflow from operating activities		(48,740)	(41,068)
Cash flows from investing activities			
Payments to acquire shares		(54)	(3,450)
Payments for the construction of property		(19,729)	(10,939)
Payments for tenants improvements		-	-
Payments to acquire plant & equipment		(491)	(972)
Purchase of assets classified as held for sale		-	-
Proceeds from sale of plant, property and equipment		1,378	1,958
Proceeds from sale of assets classified as held for sale		522	967
Receipts from sale of shares		159	8
Loans advanced	12	(2,556)	(349)
Loans repaid	12	173	1,173
Interest received		57	75
Dividends received		43	67
		<u>(20,498)</u>	<u>(11,462)</u>
Net cash from/(used in) investing activities		(20,498)	(11,462)
Cash flows from financing activities			
Grant in aid		71,337	51,163
Capital grants		-	(5)
Debenture Loan repayments		(50)	-
Interest paid	7	(14)	-
		<u>71,273</u>	<u>51,158</u>
Net cash from financing activities		71,273	51,158
Net increase/(decrease) in cash and cash equivalents		2,035	(1,372)
Cash and cash equivalents at beginning of period	16	298	1,670
Cash and cash equivalents at end of period	16	2,333	298

Group Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	Revaluation reserve	Other reserve	Pension reserve	Government grant reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000	£000
					*restated	*restated
Balance at 31 March 2011	220	414	(9,332)	26	42,322	33,650
Adjustments	-	-	-	-	331	331
Balance at 31 March 2011	220	414	(9,332)	26	42,653	33,981
Changes in Taxpayers' equity for 2011-12						
Net gain/(loss) on revaluation of property, plant and equipment	(65)					(65)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					224	224
Grants received in year				(5)		(5)
Release of reserves to the I&E Equity accounted investees		(400)			400	-
Transfers between reserves		421				421
Actuarial Gain/(loss)			692		(692)	-
Retained Surplus/Deficit			(5,082)			(5,082)
Total recognised Income and expense for 2011-12	(65)	21	(4,390)	(5)	(50,819)	(55,258)
Grant from Scottish Government					51,163	51,163
Balance at 31 March 2012	155	435	(13,722)	21	42,997	29,886
Changes in Taxpayers' equity for 2012-13						
Net gain/(loss) on revaluation of property, plant and equipment	82					82
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					(3,118)	(3,118)
Grants received in year				(21)		(21)
Release of reserves to the I&E Equity accounted investees		(2)			2	-
Transfers between reserves		249				249
Actuarial Gain/(loss)			(900)		900	-
Retained Surplus/Deficit			(10,994)			(10,994)
Total recognised Income and expense for 2012-13	82	247	(11,894)	(21)	(65,884)	(77,470)
Grant from Scottish Government					71,337	71,337
Balance at 31 March 2013	237	682	(25,616)	-	48,450	23,753

*2012 restated following the inclusion of additional equity accounted investees and change in depreciation methodology. See note 1 (accounting policies) for further details

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 £1k (2012 £1K) and the share of equity accounted investee revaluation reserves £421K (2012 £421K)

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 2013

	Revaluation reserve	Other reserve	Pension reserve	Government grant reserve	General reserve	Total reserves
	£000	£000	£000	£000	£000	£000
					*restated	*restated
Balance at 31 March 2011	220	3	(9,638)	-	41,279	31,864
Adjustments	-	-	-	-	-	-
Balance at 31 March 2011	220	3	(9,638)	-	41,279	31,864
Changes in Taxpayers' equity for 2011-12						
Net gain/(loss) on revaluation of property, plant and equipment	(65)	(2)				(67)
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					224	224
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves			670		(670)	-
Actuarial Gain/(loss)			(5,053)			(5,053)
Retained Surplus/Deficit					(50,756)	(50,756)
Total recognised Income and expense for 2011-12	(65)	(2)	(4,383)	-	(51,202)	(55,652)
Grant from Scottish Government					51,163	51,163
Balance at 31 March 2012	155	1	(14,021)	-	41,240	27,375
Changes in Taxpayers' equity for 2012-13						
Net gain/(loss) on revaluation of property, plant and equipment	82	-				82
Net gain/(loss) on revaluation of intangible assets						-
Net gain/(loss) on investments					(3,118)	(3,118)
Grants received in year						-
Release of reserves to the I&E						-
Equity accounted investees						-
Transfers between reserves			(913)		913	-
Actuarial Gain/(loss)			(10,790)			(10,790)
Retained Surplus/Deficit					(63,478)	(63,478)
Total recognised Income and expense for 2012-13	82	-	(11,703)	-	(65,683)	(77,304)
Grant from Scottish Government					71,337	71,337
Balance at 31 March 2013	237	1	(25,724)	-	46,894	21,408

*2012 restated following the inclusion of additional equity accounted investees and change in depreciation methodology. See note 1 (accounting policies) for further details

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

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

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

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

Notes to the Accounts

1. Accounting policies

Basis of preparation The financial statements have been prepared in accordance with the 2012-13 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 as adapted or interpreted for the public sector context. Where FRoM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of Highlands & Islands Enterprise for the purpose of giving a true and fair view has been selected. The particular policies adopted by Highlands & Islands Enterprise are described below. They have been applied consistently in dealing with the items that are considered material to the accounts.

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

property (note 10)
financial assets (note 12)
assets classified as held for sale (note 17)
financial commitments (note 25)

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

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

Prior Year adjustment *Investment in Associate*

The 2011/12 figures have been restated as part of our on going review of our investment portfolio additional associate companies have been identified as having transactions material enough to be include within the HIE group accounts. The effect on the 2011/12 annual accounts is to increase investments in associates by £262k and increase general reserves by £262k

Non current assets

The 2011/12 figures have been restated following discussions with HIE's auditors it was agreed that HIE should eliminate depreciation charged against the gross carrying value of its non current assets as per IAS16 section 35(b). The effect of this change is to restate the opening non current asset balances and change the revaluation sums to reflect the elimination of depreciation against the gross asset value on revaluation.

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

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

(a) Subsidiaries

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

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

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

(b) Associates and jointly controlled entities

Associates are entities over which the Group has significant influence but not control. Companies whose business is compatible with the objectives of the Group, in which the holdings are intended to be

retained as long term investments and in which the Group has active management involvement are treated as associated undertakings.

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

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

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

(c) Other

In respect of other invested companies, Highlands and Islands Enterprise considers that in general, the role of the Group is normally that of a passive investor and that investment holdings taken will be disposed of at the earliest opportunity. Highlands and Islands Enterprise's role is to provide funding, primarily alongside venture capital co-investment partners, to individual companies to drive economic growth in Scotland.

Critical accounting estimates and judgements

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

(a) Retirement benefit obligations

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit obligations. The Group also determines the appropriate rate for salary inflation based on consideration of inflation and long term assumptions in respect of salary increases. Other key assumptions for retirement benefit obligations are based in part on current market conditions. Additional information is disclosed in Note 19.

(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 balance sheet date.

(c) Held-to-maturity investments

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

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

The Group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group

evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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

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

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

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

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

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

HIE has 4 categories of property, plant and equipment:

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

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

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

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

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

Buildings – structure : 30-60 years
 Buildings – engineering : 10-20 years
 Buildings – specialist engineering : 20 years

Plant & Equipment : 4 years

Tenants' Improvements : 10 years

IT equipment : 4 years

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

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

use, and accounted for accordingly.

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

Financial Assets - Equity	Equity instruments have been classified as Available for Sale financial assets and are shown at Fair Value in accordance with IAS 39. A review of the Share Agreements and Articles of Association of the Investee companies was carried out for all HIE's Investments to establish the correct classification of each. As there is no active market in most of HIE's investments, Fair Value has been determined internally using valuation techniques. The valuation techniques adopted include the price of recent transactions at arms length and Net Assets based valuations. Other valuation methods were not considered appropriate due to a lack of market place comparables for HIE's equity. Decreases in the Fair Values have been charged to the Statement of Comprehensive Net Expenditure as these are considered to be impairment losses.
- Loans and receivables	Loans and receivables are financial assets with fixed or determinable payments and are carried at amortised cost using the effective interest method. This includes preference shares which have the right to a dividend stream and redemption of the shares at a given point in time. Where the redemption date has passed, it was assumed in the amortised cost calculations, that the redemption date would take place in a year's time. The amortised cost valuations were then reviewed and impairment considered, using information obtained from the monitoring and account management process. Movements in amortised cost are recognised in the Statement of Comprehensive Net Expenditure and impairment provided for where the amortised cost valuation is not considered to reflect a true and fair view. These impairments are effectively measured as the difference between the amortised cost and the discounted present value of estimated future cash flows.
Inventories	Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition.
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 which have been approved for sale with a willing buyer and where the sale is expected to be completed during the next 12 months and are shown at Open Market Value with an allowance made for legal costs related to the sales.
Irrecoverable income	Irrecoverable debts are written off at the earliest opportunity. Provision is made for debts which are considered unlikely to be recovered.
Lease commitments	Highlands & Islands Enterprise has entered into commercial property leases as lessor on its property portfolio and as lessee when it obtains the use of property, plant and equipment. The classification of such leases as operating or financial lease requires the group to determine, based on an evaluation of the terms and conditions of the arrangements, whether it retains or acquires the significant risks and rewards of ownership of these assets. Assets acquired under finance leases are capitalised in the Statement of Financial Position and depreciated over their useful lives. The interest element of the rental obligations is charged to the Statement of Comprehensive Net Expenditure over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. Rentals paid under operating leases are charged to the Statement of Comprehensive Net Expenditure on a straight line basis over the life of the lease.
Research expenditure	All research expenditure is charged against revenue in the year it occurs.
Insurance	In line with central government policy, Highlands and Islands Enterprise and its subsidiary companies bear their own liability for all risks except for statutory obligations.
Taxation	The companies in the HIE group are subject to corporation tax on their annual surplus as computed for taxation purposes. HIE and its subsidiaries are subject to routine tax audits and also a process whereby tax computations are discussed and agreed with the appropriate authorities. Whilst the ultimate outcome of such tax audits and discussions cannot be determined with certainty, management estimates the level of provisions required for both current and deferred tax on the basis of professional advice and the nature of current discussions with the tax authority concerned. Provision is made for deferred taxation only when material liabilities are expected to arise in the foreseeable future. Provision for Corporation tax is made on gains, profits and losses, as computed for tax purposes, arising from business activities. The tax computations for all periods ending before 31 March 2011 have been agreed with the relevant tax authorities.

Employee Benefits	<p>Retirement Benefits</p> <p>Most staff are members of the Highlands and Islands Enterprise superannuation scheme or local government pension funds. The Highlands and Islands Enterprise superannuation scheme provides benefits based on final pensionable salary. The assets of the scheme are held separately from those of Highlands and Islands Enterprise and are invested with independent investment managers agreed by the scheme's trustees. The local government pension funds are defined benefit schemes, the assets of which are held in independently administered funds.</p> <p>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.</p> <p>The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in investment income. Actuarial gains and losses are recognised in the statement of changes in tax payers' equity.</p> <p>Additional information is disclosed in note 20.</p> <p>Short term employee benefits</p> <p>A liability and an expense is recognised for holiday days, holiday pay, bonuses and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken. Accruals are recognised for material amounts in respect of holidays, holiday pay, bonuses and other short term benefits earned but not taken or paid at the Statement of Financial Position date</p>
Trade receivables and payables	All commercial and trade sums due and payable (debtors and creditors) are stated at fair value.
Cash and cash equivalents	Cash and cash equivalents includes deposits held at call with banks and other short term highly liquid investments with original maturities of three months or less.
Provisions	<p>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.</p> <p>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.</p> <p>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</p>
Accounting standards issued but not yet adopted	<p>There are a number of new accounting standards have been issued but have not yet been applied by the group in these financial statements. The standards that are considered relevant to the group and the anticipated impact on the consolidated accounts are as follows:</p> <p><i>IAS 1 – Presentation of financial statements (Other Comprehensive Income)</i> Mandatory for accounting periods commencing on or after 1 June 2012. The adoption of this standard will result in presentational changes to the consolidated accounts.</p> <p><i>IAS19 – Post-employment benefits (pensions)</i> Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard will result in a change to the net expense recognised in the statement of comprehensive net expenditure due to the effective replacement of the expected rate of return on assets with the discount rate on the net interest cost and other changes to the treatment of interest on the service cost and administration expenses.</p> <p><i>IFRS 9 – Financial Instruments</i> Mandatory for accounting periods commencing on or after 1 January 2015. The adoption of this standard could change the classification and measurement of financial assets. The impact on the consolidated accounts has not been determined.</p> <p><i>IFRS 10 – Consolidated Financial Statements</i> <i>IFRS 11 – Joint Arrangements</i></p>

IFRS 12 – Disclosure of Interests in Other Entities

IAS 27 – Separate Financial Statements

IAS 28 – Investments in Associated and Joint Ventures

Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of these standards affects the consolidation and reporting of subsidiaries, associated and joint ventures. The impact on the consolidated accounts has not been determined.

IFRS 13 – Fair Value Measurement

Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard could change the measurement techniques used when determining fair value. The impact on the consolidated accounts has not been determined.

2. Segmental Information

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

The following table presents the revenue and profit information regarding HIE's operating segments for the years ended 31 March 2013 and 2012 based on the management information produced, a further table is presented reconciling the segmental information provided for HIE to the group net operating cost before taxation.

	HIE	
	2013	2012
	£000	£000
Income		
Grant In Aid	71,337	51,163
European		
Single Projects	-	3,673
SDB Projects	2,575	-
	<u>2,575</u>	<u>3,673</u>
Capital		
Loan Repayments	245	1,227
Property Sales	1,895	2,798
	<u>2,140</u>	<u>4,025</u>
Revenue		
Property Rental	5,825	5,387
Loan interest/Dividend	66	179
Other income	73	283
Other Receipts	192	501
	<u>6,156</u>	<u>6,350</u>
Other Income	10,871	14,048
Total Income	<u>82,208</u>	<u>65,211</u>
Expenditure		
Block A		
Regional Significant Investments	34,622	20,003
Business Support	5,242	5,024
Growth Investment	21,920	20,798
Total Block A	<u>61,784</u>	<u>45,825</u>
European Single Projects	-	3,673
SDB Projects	2,575	-
Other expenditure	73	283
Total Block A	<u>64,432</u>	<u>49,781</u>
Block B		
Management, staff & Admin cost	15,076	15,393
Total Block B	<u>15,076</u>	<u>15,393</u>
Total Expenditure	<u>79,508</u>	<u>65,174</u>
Financial Position (I&E)	<u>2,700</u>	<u>37</u>
Reconciliation to Group net operating cost before taxation:		
Financial position (I&E)	2,700	37
Pension (IAS19)	(913)	670
Depreciation	(1,404)	(1,398)
Provisions & charges	(84)	63
Timing differences	765	(356)
EU Cost accrual	591	(956)
Property cost of sales	(1,272)	(2,219)
Capital revaluation and additions	7,539	3,606
Grant in aid	(71,337)	(51,163)
Gain on Bargain	-	380
Interest Payable	-	-
Taxation	891	1,168
Other group companies	(213)	4
Group net operating cost before taxation	<u>(62,737)</u>	<u>(50,164)</u>

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

	GROUP	
	2013 £000	2012 £000
Income from Activities		
Property Rentals	6,078	5,540
Gain/loss on financial assets at fair value	(92)	380
Surplus/(Loss) on disposal of property	623	704
Surplus/(Loss) on disposal of investments	21	-
	6,630	6,624
Other Income		
Other European contributions	3,079	4,183
Scottish Government receipts	-	-
Other external income	10,084	6,581
	13,163	10,764

All income shown relates to continuing activities.

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

	Regional significant Investments £000	Business Support £000	Growth Investment £000	Tourism Attraction Operator £000	Total £000	2012 £000
Highlands and Islands Enterp	25,479	19,860	15,455	-	60,794	48,350
Cairngorm Mountain Limited	-	-	-	3,079	3,079	2,738
Community Broadband	66	-	-	-	66	-
Former LECs *	-	-	-	-	-	-
HIE Ventures Limited	-	-	-	-	-	-
Group	25,545	19,860	15,455	3,079	63,939	51,088
2012	14,988	17,778	15,584	2,738	51,088	
2013						
Continuing operations	25,545	19,860	15,455	3,079	63,939	
Discontinuing operations	-	-	-	-	-	
	25,545	19,860	15,455	3,079	63,939	
2012						
Continuing operations	14,988	17,778	15,584	2,738	51,088	
Discontinuing operations	-	-	-	-	-	
	14,988	17,778	15,584	2,738	51,088	

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

Expenditure includes grants of **£26,614,692** (2012 - £24,768,344) of which **£202,182** (2012- £145,240) were made to the public sector and **£26,412,510** (2012 - £24,623,104) to the private sector.

Property revaluation and management costs of **£14,955,211** (2012 - £13,864,708) are included within Business Support expenditure above.

5a. Administration and management charges by organisation

	GROUP	
	2013 £000	2012 £000
Highlands and Islands Enterprise	16,367	14,885
Cairngorm Mountain Ltd	852	760
Cairngorm 2000 Ltd	6	-
Former LECs	-	-
HIE Ventures Limited	22	324
	17,247	15,969
Continuing operations	17,247	15,969
Discontinuing operations	-	-
	17,247	15,969

5b. Administration and management charges

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Continuing operations				
Staff & board member salaries (note 8)	10,171	10,299	10,171	10,293
Voluntary severance packages (note 8)	-	-	-	-
IAS 19 adjustment in respect of service costs and curtailments (note 8)	(155)	(777)	(155)	(771)
	10,016	9,522	10,016	9,522
Travel and subsistence - board members	27	28	27	28
Travel and subsistence - staff	710	707	710	707
Accommodation	1,803	1,645	1,803	1,645
Hospitality - board members	6	10	6	10
Hospitality - staff	67	102	67	102
Audit fees	141	135	121	118
Non-audit fees paid to auditors	3	3	-	-
Operating lease rentals - equipment	9	51	1	40
Equipment and furnishings	12	11	12	11
Provision for irrecoverable debts and losses	12	(45)	12	4
Investment Fair value adjustments	292	(736)	375	264
Other administration costs	2,742	3,135	2,035	2,471
	5,824	5,046	5,169	5,400
Depreciation of fixed assets	1,404	1,398	1,190	1,253
Amortisation of Intangible assets	3	3		

Fees chargeable for audit services provided by Audit Scotland amounted to £128,150 (2012 - £133,250).

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

	GROUP	
	2013 £000	2012 £000
Investment Income		
Dividends received	76	74
Interest Receivable		
Loan interest receivable	83	91
Bank interest receivable	15	12
Other Interest receivable	10	1
	108	104
Other finance income / (charges)		
Expected return on pension plan assets	3,283	4,383
Interest on pension plan liabilities	(4,343)	(4,468)
	(1,060)	(85)

7. Interest payable

	GROUP	
	2013	2012
	£000	£000
Other	14	0
	14	0

8. Staff costs

	GROUP			GROUP		
	2013			2012		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
	£000	£000	£000	£000	£000	£000
Wages and salaries	7,476	3,010	10,486	7,459	2,623	10,082
Voluntary severance packages	-	-	-	-	-	-
Social security costs	593	216	809	578	195	773
Other pension costs	1,595	332	1,927	1,072	317	1,389
Contract/temporary staff	-	46	46	-	33	33
	9,664	3,604	13,268	9,109	3,168	12,277
Board members' remuneration	352	-	352	380	-	380
	10,016	3,604	13,620	9,489	3,168	12,657

The average number of employees was as follows:

	GROUP			GROUP		
	2013			2012		
	Permanent UK Staff	Other Staff	Total Staff	Permanent UK Staff	Other Staff	Total Staff
Senior management	50	18	68	51	16	67
Operational staff	119	135	254	119	123	242
Administration and support staff	37	18	55	38	9	47
	206	171	377	208	148	356

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

9. Taxation

Corporation tax is charged at 24 per cent (2012 26 per cent) on the taxable surplus of Highlands and Islands Enterprise and charged at rates between 10 and 20 per cent on the taxable income of its subsidiaries.

	GROUP	
	2013	2012
	£000	£000
Corporation tax	812	198
Adjustment in respect of prior periods	(438)	(290)
Current Corporation Tax Charge	374	(92)
Temporary timing differences	648	763
Effect of changes in Tax Rates	(69)	(84)
Deferred Tax	579	679
	953	587

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

10. Property Plant & Equipment

At 31 March 2013, industrial and commercial properties were valued on an open market value basis, in accordance with the guidance notes on the valuation of assets issued by the Royal Institution of Chartered Surveyors. The valuations were carried out by Graham and Sibbald, Chartered Surveyors.

GROUP	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000*	£000*	£000	£000*	£000	£000	£000	£000
Cost or valuation								
At 1 April 2011	39,817	1,236	-	41,053	1,455	802	2,269	45,579
Additions	3,908	51	6,979	10,938	-	37	990	11,965
Write Down	-	-	-	-	-	-	-	-
Disposals	(1,471)	-	-	(1,471)	-	(246)	(110)	(1,827)
Assets held for resale	(838)	-	-	(838)	-	-	-	(838)
Reclassifications	(3,050)	-	3,050	-	-	(36)	36	-
Revaluations	(6,240)	(185)	-	(6,425)	-	-	-	(6,425)
Impairment	-	-	(6,783)	(6,783)	-	-	48	(6,735)
At 31 March 2012	32,126	1,102	3,246	36,474	1,455	557	3,233	41,719
Depreciation								
At 1 April 2011	-	-	-	-	898	745	1,815	3,458
Charged in year	883	41	-	924	82	20	372	1,398
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(237)	(104)	(341)
Assets held for resale	(22)	-	-	(22)	-	-	-	(22)
Reclassifications	-	-	-	-	-	(38)	38	-
Revaluations	(861)	(41)	-	(902)	-	-	-	(902)
At 31 March 2012	-	-	-	-	980	490	2,121	3,591
Net Book Value								
At 31 March 2012	32,126	1,102	3,246	36,474	475	67	1,112	38,128
At 1 April 2012	32,126	1,102	3,246	36,474	1,455	557	3,233	41,719
Additions	7,254	2	14,081	21,337	-	5	485	21,827
Write Down	-	-	-	-	-	-	-	-
Disposals	(894)	-	-	(894)	-	(40)	(20)	(954)
Assets held for resale	131	-	-	131	-	-	-	131
Reclassifications	(301)	-	301	-	-	-	-	-
Revaluations	(5,502)	(18)	-	(5,520)	-	-	-	(5,520)
Impairment	-	-	(9,961)	(9,961)	-	-	-	(9,961)
At 31 March 2013	32,814	1,086	7,667	41,567	1,455	522	3,698	47,242
Depreciation								
At 1 April 2012	-	-	-	-	980	490	2,121	3,591
Charged in year	790	37	-	827	82	23	472	1,404
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(40)	(15)	(55)
Assets held for resale	(7)	-	-	(7)	-	-	-	(7)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(783)	(37)	-	(820)	-	-	-	(820)
At 31 March 2013	-	-	-	-	1,062	473	2,578	4,113
Net Book Value								
At 31 March 2013	32,814	1,086	7,667	41,567	393	49	1,120	43,129
At 1 April 2012	32,126	1,102	3,246	36,474	475	67	1,112	38,128
At 1 April 2011	39,817	1,236	-	41,053	557	57	454	42,121
Analysis of asset financing:								
	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	31,738	1,102	3,246	36,086	475	67	1,067	37,695
Finance Leased	388	-	-	388	-	-	34	422
Net Book Value								
At 31 March 2012	32,126	1,102	3,246	36,474	475	67	1,101	38,117
Owned	32,284	1,086	7,667	41,037	393	49	1,075	42,554
Finance Leased	530	-	-	530	-	-	45	575
Net Book Value								
At 31 March 2013	32,814	1,086	7,667	41,567	393	49	1,120	43,129
At 1 April 2012	32,126	1,102	3,246	36,474	475	67	1,112	38,128
At 1 April 2011	39,817	1,236	-	41,053	557	57	454	42,121

HIE

	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000*	£000*	£000	£000*	£000	£000	£000	£000
Cost or valuation								
At 1 April 2011	40,318	735	-	41,053	1,227	543	381	43,204
Additions	3,942	-	6,979	10,921	-	-	925	11,846
Write Down	-	-	-	-	-	-	-	-
Disposals	(1,471)	-	-	(1,471)	-	(241)	(36)	(1,748)
Assets held for resale	(838)	-	-	(838)	-	-	-	(838)
Reclassifications	(3,050)	-	3,050	-	-	-	-	-
Revaluations	(6,275)	(150)	-	(6,425)	-	-	-	(6,425)
Impairment	-	-	(6,783)	(6,783)	-	-	-	(6,783)
At 31 March 2012	32,626	585	3,246	36,457	1,227	302	1,270	39,256
Depreciation								
At 1 April 2011	-	-	-	-	670	534	355	1,559
Charged in year	911	13	-	924	82	-	247	1,253
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	(232)	(33)	(265)
Assets held for resale	(22)	-	-	(22)	-	-	-	(22)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(889)	(13)	-	(902)	-	-	-	(902)
At 31 March 2012	-	-	-	-	752	302	569	1,623
Net Book Value								
At 31 March 2012	32,626	585	3,246	36,457	475	-	701	37,633
At 1 April 2012	32,626	585	3,246	36,457	1,227	302	1,270	39,256
Additions	7,256	-	14,081	21,337	-	-	380	21,717
Write Down	-	-	-	-	-	-	-	-
Disposals	(894)	-	-	(894)	-	-	-	(894)
Assets held for resale	131	-	-	131	-	-	-	131
Reclassifications	(301)	-	301	-	-	-	-	-
Revaluations	(5,506)	-	-	(5,506)	-	-	-	(5,506)
Impairment	-	-	(9,961)	(9,961)	-	-	-	(9,961)
At 31 March 2013	33,312	585	7,667	41,564	1,227	302	1,650	44,743
Depreciation								
At 1 April 2012	-	-	-	-	752	302	569	1,623
Charged in year	816	11	-	827	82	-	281	1,190
Write Down	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Assets held for resale	(7)	-	-	(7)	-	-	-	(7)
Reclassifications	-	-	-	-	-	-	-	-
Revaluations	(809)	(10)	-	(819)	-	-	-	(819)
At 31 March 2013	-	1	-	1	834	302	850	1,987
Net Book Value								
At 31 March 2013	33,312	584	7,667	41,563	393	-	800	42,756
At 1 April 2012	32,626	585	3,246	36,457	475	-	701	37,633
At 1 April 2011	40,318	735	-	41,053	557	9	26	41,645

Analysis of asset financing:

	Land & Buildings held for regeneration purposes	Land & Buildings held for own use	Assets under construction	Total Land & Buildings	Tenants Improvements	IT Equipment	Plant & Equipment	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Owned	32,238	585	3,246	36,069	475	-	667	37,211
Finance Leased	388	-	-	388	-	-	34	422
Net Book Value								
At 31 March 2012	32,626	585	3,246	36,457	475	-	701	37,633
Owned	32,782	584	7,667	41,033	393	-	755	42,181
Finance Leased	530	-	-	530	-	-	45	575
Net Book Value								
At 31 March 2013	33,312	584	7,667	41,563	393	-	800	42,756
At 1 April 2012	32,626	585	3,246	36,457	475	-	701	37,633
At 1 April 2011	40,318	735	-	41,053	557	9	26	41,645

Analysis of fund of asset additions:

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Government Grant	20,299	9,650	20,189	9,531
EU	1,528	2,315	1,528	2,315
Total	21,827	11,965	21,717	11,846

Reconciliation of profit on sales:

	GROUP	
	2013 £000	2012 £000
Sales value of disposals	2,009	2,925
Net book value of disposals	(1,386)	(2,222)
Profit on sales	623	703

11. Intangible fixed assets

Intangible assets of £ Nil (2012 £3,000) relates to goodwill on consolidation of CairnGorm Mountain limited.

12. Financial Assets
GROUP

Financial assets

	2013 £000	2012 £000
Available for sale unlisted equity shares	3,169	6,068

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

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

During the year HIE acquired additional shares in Aquapharm (£1K).

Loans & Receivables

	Preference Shares £000	Loans & Receivables £000	Total £000	2012 £000
Amortised Cost				
At 1 April 2012	5,424	1,616	7,040	6,899
Additions	-	2,556	2,556	1,357
Repayments	-	(312)	(312)	(1,173)
Disposals	(4)	-	(4)	-
Fair Value Adjustment	(157)	66	(91)	(43)
Reclassification	-	-	-	-
Written off	(1,075)	(8)	(1,083)	-
At 31 March 2013	4,188	3,918	8,106	7,040
Diminution in value				
At 1 April 2012	4,459	168	4,627	4,360
Additions	311	70	381	345
Disposals	(4)	-	(4)	-
Released	-	(3)	(3)	(78)
Reclassification	-	-	-	-
Written off	(1,075)	(8)	(1,083)	-
At 31 March 2013	3,691	227	3,918	4,627
Net book value				
At 31 March 2013	497	3,691	4,188	2,413
At 1 April 2012	965	1,448	2,413	
Analysis of Loan & Receivables				
Due within 1 year	-	656	656	279
Due over 1 year	497	3,035	3,532	2,134

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

HIE

Financial assets

	2013	2012
	£000	£000
Available for sale unlisted equity shares	3,059	5,948

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

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

During the year HIE acquired additional shares in Aquapharm (£1K).

Loans & Receivables

	Preference Shares £000	Loans & Receivables £000	Total £000	2012 £000
Amortised Cost				
At 1 April 2012	5,294	1,815	7,109	7,957
Additions	-	2,556	2,556	349
Repayments	-	(237)	(237)	(1,233)
Disposals	(4)	-	(4)	-
Fair Value Adjustment	(157)	65	(92)	36
Reclassification	-	-	-	-
Written off	(1,000)	(3)	(1,003)	-
At 31 March 2013	4,133	4,196	8,329	7,109
Diminution in value				
At 1 April 2012	4,330	1,057	5,387	5,094
Additions	311	70	381	293
Disposals	(4)	-	(4)	-
Released	-	(3)	(3)	-
Reclassification	-	-	-	-
Written off	(1,000)	(3)	(1,003)	-
At 31 March 2013	3,637	1,121	4,758	5,387
Net book value				
At 31 March 2013	496	3,075	3,571	1,722
At 1 April 2012	964	758	1,722	
Analysis of Loan & Receivables				
Due within 1 year	-	723	723	346
Due over 1 year	496	2,352	2,848	1,376

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

All non-current assets acquired were financed by government grant

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

Name of company	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
HIE Argyll and the Islands	Scotland	n/a	n/a	Local enterprise company
HIE Caithness and Sutherland	Scotland	n/a	n/a	Local enterprise company
HIE Innse Gall	Scotland	n/a	n/a	Local enterprise company
HIE Inverness and East Highland	Scotland	n/a	n/a	Local enterprise company
HIE Lochaber	Scotland	n/a	n/a	Local enterprise company
HIE Moray	Scotland	n/a	n/a	Local enterprise company
HIE Orkney	Scotland	n/a	n/a	Local enterprise company
Ross and Cromarty Enterprise Limited	Scotland	n/a	n/a	Local enterprise company
HIE Shetland	Scotland	n/a	n/a	Local enterprise company
HIE Skye and Wester Ross	Scotland	n/a	n/a	Local enterprise company
Highlands and Islands Community Energy Company Limited	Scotland	n/a	n/a	Promote community involvement in renewable energy initiatives.
CairnGorm Mountain Ltd	Scotland	ordinary	100%	All year round tourist attraction including mountain railway and winter skiing facilities
HIE Ventures Limited	Scotland	Ordinary Shares	55%	Venture Capitalist
		'A' Ordinary Shares (non voting)	80%	
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 2000+ (subsidiary of CairnGorm Mountain Limited)	Scotland	Ordinary Shares	100%	Debenture financing

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 increase 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 2013.

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 consolidated using the equity method unless indicated

Limited by guarantee

Name of company	Country of incorporation	Accounting period end	Percentage of Membership	Nature of business
Scottish Health Innovations Limited	Scotland	31 March	50	Promote research and development within the National Health Service in Scotland particularly the commercialisation of research, technology and innovations
Scottish Intellectual Asset Management Limited*	Scotland	31 March	50	Help build Scotland's competitiveness in modern knowledge economy by enabling Scottish businesses to exploit their intellectual assets
Centre for Health Science	Scotland	31 March	33	Facility management of Centre for Health Science
Investors In People Scotland	Scotland	31 March	50	Assessment of organisations against the Investors in People (IIP) national standard

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

Limited by Shares

Name of company	Country of incorporation	Accounting period end	Percentage of potential voting rights held	Nature of business
Aquapharm Bio Discovery Limited	Scotland	30 April	21.79	Research and development of marine micro-organism based products
Rodel Hotels Limited	Scotland	31 October	30.10	Accommodation and leisure
Sitekit Solutions Limited	Scotland	31 March	20.00	Website and operation and management
Inverness Airport Business Park Limited	Scotland	31 March	28.57	Construction and development of a business park adjacent to Dalcross airport

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

	Non Current Assets	Current Assets	Total Assets	Current Liabilities	Non Current Liabilities	Total Liabilities	Revenue	Expenses	Profit/(Loss)
As at April 2011	538	1,700	2,238	(1,231)	(783)	(2,014)	5,193	(4,754)	439
As at March 2012	1,643	784	2,427	(486)	(1,817)	(2,303)	3,236	(3,920)	(684)
As at March 2013	1,478	1,683	3,161	(1,022)	(1,944)	(2,966)	4,555	(4,280)	275

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

	Non Current Assets	Current Assets	Total Assets	Current Liabilities	Non Current Liabilities	Total Liabilities	Revenue	Expenses	Profit/(Loss)
As at April 2011	6,835	4,754	11,589	(2,393)	(4,945)	(7,338)	5,716	(7,974)	(2,258)
As at March 2012	6,214	3,287	9,501	(2,796)	(4,064)	(6,860)	4,079	(6,666)	(2,587)
As at March 2013	6,137	3,048	9,185	(3,285)	(4,098)	(7,383)	5,012	(6,614)	(1,602)

Movements in carrying amount of investment in equity accounted investees

Carrying amount as at April 2011	£000
Share of surplus on revaluation	1,036
Share of net profit/(Loss)	421
Carrying amount as at 31 March 2012	<u>(588)</u>
	<u>869</u>
Carrying amount as at April 2012	869
Share of surplus on revaluation	249
Share of net profit/(Loss)	(454)
Carrying amount as at 31 March 2013	<u>(664)</u>

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

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

Name of company - activity	% of voting rights	Holding as at 31 March 2013	Shares value paid £000	Loan outstanding £000	Outstanding commitment £000
Balcas Limited – production of renewable wood pellet fuel	-	29,811 cumulative convertible participating redeemable preferred shares	2,000		
Aquapharm	21.8%	433,161 ordinary shares	2,114	347	
Windtowers Limited	19.9%	63,646 ordinary shares	3,400		
Baxters Food Group Limited	-	None	-	1,500	
Rodel Hotel	30.1%	56,000 cumulative covetable participating preferred ordinary shares	56		
		44,000 redeemable preference shares	44		
Inverness Airport Business Park Limited	20%	3,385 class 'A' ordinary shares	3		
		500 class 'C' ordinary shares	1		
		24,997 class 'D' ordinary shares	25		
		275,000 redeemable preference shares	550		
Sitekit	20%	160,000 redeemable preferred ordinary shares	160		
HIE Ventures Limited	55%	110,000 Ordinary Shares	61	1,000	
		40,000 class A ordinary shares	40		
CairnGorm Mountain Limited	100%	115,000 ordinary shares	158	199	
		450,000 preference shares	450		
Investments in 29 other businesses			2,486	1,150	
			11,548	4,196	

13. Inventories

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Goods for resale	102	99	-	-
	102	99	-	-

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

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

14. Revaluations to Fair Value and impairments

Revaluations to fair value and impairment charges for the year

Group				
	Statement of comprehensive net expenditure £000	Revaluation reserve £000	Total £000	2012 £000
Revaluations to fair value				
Property, plant and equipment	5,520	82	5,602	6,360
Financial assets	3,126	-	3,126	-
	8,646	82	8,728	6,360
Impairments				
Property, plant and equipment	9,961	-	9,961	6,735
Financial assets	(381)	-	(381)	(345)
	9,580	-	9,580	6,390
HIE				
	Statement of comprehensive net expenditure £000	Revaluation reserve £000	Total £000	2012 £000
Revaluations to fair value				
Property, plant and equipment	5,520	82	5,602	6,360
Financial assets	3,033	-	3,033	-
	8,553	82	8,635	6,360
Impairments				
Property, plant and equipment	9,961	-	9,961	6,783
Financial assets	(381)	-	(381)	(293)
	9,580	-	9,580	6,490

15. Trade and other receivables

	Note	GROUP		HIE	
		2013 £000	2012 £000	2013 £000	2012 £000
Trade receivables		5,443	4,936	5,159	4,715
Provision for bad debts		(769)	(887)	(758)	(877)
		4,674	4,049	4,401	3,838
Taxation recoverable		1,017	879	1,000	865
Accrued income and prepayments		2,688	405	2,693	251
Loans & other receivables	12	656	279	723	346
		9,035	5,612	8,817	5,300

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

	2013 £000	2012 £000	2013 £000	2012 £000
Balances with other central government bodies	1,030	1,446	1,000	1,433
Balances with local authorities	132	14	132	14
Balances with NHS bodies	-	-	-	-
Balances with similar public bodies	14	15	14	13
	1,176	1,475	1,146	1,460
Balances with bodies external to government	7,859	4,137	7,671	3,840
	9,035	5,612	8,817	5,300

16. Cash and cash equivalents

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Balance at 1 April	298	1,670	-	690
Net change in cash and cash equivalent balances	2,035	(1,372)	1,097	(690)
	2,333	298	1,097	-

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Group and HIE funds	1,236	298	-	-
Other scheme funds held	1,097	-	1,097	-
	2,333	298	1,097	-

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

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Community Broadband Scotland	1,015	-	1,015	-
Scottish Land Fund	82	-	82	-
	1,097	-	1,097	-

17. Assets Classified as Held for Resale

	Group		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
At 31 March 2012	1,021	942	1,021	942
Additions	296	838	296	838
Disposals/Sales	(337)	(749)	(337)	(749)
Transfers	(445)	-	(445)	-
Revaluations	-	(10)	-	(10)
At 31 March 2013	535	1,021	535	1,021

Land and buildings 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.

During the year it was decided one asset (2012 nil) would no longer be marketed for sale. The asset was transfer out of assets held for resale back into non-current assets.

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

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Trade payables	5,082	6,351	4,822	6,293
Accruals and Deferred Income	3,788	1,709	3,446	1,517
Prepaid rental income	553	551	553	551
Owed to subsidiary undertakings	-	-	144	-
	9,423	8,611	8,965	8,361
Taxation and social security	445	308	229	220
Corporation tax	956	-	812	-
	1,401	308	1,041	220

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

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Balances with other central government bodies	1,257	532	1,041	444
Balances with local authorities	109	121	109	121
Balances with similar public bodies	415	66	415	66
	1,781	719	1,565	631
Balances with bodies external to government	9,043	8,200	8,441	7,950
	10,824	8,919	10,006	8,581

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

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Deferred income – other schemes	377	282	377	282
Deferred Tax	1,597	1,019	1,597	1,019
Debenture loans	43	93	-	-
	2,017	1,394	1,974	1,301

20. Retirement Benefit Obligation

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

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

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

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

Highlands and Islands Enterprise Superannuation Scheme

The actuarial valuation at **5 April 2012** indicated a potential deficit of **£27.0** million in the HIE pension fund. The HIE Pension Fund Trustees and HIE are in the process of developing a pension recovery plan to

address this shortfall, It is anticipated that the plan currently being developed will remove the deficit revealed in the April 2012 valuation by April 2027. The April 2012 valuation has not been formally completed and issued.

Pension disclosure under IAS 19

Highlands and Islands Enterprise Superannuation Scheme

Highlands and Islands Enterprise operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at **5 April 2009** and updated to **31 March 2013** 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 13	31 March 12	31 March 11	31 March 10	31 March 09
	%	%	%	%	%
Rate of salary increases (% per annum)	3.90	3.80	4.00	4.10	5.50
Rate of pension increase (% per annum)	2.60	2.50	3.00	3.60	3.50
Discount rate (% per annum)	4.40	5.00	5.50	5.50	6.70
Inflation rate (% per annum)	3.40	2.50	2.70	3.60	3.50

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

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 assets in the scheme and expected rate of return were:

	Long-term rate of return expected at 31 March 2013	Value at 31 March 2013	Long-term rate of return expected at 31 March 2012	Value at 31 March 2012	Long-term rate of return expected at 31 March 2011	Value at 31 March 2011	Long-term rate of return expected at 31 March 2010	Value at 31 March 2010	Long-term rate of return expected at 31 March 2009	Value at 31 March 2009
	%	£000	%	£000	%	£000	%	£000	%	£000
Equities	4.40	42,698	5.30	38,902	6.56	43,334	6.75	37,369	6.25	23,239
Gilts	4.40	13,466	2.30	17,851	3.60	11,935	5.30	18,804	4.20	15,274
Bonds	4.40	7,101	3.80	6,270	4.70	7,276				
Property	4.40	5,569								
Cash	4.40	1,048	0.00	960	0.00	1,276	0.00	3,905	0.00	2,547
Total market value of assets		69,882		63,983		63,821		60,078		41,060
Actuarial value of liability		(92,589)		(74,867)		(71,921)		(76,620)		(63,889)
Deficit in the scheme		(22,707)		(10,884)		(8,100)		(16,542)		(22,829)
Related deferred tax asset/(liability)		-		-		-		-		-

The current values show an increase in the deficit at 31 March 2012 of £10.9m to £22.7m at 31 March 2013.

Local Government Pension Funds

The valuation for the local government pension funds used for IAS 19 disclosures has been based on the most recent actuarial valuations at 31 March 2011 and updated by a qualified actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the funds at 31 March 2013. Fund assets are stated at their market value at 31 March 2013:

	31 March 13	31 March 12	31 March 11	31 March 10	31 March 09
	%	%	%	%	%
Main assumptions:					
Rate of salary increases (% per annum)	5.03	4.80	5.08	5.33	4.58
Rate of pension increase (% per annum)	2.75	2.50	2.78	3.30	3.08
Discount rate (% per annum)	4.55	4.75	5.50	5.50	6.85
Inflation rate (% per annum)	3.55	2.50	2.70	3.83	3.08

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

	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at	Long-term rate of return expected at	Value at
	31 March 2013	31 March 2013	31 March 2012	31 March 2012	31 March 2011	31 March 2011	31 March 2010	31 March 2010	31 March 2009	31 March 2009
	%	£000	%	£000	%	£000	%	£000	%	£000
Equities	6.11	8,413	6.53	7,162	7.58	7,235	7.83	6,447	7.10	4,066
Gilts	3.30	471	3.30	408	4.40	278	4.50	247	-	-
Bonds	4.20	984	4.25	783	5.05	813	5.13	781	5.68	815
Property	4.50	737	4.63	700	5.58	667	5.80	564	5.03	489
Cash	3.40	182	3.38	225	4.20	221	4.35	155	3.75	168
Estimated employer assets		10,787		9,278		9,219		8,194		5,538
Present value of scheme liabilities		(13,182)		(11,833)		(10,417)		(11,862)		(6,429)
Present value of unfunded liabilities		(622)		(582)		(340)		(383)		(308)
Deficit in the scheme		(3,017)		(3,137)		(1,538)		(4,051)		(1,199)
Related deferred tax liability		-		-		-		-		-

The pension contributions with effect from 1 April 2013 for the local government pension funds are:

	2013	2012
Highland Council Pension Fund	18.2%	18.6%
Orkney Islands Council Pension Fund	21.4%	21.4%
Strathclyde Pension Fund	19.3%	19.3%

GROUP

	HIE* pension Scheme	LGPF	CML	Total	HIE* pension Scheme	LGPF	CML	Total
	2013	2013	2013	2013	2012	2012	2012	2012
	£000	£000	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to Income Statement								
Current service cost	1,631	307	21	1,959	1,532	250	21	1,803
Past service cost	-	-	-	-	10	3	-	13
Impact of settlements and curtailments	-	-	-	-	(462)	-	-	(462)
Expected return on pension scheme assets	(2,672)	(562)	(49)	(3,283)	(3,667)	(663)	(53)	(4,383)
Interest on pension scheme liabilities	3,721	581	41	4,343	3,862	569	37	4,468
Actual return less expected return on pension scheme assets	(3,917)	(737)	24	(4,630)	(2,071)	(814)	(54)	(2,939)
Experience gains and (losses) arising on the scheme liabilities	2,822	(17)	13	2,818	2	150	(67)	85
Changes in assumptions underlying the present value of the scheme liabilities	(17,689)	(560)	(197)	(18,446)	(1,223)	(1,097)	13	(2,302)
Restriction on scheme surplus	-	-	4	4	-	-	74	74
Prior year adjustment on assets	-	-	-	-	-	-	-	-
Total operating charge	(16,104)	(988)	(143)	(17,235)	(2,017)	(1,602)	(24)	(3,643)
Reconciliation of defined benefit obligation								
Opening defined benefit obligation	74,867	12,415	738	88,020	71,921	10,757	683	83,361
Recognised on acquisition	-	-	-	-	-	-	-	-
	74,867	12,415	738	88,020	71,921	10,757	683	83,361
Movement in year:								
Current Service costs	1,631	307	21	1,959	1,532	250	21	1,803
Contributions by members	155	94	10	259	143	95	10	248
Past service costs	-	-	-	-	10	3	-	13
Impact of settlements and curtailments	-	-	-	-	(1,241)	-	-	(1,241)
Estimated unfunded benefits paid	-	(28)	-	(28)	-	(31)	-	(31)
Estimated benefits paid	(2,652)	(142)	-	(2,794)	(2,581)	(175)	(62)	(2,818)
Interest cost	3,721	581	41	4,343	3,862	569	37	4,468
Actuarial losses/(gains)	14,867	577	184	15,628	1,221	947	49	2,217
Closing defined benefit obligation	92,589	13,804	994	107,387	74,867	12,415	738	88,020
Reconciliation of fair value of assets								
Opening fair value of assets	63,983	9,278	1,041	74,302	63,821	9,219	989	74,029
Prior year adjustment	-	-	-	-	-	-	78	78
Opening fair value of assets – as restated	63,983	9,278	1,041	74,302	63,821	9,219	1,067	74,107
Recognised on acquisition	-	-	-	-	-	-	-	-
Expected return on assets	2,672	562	49	3,283	3,667	663	53	4,383
Contributions by members	155	94	10	259	143	95	10	248
Contributions by employer	1,807	275	26	2,108	1,783	311	27	2,121
Contribution in respect of unfunded benefits	-	11	-	11	-	10	-	10
Impact of settlements and curtailments	-	-	-	-	(779)	-	-	(779)
Actuarial gains/(losses)	3,917	737	(24)	4,630	(2,071)	(814)	(54)	(2,939)
Estimated unfunded benefits paid	-	(28)	-	(28)	-	(31)	-	(31)
Estimated benefits paid	(2,652)	(142)	-	(2,794)	(2,581)	(175)	(62)	(2,818)
	69,882	10,787	1,102	81,771	63,983	9,278	1,041	74,302
Estimated employer contributions for the year ended 31 March 2013								
	1,877	261	31	2,169	1,840	257	30	2,127

HIE

	HIE* pension Scheme	LGPF	Total	HIE* pension Scheme	LGPF	Total
	2013	2013	2013	2012	2012	2012
	£000	£000	£000	£000	£000	£000
Analysis of the amount charged to Income Statement						
Current service cost	1,631	307	1,938	1532	250	1782
Past service cost	-	-	-	10	3	13
Impact of settlements and curtailments	-	-	-	(462)	-	(462)
Expected return on pension scheme assets	(2,672)	(562)	(3,234)	(3,667)	(663)	(4,330)
Interest on pension scheme liabilities	3,721	581	4,302	3,862	569	4,431
Actual return less expected return on pension scheme assets	(3,917)	(737)	(4,654)	(2,071)	(814)	(2,885)
Experience gains and (losses) arising on the scheme liabilities	2,822	(17)	2,805	2	150	152
Changes in assumptions underlying the present value of the scheme liabilities	(17,689)	(560)	(18,249)	(1,223)	(1,097)	(2,320)
Restriction on scheme surplus	-	-	-	-	-	-
Prior year adjustment on assets	-	-	-	-	-	-
Total operating charge	(16,104)	(988)	(17,092)	(2,017)	(1,602)	(3,619)
Reconciliation of defined benefit obligation						
Opening defined benefit obligation	74,867	12,415	87,282	71,921	10,757	82,678
Recognised on acquisition	-	-	-	-	-	-
	74,867	12,415	87,282	71,921	10,757	82,678
Movement in year:						
Current Service costs	1,631	307	1,938	1532	250	1782
Contributions by members	155	94	249	143	95	238
Past service costs	-	-	-	10	3	13
Impact of settlements and curtailments	-	-	-	(1,241)	-	(1,241)
Estimated unfunded benefits paid	-	(28)	(28)	-	(31)	(31)
Estimated benefits paid	(2,652)	(142)	(2,794)	(2,581)	(175)	(2,756)
Interest cost	3,721	581	4,302	3,862	569	4,431
Actuarial losses/(gains)	14,867	577	15,444	1,221	947	2,168
Closing defined benefit obligation	92,589	13,804	106,393	74,867	12,415	87,282
Reconciliation of fair value of assets						
Opening fair value of assets	63,983	9,278	73,261	63,821	9,219	73,040
Prior year adjustment	-	-	-	-	-	-
Opening fair value of assets –as restated	63,983	9,278	73,261	63,821	9,219	73,040
Recognised on acquisition	-	-	-	-	-	-
Expected return on assets	2,672	562	3,234	3,667	663	4,330
Contributions by members	155	94	249	143	95	238
Contributions by employer	1,807	275	2,082	1,783	311	2,094
Contribution in respect of unfunded benefits	-	11	11	-	10	10
Impact of settlements and curtailments	-	-	-	(779)	-	(779)
Actuarial gains/(losses)	3,917	737	4,654	(2,071)	(814)	(2,885)
Estimated unfunded benefits paid	-	(28)	(28)	-	(31)	(31)
Estimated benefits paid	(2,652)	(142)	(2,794)	(2,581)	(175)	(2,756)
	69,882	10,787	80,669	63,983	9,278	73,261
Estimated employer contributions for the year ended 31 March 2013	1,877	261	2,138	1,840	257	2,097

Expenditure recognised in the Statement of Comprehensive net expenditure

	2013	2012
	£000	£000
Net management expenditure on staff costs	155	771
Other finance charges/(income)	(1060)	(85)

The total loss amount recognised in the statement of other comprehensive income in respect of net actuarial gains and losses is £10,994k (2012 5,082k loss)

Cumulative actuarial gains and losses recognised in the statement of comprehensive income since 1 April 2002 are net losses of £15,959 (2012 £5,035k loss)

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

	HIE					Local government pension funds				
	2013	2012	2011	2010	2009	2013	2012	2011	2010	2009
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Experience gains and losses										
Difference between expected and actual return on scheme assets	3,917	2,071	(1,64)	12,630	(17,923)	737	814	(96)	1916	(2,162)
Value of assets	69,882	63,983	63,821	60,078	41,060	10,787	9,278	9,219	8,194	15,357
Percentage of scheme assets	5.6%	3.2%	(1.8)%	210%	(43.7)%	6.8%	8.8%	(10)%	23.4%	(14.1)%
Experience gains and (losses) on scheme liabilities	2,822	2	(128)	3,246	59	(17)	150	127	(9)	823
Present value of liabilities	(92,589)	(74,867)	(71,921)	(76,620)	(63,889)	(13,804)	(12,415)	(10,757)	(12,245)	(5,538)
Percentage of scheme liabilities	(3.0)%	(0.0)%	0.2%	(4.2)%	(0.1)%	0.1%	(12)%	(12)%	0.1%	(14.9)%

Mortality

The assumptions relating to longevity underlying the pension liabilities at the Statement of Financial Position date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 60 year old to live for a number of years as follows:

	HIE		LGPF		CML	
	UK	UK	UK	UK	UK	UK
	31/03/13	31/03/12	31/03/13	31/03/12	31/03/13	31/03/12
1. Male member aged 60 (current life expectancy)	27.5	24.3	22.4	22.4	21.4	21.4
2. Male member aged 40 (life expectancy at 60)	29.6	26.3	24.1	24.1	22.7	22.7
3. Female member aged 60 (current life expectancy)	30.2	27.2	25.1	25.0	23.6	23.5
4. Female member aged 40 (life expectancy at 60)	32.3	29.1	26.8	26.8	25.1	25.0

21. Losses statement

	Group		HIE	
	No of cases	£000	No of Cases	£000
Claims waived (amounts written off) during the year ended 31 March 2013	26	4,138	26	4,138

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

In the year to 31 March 2013 there were 2 (2012 Nil) cases written off which exceeded £250,000. These were as follows

			2013
			£000
NHB Holdings Limited	Ordinary shares & Grant obligations	Company dissolved	646
Name withheld*	Preference Shares	Company dissolved	2,400

*The name of the company has been withheld due to a similarity between the name of the company dissolved and another company operating in the same industry and location

Highlands and Islands Enterprise continues to pursue all outstanding debts.

22. Net Cash Flow From Operating Activities

	Note	GROUP	
		2013 £000	2012 £000
Deficit on operating activities		61,393	49,669
Interest received	6	(108)	(104)
Dividends received	6	(76)	(74)
Share of related company results	12	454	588
Gain/loss on financial assets at fair value	3	(92)	380
Profit of sale of assets	3	623	704
Interest payable	7	14	-
Net cash outflow from operating activities		62,208	51,163

23. Commitments

	GROUP		HIE	
	2013 £000	2012 £000	2013 £000	2012 £000
Commitments				
Property	12,228	22,915	12,228	22,915
Grants and loans	43,806	56,357	43,806	56,357

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.

24. Contingent Liabilities

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

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.

25. Financial Commitments

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

Future minimum payments due under non-cancellable operating leases:

	GROUP			2012 £000
	Property £000	Equipment £000	Total £000	
Obligations under Operating and similar leases:				
Within one year	1,145	8	1,153	1,182
Within two to five years	3,897	1	3,898	4,173
In over five years	4,094	-	4,094	4,971
	9,136	9	9,145	10,326

HIE

	Property £000	Equipment £000	Total £000	2012 £000
Obligations under Operating and similar leases:				
Within one year	1,145	3	1,148	1,176
Within two to five years	3,896	-	3,896	4,164
In over five years	4,094	-	4,094	4,971
	9,135	3	9,138	10,311

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 2013 is £1,000k (2012 £1101k).

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

Future minimum rentals receivable under non-cancellable operating leases:

GROUP

	Property £000	Equipment £000	Total £000	2012 £000
Receivable under Operating and similar leases:				
Within one year	3,216	-	3,216	3,341
Within two to five years	10,614	-	10,614	10,978
In over five years	9,260	-	9,260	10,227
	23,090	-	23,090	24,546

HIE

	Property £000	Equipment £000	Total £000	2012 £000
Receivable under Operating and similar leases:				
Within one year	3,316	-	3,316	3,441
Within two to five years	11,014	-	11,014	11,378
In over five years	10,579	-	10,579	11,647
	24,909	-	24,909	26,466

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

Future minimum payments due under non-cancellable finance leases:

GROUP

	Property £000	Plant & Equipment £000	Total £000	2012 £000
Obligations under Finance and similar leases:				
Within one year	140	11	151	151
Within two to five years	560	11	571	583
In over five years	3,723	-	3,723	3,862
	4,423	22	4,445	4,596
Finance charges allocated to future periods		(7)	(7)	(9)
	4,423	15	4,438	4,587
Present Value of minimum lease payments				
Within one year	140	9	149	149
Within two to five years	560	6	566	576
In over five years	3,723	-	3,723	3,862
	4,423	15	4,438	4,587

HIE	Property £000	Plant & Equipment £000	Total £000	2012 £000
Obligations under Finance and similar leases:				
Within one year	140	11	151	151
Within two to five years	560	11	571	583
In over five years	3,723		3,723	3,862
	4,423	22	4,445	4,596
Finance charges allocated to future periods		(7)	(7)	(9)
	4,423	15	4,438	4,587
Present Value of minimum lease payments				
Within one year	140	9	149	149
Within two to five years	560	6	566	576
In over five years	3,723		3,723	3,862
	4,423	15	4,438	4,587

26. Transactions involving Board members' registered interests During the year the following transactions were made by the Highlands & Islands Enterprise with businesses in which Highlands and Islands Enterprise Board members had an interest:

Transactions where a director had a financial interest

Business	Approvals brought forward (£)	Amount approved/ (withdrawn) in year (£)	Amount paid in year (£)	Nature of transaction	Board member and interest
Aros (Isle of Skye) Ltd	-	8,750	8,009	Project Grant	D MacDonald – Managing Director
Harper Macleod	-	146,439	146,439	Legal fees with a framework agreement	L Crerar - Member
Scottish Association of Marine Science	42,339	7,815	50,154	Project Grant	M Bownes – Board Member
University of Edinburgh	-	2,250	2,250	Provision of educational services	M Bownes – Board Member

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

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

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

Commun na Gaidhlig
High Life Highland
Investors in People
Mac TV
Sabhal Mor Ostaig
Sleat Community Trust
Speyside Whisky Festival
Staffin Community Trust
University of the Highlands & Islands

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

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

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

Transactions have taken place with:

Aberdeenshire Council
Argyll & Bute Council
Audit Scotland
Business Gateway
Comhairle Nan Eilean Siar
Crown Estates Commission
Forestry Commission
Glasgow City Council
Her Majesty's Customs & Revenue
NHS Highland
North Ayrshire Council
Orkney Islands Council
Scottish Enterprise
Scottish Government
Scottish Natural Heritage
Shetland Island Council
Skills Development Scotland
The Highland Council
The Moray Council
UHI Millennium Institute
Visit Scotland

None of the Board members, key managerial staff or other related parties have undertaken any material transactions with Highlands and Islands Enterprise other than those disclosed in note 26.

Compensation of key management personnel

Key management personnel are considered to be the non-executive board members and the executive directors. Details of their remuneration is disclosed in the Directors Remuneration Report. In addition to the amounts shown in this report HIE has paid £7K (2012 : £8K) employers national insurance contributions and Nil (2012 : £11K) employer pension contributions.

28. Financial instruments

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

Liquidity risk
Credit risk
Market risk

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

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

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

Liquidity risk

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

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

The table below details the contractual maturities of financial liabilities.

2013

Group	Carrying Amount £'000	Contractual Cashflows £'000	Within one year £'000	After more than one year £'000
Financial Liabilities				
Trade and other payables	8,870	8,870	8,870	-
	8,870	8,870	8,870	-

HIE

	Carrying Amount £'000	Contractual Cashflows £'000	Within one year £'000	After more than one year £'000
Financial Liabilities				
Trade and other payables	8,412	8,412	8,412	-
	8,412	8,412	8,412	-

2012

Group	Carrying Amount £'000	Contractual Cashflows £'000	Within one year £'000	After more than one year £'000
Financial Liabilities				
Trade and other payables	8,060	8,060	8,060	-
	8,060	8,060	8,060	-

HIE

	Carrying Amount £'000	Contractual Cashflows £'000	Within one year £'000	After more than one year £'000
Financial Liabilities				
Trade and other payables	7,810	7,810	7,810	-
	7,810	7,810	7,810	-

The Group and Highlands and Islands Enterprise have no outstanding borrowings at 31 March 2013 (2012: £nil).

Credit risk

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

Credit risk arising from the Group and Highlands and Islands Enterprise's normal operations, including holding non-current financial assets (other investments, is controlled by individual business unit and companies operating in accordance with 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 revalues assets available for sale to their fair value and provides, where appropriate, for impairment of assets held to maturity, loans and other materials.

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

Group	Carrying Amount 2013 £'000	Carrying Amount 2012 £'000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	3,169	6,068
Preference shares	497	965
Loans and other receivables	3,691	1,448
Financial assets		
Trade and other receivables	7,362	4,454
Cash and cash equivalents	2,333	298
	17,052	13,233
HIE		
	Carrying Amount 2013 £'000	Carrying Amount 2012 £'000
Financial Assets - Other Investments		
Available for sale unlisted equity shares	3,059	5,948
Preference shares	496	964
Loans and other receivables	3,075	758
Financial assets		
Trade and other receivables	7,094	4,089
Cash and cash equivalents	1,097	-
	14,821	11,759

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

Group	Gross 2013 £'000	Impairment 2013 £'000	Gross 2012 £'000	Impairment 2012 £'000
Not past due	6,246	-	2,981	-
Past due 0 to 30 days	1,149	(127)	1,028	-
Past due more than 31 days	736	(642)	1,332	(887)
	8,131	(769)	5,341	(887)
HIE				
	Carrying Amount £'000	Contractual Cahsflows £'000	Within one year £'000	After more than one year £'000
Not past due	5,967	-	2,606	-
Past due 0 to 30 days	1,149	(127)	1,028	-
Past due more than 31 days	736	(631)	1,332	(877)
	7,852	(758)	4,966	(877)

Movements in impairment of trade and other receivables is shown in Note 15. Impairment provisions are used to record impairment losses unless the Group and Highlands and Islands Enterprise is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off directly against the financial asset.

Market risk

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

Interest rate risk

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

Group	Carrying Amount 2013 £'000	Carrying Amount 2012 £'000
Fixed rate instruments		
Financial assets	4,188	2,413
Financial liabilities	-	-
	<u>4,188</u>	<u>2,413</u>
Variable rate instruments		
Cash and cash equivalents	2,333	298
	<u>2,333</u>	<u>298</u>
HIE		
	Carrying Amount 2013 £'000	Carrying Amount 2012 £'000
Fixed rate instruments		
Financial assets	3,571	1,722
Financial liabilities	-	-
	<u>3,571</u>	<u>1,722</u>
Variable rate instruments		
Cash and cash equivalents	1,097	-
	<u>1,097</u>	<u>-</u>

Interest receivable by the Group and Highlands & Islands Enterprise from cash and cash equivalents is subject to variation based on movements in the Bank of England base rate and associated interest rates. Assuming that all other variables remain constant a change of 100 basis points in interest rates at the reporting date would have increased /decreased net operating costs as follows:

	Group 100 basis points change £'000	HIE 100 basis points change £'000
Cash and cash equivalents		
31 March 2012	10	3
31 March 2013	13	5

Currency risk

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

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

Fair values

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

Group	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2013	2013	2012	2012
	£'000	£'000	£'000	£'000
Available for sale unlisted equity shares	3,169	3,169	6,068	6,068
Preference shares	497	497	965	965
Loans and other receivables	3,691	3,691	1,448	1,448
Trade and other receivables	7,362	7,362	4,454	4,454
Cash and cash equivalents	2,333	2,333	298	298
Trade and other payables	(8,870)	(8,870)	(8,060)	(8,060)
Taxation recoverable	1,017	1,017	879	879
	9,199	9,199	6,052	6,052
HIE				
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2013	2013	2012	2012
	£'000	£'000	£'000	£'000
Available for sale unlisted equity shares	3,059	3,059	5,948	5,948
Preference shares	496	496	964	964
Loans and other receivables	3,075	3,075	758	758
Trade and other receivables	7,094	7,094	4,089	4,089
Cash and cash equivalents	1,097	1,097	-	-
Trade and other payables	(8,412)	(8,412)	(7,810)	(7,810)
Taxation recoverable	1,000	1,000	865	865
	7,409	7,409	4,814	4,814

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

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).

Estimation of fair values

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

Financial assets available for sale	The fair value is based on market 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

29. Prior year adjustment**Prior Period Adjustments**

	Audited Accounts £'000	Equity Accounted Investees £'000	Non Current Assets £'000	Restated Balance £'000
2011/12 Group Statement of Comprehensive Net Expenditure				
Operating Expenditure	50,939	-	149	51,088
Depreciation and amortisation	1,550	-	(149)	1,401
Share of profits in Equity accounted investees (previously				
Share of associates' operating profit/(loss))	(519)	(69)	-	(588)
Net Expenditure after Taxation (previously Net operating cost after taxation)	50,682	69	-	50,751
Group Statement Of Financial Position at 31 March 2011				
Investment in Associates	705	331	-	1,036
General reserve	42,322	331	-	42,653
Group Statement Of Financial Position at 31 March 2012				
Investment in associate	607	262	-	869
General reserve	42,735	262	-	42,997

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



Head of Enterprise Policy Delivery Division
10 June 2010

SCHEDULE 1

ADDITIONAL DISCLOSURE REQUIREMENTS

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

