

HIE Inverness and East Highland

(Limited by Guarantee)

SC124797

Report and Financial Statements

31 March 2008

WEDNESDAY



SPBGV6IR

SCT

14/01/2009

489

COMPANIES HOUSE

Directors' report

Directors

F M Rapson	(Resigned 1 April 2008)
B Bound	(Resigned 19 March 2008)
F Larg	(Resigned 19 March 2008)
D Alston	(Resigned 19 March 2008)
H Carmichael	(Resigned 19 March 2008)
B Dunlop	(Resigned 19 March 2008)
D MacKellar	(Resigned 19 March 2008)
C Melia	(Resigned 19 March 2008)
A Munro	(Resigned 19 March 2008)
I Scott	(Resigned 19 March 2008)
C Silver	(Resigned 19 March 2008)
B Smith	(Resigned 19 March 2008)
M Stewart	(Resigned 19 March 2008)
I Urquhart	(Resigned 19 March 2008)
E Wilson	(Resigned 19 March 2008)
D Yule	(Appointed 31 March 2008)
F Duthie	(Appointed 31 March 2008)

Secretaries

A MacLeod	
J Gibbs	(Resigned 4 April 2008)

Auditors

Ernst & Young LLP
Barony House,
Stoneyfield Business Park
Stoneyfield
Inverness
IV2 7PA

Bankers

The Bank of Scotland
2-6 Eastgate
Inverness
IV2 3NA

Solicitors

Legal Services
Highlands and Islands Enterprise
Cowan House, Inverness Retail and Business Park
Inverness
IV2 7GF

Registered Office

Cowan House
Inverness Retail and Business Park
Inverness
IV2 7GF

Directors' report

The directors present their report and accounts for the year ended 31 March 2008.

Results

The net deficit for the year, after taxation, amounted to £84,628 and is dealt with as shown in note 16 to the accounts. The deficit arose from planned operational activity to utilise accumulated surpluses brought forward.

Principal activity

The principal activity of the company for the year to 31 March 2008 was to operate as a Local Enterprise Company under an operating contract with Highlands and Islands Enterprise. Under this contract the company delivered economic and social development, environmental renewal and training services within the areas of Inverness, Nairn, Badenoch & Strathspey and Easter Ross.

Review of the business and future developments

2007/08 was been a challenging year for the organization as we managed down our commitment historically high levels within a tight budget. However, there were some significant achievements by the end of the financial year including £2.7m investment in Balcas, Invergordon. HIE IEH made most of its targets in spite of severe constraints on writing new business. The major initiatives making progress are the Centre for Health Science and the development of Beechwood East in Inverness. In conjunction with The Highland Council work progressed with the master plan for the ongoing development of the Nigg yard and surrounding area.

On 1 April 2008 the operations of HIE Inverness and East Highland, and all employees, were transferred to Highlands and Islands Enterprise.

Corporate governance

The HIE Network has in place procedures which ensure that the highest standards of corporate governance are maintained at all times. The procedures outlined below were in place throughout the HIE Network for the year ended 31 March, 2008.

Risk assessment

The HIE Network, in line with best practice, has robust procedures in place for the systematic identification and management of risk. A risk management strategy highlights that effective risk management is essential to the achievement of the Network's objectives. Implementation of the strategy includes a quarterly assessment of risk by management and the assessment of risk at individual project level. Where appropriate, action plans are put in place to address significant risks. The directors are pleased to report that these procedures have been complied with throughout the year.

A statement of the directors' responsibilities in respect of the accounts is set out on page 5.

The board

At 31 March 2008, the board of HIE Inverness and East Highland comprised 2 non-executive members, including the chairman. New directors are appointed through the Highlands and Islands Enterprise network policy of 'Appointability through Openness' which involves local advertising and wide consultation to identify candidates for new directors to replace those retiring by rotation. None of the directors received any remuneration for holding office during the year.

Directors' report

Corporate Governance (continued)

The board (continued)

The board met six times during the year. The role of the board is the strategic overview of the enterprise company, ensuring that it is operating in accordance with its statutory remit. The board has specific responsibility for approving the overall strategy ensuring that the executive has thorough arrangements for appraisal, monitoring and evaluation of programmes and ensuring that targets are set and met.

The Area Director and management group

The Area Director and the board are aware of the need for effective internal control, and acknowledge their responsibility for the system of control to enable the efficient management of HIE Inverness and East Highland. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal control is based on a framework of monthly management information, financial regulations, administrative procedures including the segregation of duties, and various levels of delegation specified by the Scottish Government and the board of Highlands and Islands Enterprise.

The Area Director has a pivotal role in assisting the board to develop policies and priorities and in ensuring that they are implemented effectively.

Statements of Assurance

For the year ended 31 March 2008 each business unit and subsidiary of Highlands & Islands Enterprise was asked to review the operation of Internal Control arrangements in their area and the Area Director provided the HIE Chief Executive with a statement of assurance confirming the outcome of this review.

Audit and compliance

The Network Audit Committee reviewed reports by both external audit and Highlands and Islands Enterprise internal audit. In line with good practice the Head of Internal Audit and Audit Scotland have attended all meetings of the network audit committee during the year. The Local Enterprise Company external auditors have attended when reports prepared by them have been tabled.

The Greenbury report

While none of the directors who held office during the year received any remuneration, the recommendations of the Greenbury Code of Best Practice have been applied in so far as they are appropriate to HIE Inverness and East Highland.

Conflicts of interest procedures

HIE Inverness and East Highland operates strict and comprehensive procedures to deal with potential conflicts of interest. These include holding, and updating at least annually, registers of interests covering not only directors but also all 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 and non-financial interests.

Whenever a 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 directors are recorded in the minutes of the appropriate board meetings.

Directors' report

Corporate Governance (continued)

Conflicts of interest procedures (continued)

Additional procedures such as referring to Highlands and Islands Enterprise for the processing and decision making are invoked when the chairman and/or senior staff of HIE Inverness and East Highland declares an interest.

Complaints

The HIE Network has in place a clear policy for dealing with complaints. Where it is not possible to resolve the complaint internally a complainant is entitled under the terms of the Scottish Public Services Ombudsman Act 2002 to have their complaint considered by the Scottish Public Services Ombudsman.

Openness

The HIE Network is committed to full compliance with the Freedom of Information (Scotland) 2002 Act. HIE is committed to being as open as possible, recognising the need to balance openness with being able to conduct its business effectively and in accordance with the remit laid down by the Scottish Government.

Customer Service

The HIE Network is committed to "Customer Service Excellence", a new customer service standard released by the Cabinet Office in 2008 to succeed "Charter Mark". This will help to embed a renewed emphasis on customer service in HIE's refocused organisational structure. We are committed to continually improving our service and welcome comments and suggestions. We take all complaints seriously and have an effective, easy to use internal complaints procedure. When it is not possible to solve a complaint internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman Act 2002 to have his or her complaint considered by the Scottish Public Services Ombudsman (SPSO). Two complaints proceeded to the SPSO during the year but they will not be upholding either complaint.

Disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

Directors

The directors of the company during the year ended 31 March 2008 were those listed on page 1.

By order of the board
Secretary

7 January 2009

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the surplus or deficit of the company for that period. *In preparing those financial statements, the directors are required to:*

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the member of HIE Inverness and East Highland

We have audited the company's financial statements for the year ended 31 March 2008 which comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's member, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's member those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

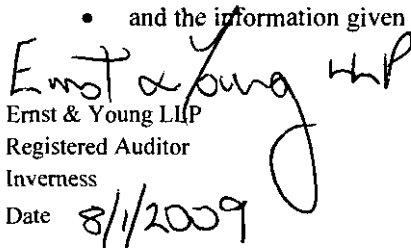
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its deficit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- and the information given in the directors' report is consistent with the financial statements.


Ernst & Young LLP

Registered Auditor

Inverness

Date

8/1/2009

Income and expenditure account

for the year ended 31 March 2008

		2008	2007
	Notes	£	£
Income	3	12,536,666	10,407,979
Operating expenditure		10,359,592	8,400,975
Administrative expenditure		2,280,170	2,066,448
Net operating deficit	4	(103,096)	(59,444)
Interest payable	5	(10,620)	(946)
Interest receivable and other income	6	31,956	15,006
Net deficit on ordinary activities		(81,760)	(45,384)
Tax on ordinary activities	7	2,868	1,911
Net deficit retained for the financial year		(84,628)	(47,295)


Statement of total recognised gains and losses

		2008	2007
	Notes	£	£
Net deficit for the financial year		(84,628)	(47,295)
Actuarial gain/(loss)	21(b)	3,000	(153,000)
Total recognised gains/(losses)		81,628	(200,295)

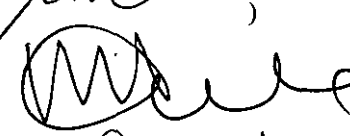
Balance sheet

as at 31 March 2008

		2008	2007
	Notes	£	£
Fixed assets			
Tangible assets	10	185,776	171,332
Investments	11	200,000	226,293
		<u>385,776</u>	<u>397,625</u>
Current assets			
Debtors	12	2,554,816	2,600,757
Cash at bank and in hand		13,864	8,593
		<u>2,568,680</u>	<u>2,609,350</u>
Creditors: amounts falling due within one year	13	2,302,626	2,372,668
Net current assets		<u>266,054</u>	<u>236,682</u>
Total assets less current liabilities		651,830	634,307
Provisions for liabilities and charges	14	385,776	397,625
Net assets excluding retirement benefits		<u>266,054</u>	<u>236,682</u>
Retirement benefits – liability	21	(276,000)	(165,000)
Net assets including retirement benefits		<u>(9,946)</u>	<u>71,682</u>
Capital and reserves			
Accumulated surpluses before retirement benefits deficit	16	152,054	236,682
Retirement benefits deficit	16	(162,000)	(165,000)
		<u>(9,946)</u>	<u>71,682</u>



) Directors



 Allan Macdonald

Statement of cash flows

for the year ended 31 March 2008

		2008	2007
	Notes	£	£
Net cash outflow from operating activities	17(a)	(7,155)	(117,308)
Returns on investments and servicing of finance	17(b)	14,336	10,060
Taxation	17(b)	(1,911)	(1,566)
Capital expenditure and financial investment	17(b)	-	-
(Decrease)/increase in cash	17(c)	5,270	(108,814)

Reconciliation of net cash flow to movement in net funds

		2008	2007
		£	£
(Decrease)/increase in cash		5,270	(108,814)
Movement in net funds	17(c)	5,270	(108,814)
Net funds at 1 April, 2007	17(c)	8,593	117,407
Net funds at 31 March, 2008	17(c)	13,863	8,593

Notes to the financial statements

at 31 March 2008

1. Fundamental accounting concept

As a result of the application of FRS 17 as detailed in Note 21 the company has a net deficit of £9,946 at 31 March 2008. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the company's ability to continue as a going concern or to meet its liabilities as they fall due.

On 1 April 2008 the, operations of HIE Inverness and East Highland, and the employees, were transferred to the employment of Highlands and Islands Enterprise. The FRS 17 liability transferred along with the staff and therefore the deficit resulting from the long term pension liability as at 31 March 2008 will be met by Highlands and Islands Enterprise going forward.

2. Accounting policies

(a) Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Basis of operations

The company contracts with Highlands and Islands Enterprise to create and deliver business and social development, training and environmental renewal programmes throughout the Inverness, Nairn, Badenoch, Strathspey and Easter Ross area. Funding for the company's activities is provided principally by Highlands and Islands Enterprise and the annual accounts are prepared on the assumption that the company will continue to be contracted with Highlands and Islands Enterprise for the foreseeable future. Although the company is limited by guarantee and has no shareholders, in accordance with s258 of the Companies Act 1985 it is a subsidiary undertaking of Highlands and Islands Enterprise by virtue of the control exercised over it through the negotiated operating contract.

(c) Related parties transactions

The company is a wholly owned subsidiary of Highlands and Islands Enterprise, the consolidated accounts of which are publicly available. Accordingly, the company has taken advantage of the exemption in FRS 8 from disclosing transactions with members of Highlands and Islands Enterprise.

(d) Depreciation

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Equipment	-	25% straight line
Tenants' improvements	-	Ranging between 4% and 12.5% straight line

(e) Fixed asset funding

Under the operating agreement between the company and Highlands and Islands Enterprise the proceeds arising from the disposal of any Highlands and Islands Enterprise funded assets shall be immediately returned to that entity. Accordingly, funding received in respect of capital expenditure is credited to an asset repayment provision and is released to income over the expected useful lives of the relevant assets by instalments so as to match the depreciation charge.

(f) Loans

Loans advanced by the company are shown at the amount outstanding at the balance sheet date less provisions for any anticipated losses. Where loans have been funded by Highlands and Islands Enterprise a reduction in annual funding will be made to reflect the loan repayments received by the company. Accordingly, funding received in respect of loan advances is credited to a loan repayment provision.

Notes to the financial statements

at 31 March 2008

2. Accounting policies (continued)

(g) *Unquoted investments*

Investments made by the company are included at cost unless, in the opinion of the directors, there has been a permanent diminution in value in which case an appropriate adjustment is made. Such investments are deemed permanently impaired where there is no prospect of improvement in the fortunes of the investment in the foreseeable future. Where investments have been funded by Highlands and Islands Enterprise a reduction in annual funding will be made to reflect investment realisations made by the company. Accordingly, funding received in respect of investments is credited to an investment repayment provision.

(h) *Operating leases*

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

(i) *Pensions*

Seconded staff are members of Highlands and Islands Enterprise's defined benefit pension scheme. Direct employees are members of The Highland Council Pension Plan.

On the advice of an independent qualified actuary, contribution payments are made to the plans to ensure that the plans' assets are sufficient to cover future liabilities. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating surplus. The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in interest receivable and other income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

3. Income

Income, which is stated net of value added tax, represents funding for continuing activities received and accrued under the operating contract with Highlands and Islands Enterprise, together with amounts received and due from third parties. Income does not include £39,610 which was received from Highlands and Islands Enterprise to fund capital assets and is credited to either the loan/investment or asset repayment provision (see note 14).

An analysis of income by funding sources is given below:

	2008	2007
	£	£
Highlands and Islands Enterprise	11,188,573	9,946,567
European Union	469,972	206,920
Other	878,121	254,492
	<u>12,536,666</u>	<u>10,407,979</u>

In addition to the amounts dealt with in the company's own income and expenditure account the company's efforts and initiatives resulted in additional property expenditure of £8,191,998 in the Inverness, Nairn, Badenoch, Strathspey and Easter Ross areas. This is dealt with in the accounts of Highlands and Islands Enterprise.

Notes to the financial statements

at 31 March 2008

4. Net operating (deficit)/surplus

This is stated after charging/(crediting):

	2008	2007
	£	£
Auditor's remuneration - audit services	7,120	6,687
- non audit services – tax compliance	690	670
Depreciation of owned fixed assets	28,250	46,698
Asset repayment provision released	(28,250)	(46,698)
Operating lease rentals - equipment	6,549	2,062
Property leases	305,503	311,019
	<u> </u>	<u> </u>

5. Directors' remuneration

None of the directors who held office during the year received any remuneration (2007 - £Nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties totalled £360 (2007 - £1,112).

6. Staff costs

Details of charges made for employee costs during the year were as follows:

	Employees		2008	2007
	Core	Project	Total	Total
	£	£	£	£
Wages and salaries	1,169,907	67,620	1,237,527	1,232,758
Social security costs	73,383	4,760	78,143	82,305
Other pension costs	225,619	12,658	238,277	233,730
	<u>1,468,909</u>	<u>85,038</u>	<u>1,553,947</u>	<u>1,548,793</u>

The average monthly number of full time equivalent staff, including seconded staff, during the year was as follows:

	2008	2007
	No.	No.
Senior management	4	3
Operational	30	41
Administration & Support	9	6
	<u>43</u>	<u>50</u>

Notes to the financial statements

at 31 March 2008

7. Interest payable

	2008 £	2007 £
Loan and other interest repaid to Highlands and Islands Enterprise	620	946
Dividends repaid to Highlands and Islands Enterprise	10,000	-
	<u>10,620</u>	<u>946</u>

8. Interest receivable and other income

	2008 £	2007 £
Bank interest	14,336	10,060
Loan interest	620	946
Dividends	10,000	-
	<u>24,956</u>	<u>11,006</u>
Expected return on pension plan assets	67,000	55,000
Interest on pension plan liabilities	(60,000)	(51,000)
	<u>31,956</u>	<u>15,006</u>

9. Tax

(a) The tax charge is made up as follows:

	2008 £	2007 £
Current tax:		
UK corporation tax	2,867	1,911
Underprovided in prior years	1	-
	<u>2,868</u>	<u>1,911</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 20% (2007 – 19%). The differences are reconciled below:

	2008 £	2007 £
Net (deficit)/surplus for the financial year before tax	(81,760)	(45,384)
Net (deficit)/surplus for the financial year multiplied by standard rate of corporation tax in the UK of 20% (2007 – 19%)	(16,352)	(8,623)
Disallowed expenses and non-taxable income	19,219	6,712
Underprovided in prior years	1	-
	<u>2,868</u>	<u>1,911</u>

The tax charge relates to bank interest only.

Notes to the financial statements

at 31 March 2008

10. Tangible fixed assets

	<i>Equipment</i>	<i>Tenants</i>	
	<i>£</i>	<i>improvements</i>	<i>Total</i>
		<i>£</i>	<i>£</i>
Cost:			
At 1 April 2007	426,919	141,908	568,827
Additions	10,475	32,219	42,694
At 31 March 2008	437,394	174,127	611,521
Depreciation:			
At 1 April 2007	383,660	13,835	397,495
Provided during the year	19,943	8,307	28,250
At 31 March 2008	403,603	22,142	425,745
Net book value:			
At 31 March 2008	33,791	151,985	185,776
At 1 April 2007	43,259	128,073	171,332

11. Investments

	<i>Loans</i>	<i>Unquoted</i>	
	<i>£</i>	<i>shares</i>	<i>Total</i>
		<i>£</i>	<i>£</i>
Cost:			
At 1 April 2007	247,648	168,034	415,682
Additions	-	-	-
Repayments	3,085	-	3,085
Transfer to parent	-	120,334	120,334
Written off	39,100	-	39,100
At 31 March 2008	205,463	47,700	253,163
Provisions:			
At 1 April 2007	47,648	141,741	189,389
Provided in year	-	-	-
Released in year	3,085	-	3,085
Provisions set against transfers to parent	-	94,041	94,041
Written off	39,100	-	39,100
At 31 March 2008	5,463	47,700	53,163
Net book value:			
At 31 March 2008	200,000	-	200,000
At 1 April 2007	200,000	26,293	226,293

Notes to the financial statements

at 31 March 2008

12. Debtors

	2008	2007
	£	£
Highlands and Islands Enterprise	2,330,306	2,246,807
Amounts due from fellow subsidiary undertakings	-	13,114
Other debtors	174,897	102,000
Other taxes	23,845	34,402
Prepayments and accrued income	25,768	204,434
	<u>2,554,816</u>	<u>2,600,757</u>

13. Creditors: amounts falling due within one year

	2008	2007
	£	£
Highlands and Islands Enterprise	1,301,708	1,836,588
Amounts due to fellow subsidiary undertakings	-	246,297
Other creditors	981,091	25,728
Current corporation tax	2,868	1,911
Accruals and deferred income	16,959	262,144
	<u>2,302,626</u>	<u>2,372,668</u>

14. Provisions for liabilities and charges

	<i>Loan/investment repayment provision</i>	<i>Asset repayment provision</i>	<i>Total</i>
	£	£	£
At 1 April 2007	226,293	171,332	397,625
Funding from Highlands and Islands Enterprise	(3,085)	42,695	39,610
Disposals	120,334		120,334
	<u>343,542</u>	<u>214,027</u>	<u>557,569</u>
Depreciation for the year (note 10)	-	(28,250)	(28,250)
Movement in provision against investments (note 11)	97,125	-	97,125
	<u>199,999</u>	<u>185,777</u>	<u>385,776</u>
At 31 March 2008			

15. Share capital

The company does not have a share capital and is limited by guarantee. The liability of the member is restricted to £1. Highlands and Islands Enterprise is the sole member of the company.

Notes to the financial statements

at 31 March 2008

16. Movement on reserves

	<i>Accumulated surpluses</i> £	<i>Retirement benefits deficit</i> £	<i>Total</i> £
At 31 March 2006	304,977	17,000	321,977
Transfer of Ross & Cromarty Enterprise Limited FRS 17 liability at 3 April, 2006 (note 21)	-	(50,000)	(50,000)
Net deficit for the year	(68,295)	21,000	(47,295)
Actuarial loss (note 21(b))	-	(153,000)	(153,000)
At 31 March 2007	236,682	(165,000)	71,682
Net deficit for the year	(84,628)	-	(84,628)
Actuarial gain (note 21(b))	-	3,000	3,000
As at March 2008	152,054	(162,000)	9,946

17. Notes to the statement of cash flows

(a) Reconciliation of net operating surplus to net cash (outflow)/inflow from operating activities:

	2008 £	2007 £
Net operating deficit	(103,096)	(59,444)
FRS 17 pension adjustments	121,000	(17,000)
	17,904	(76,444)
(Increase)/decrease in debtors	45,940	(2,087,564)
Increase/(decrease) in creditors	(70,999)	2,046,700
Depreciation	28,250	46,698
Decrease in asset repayment provision	(28,250)	(46,698)
Increase in provision against investments	(97,125)	14,480
Decrease in investment repayment provision	97,125	(14,480)
Net cash outflow from operating activities	(7,155)	(117,308)

Notes to the financial statements

at 31 March 2008

17. Notes to the statement of cash flows (continued)

(b) Analysis of cash flows for headings netted in the statement of cash flows:

	2008 £	2007 £
<i>Returns on investments and servicing of finance</i>		
Interest received	14,956	11,006
Interest paid	(620)	(946)
Dividends received	10,000	-
Dividends repaid to Highlands and Islands Enterprise	(10,000)	-
	<u>14,336</u>	<u>10,060</u>
<i>Taxation</i>		
Corporation tax paid	(1,911)	(1,566)
	<u></u>	<u></u>
<i>Capital expenditure and financial investment</i>		
Loans repaid	3,085	3,055
Funding repaid to Highlands and Islands Enterprise in respect of loans	(3,085)	(3,055)
Payments to acquire investments	-	(225,000)
Receipts from Highlands and Islands Enterprise to fund investments	-	225,000
Payments to acquire fixed assets	42,694	(118,429)
Receipts from Highlands and Islands Enterprise to fund fixed assets	(42,694)	118,429
	<u>-</u>	<u>-</u>

(c) Analysis of changes in net funds:

	At 1 April 2007 £	Cash flows £	At 31 March 2008 £
Cash at bank and in hand	8,593	5,270	13,863

18. Contingent liability

Under the terms of the operating contract with Highlands and Islands Enterprise the company granted a floating charge over the whole of its assets to Highlands and Islands Enterprise.

Notes to the financial statements

at 31 March 2008

19. Financial commitments

At 31 March 2008 the company had annual commitments under non-cancellable operating and similar leases as set out below:

	<i>Property</i>		<i>Equipment</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	£	£	£	£
Operating and similar leases which expire:				
Within one year	-	5,055	-	336
within two to five years	124,468	124,468	-	-
in over five years	125,026	125,026	-	-
	<u>249,494</u>	<u>254,549</u>	<u>-</u>	<u>336</u>

The annual commitments under non-cancellable operating leases will be met by Highlands and Islands Enterprise from 1 April 2008 onwards.

20. Other commitments

	<i>2008</i>	<i>2007</i>
	£	£
Approved funding	-	18,221,064
	<u>-</u>	<u>18,221,064</u>

The above commitments at 31 March 2007 represented future programme expenditure where approval had been granted for projects at the year end. There is no disclosure at 31 March 2008 as these commitments will be met through funding from Highlands and Islands Enterprise in subsequent financial years.

Notes to the financial statements

at 31 March 2008

21. Pension commitments

Staff seconded from Highlands and Islands Enterprise are members of a defined benefit pension scheme which is funded by Highlands and Islands Enterprise and recharged to the company. The accounts of Highlands and Islands Enterprise for the year ended 31 March 2008, include details of the actuarial valuation and of the assumptions used therein. Contributions are set at a common level throughout the Highlands and Islands Enterprise network and the resulting assets and liabilities of the pension scheme are not allocated throughout the group. Accordingly, contributions are accounted for within the company as though they were into a defined contribution scheme.

Direct employees are members of The Highland Council Pension Plan, a defined benefit pension scheme. The actuaries employed by the scheme allocate the assets and liabilities over the various employers who are members and the company accounts for these as required by FRS 17.

The assets of both schemes are held separately from those of the company.

(a) FRS 17 disclosures (relating to The Highland Council Pension Plan)

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2005 and updated by a qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2008. Scheme assets are stated at their market value at 31 March 2008:

	31 March 2008	31 March 2007	31 March 2006
Main assumptions:			
Rate of salary increases (% per annum)	5.2%	4.7%	4.6%
Rate of pension increase (% per annum)	3.2%	3.2%	3.1%
Discount rate (% per annum)	6.6%	5.4%	6.0%
Inflation rate (% per annum)	3.7%	3.2%	3.1%

HIE Inverness and East Highland's share of the assets in the Highland Council scheme and the expected rate of return were:

	Long-term rate of return expected at March 31 2008 %	Value at March 31 2008 £	Long-term rate of return expected at March 31 2007 %	Value at March 31 2007 £	Long-term rate of return expected at March 31 2006 %	Value at March 31 2006 £
Equities	7.7%	650,000	7.8%	655,000	7.4	86,000
Gilts	4.3%	84,000	4.9%	142,000	4.6	19,000
Other Bonds	6.6%	77,000	-	-	-	-
Property	5.7%	108,000	5.8%	107,000	5.5	12,000
Cash	5.0%	17,000	4.9%	17,000	4.6	2,000
Estimated employer assets		936,000		921,000		119,000
Present value of scheme liabilities		(1,077,000)		(1,033,000)		(102,000)
Present value of unfunded liabilities		(135,000)		(53,000)		-
(Deficit)/surplus in the scheme		(276,000)		(165,000)		17,000
Related deferred tax liability		-		-		-
Net pension (liability)/asset		(276,000)		(165,000)		17,000

Notes to the financial statements

at 31 March 2008

21. Pension commitments (continued)

(b) Analysis of amount recognised in statement of total recognised gains and losses

	2008 £	2007 £
Actual return less expected return on pension scheme assets	(118,000)	14,000
Experience gains and losses arising on the scheme liabilities	-	4,000
Changes in assumptions underlying the present value of the scheme liabilities	121,000	(171,000)
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	3,000	(153,000)

(c) Movement in surplus/(deficit) during the year

	2008 £	2007 £
Share of (deficit)/surplus in scheme at beginning of the year	(165,000)	17,000
Movement in year:		
Transfer of Ross & Cromarty FRS 17 deficit at 3 April, 2006	-	(50,000)
Current service costs	(53,000)	(44,000)
Contributions	49,000	47,000
Contributions in respect of unfunded benefits	14,000	2,000
Past service costs	(102,000)	12,000
Net return on assets	7,000	4,000
Settlements/Curtailments	(29,000)	-
Actuarial (losses)/gains	3,000	(153,000)
Share of deficit in scheme at end of the year	(276,000)	(165,000)

(d) History of experience gains and losses

	2008 £	2007 £	2006 £	2005 £	2004 £
Difference between the actual and expected return on scheme assets	(118,000)	14,000	16,000	5,000	9,000
Value of assets	935,000	921,000	119,000	101,000	77,000
Percentage of scheme assets	(12.6%)	1.5%	13.4%	5.1%	11.3%
Experience gains and losses on scheme liabilities	-	4,000	29,000	(1,000)	1,000
Present value of liabilities	1,211,000	1,086,000	102,000	117,000	96,000
Percentage of the present value of scheme liabilities	-	0.4%	28.4%	(0.9%)	1.0%
Total amount recognised in statement of total recognised gains and losses	3,000	(153,000)	32,000	1,000	2,000
Present value of liabilities	1,211,000	1,086,000	102,000	117,000	96,000
Percentage of the present values of the scheme liabilities	0.2%	(14.1%)	31.4%	0.9%	2.1%

Notes to the financial statements

at 31 March 2008

22. Transactions involving directors

- (a) During the year the following grant and assistance payments were made to businesses in which the company's directors had an interest/relationship:

<i>Business/organisation</i>	<i>Amount Approvals Brought forward £</i>	<i>Amount (withdrawn) approved in year £</i>	<i>Amount paid in year £</i>	<i>Nature of transaction</i>	<i>Director and interest</i>
MacKellar Sub-Sea Limited	3,500	-	-	Training grant	D MacKellar, Director

During the year £11,600 was paid to JGS Associates relating to consultancy and advisory services. I Scott is the owner of JGS Consultancy.

- (b) Local organisations which received funding in the year and in which the directors have a non-financial interest include:

Black Isle Farmers Society	Inverness College
Cairngorm Chamber of Commerce	National Trust for Scotland
Cairngorm National Park Authority	Nairn Dunbar Golf Club
Destination Loch Ness	NHS Highland
Eden Court	Rotary Club of Loch Ness
Grantown on Spey Initiative	Strathspey Railway Company
Groam House Museum	UHI Millennium Institute
Inverness Airport Business Park	

23. Parent undertaking

The parent undertaking of the group of undertakings of which the company is a member is Highlands and Islands Enterprise, a body established in Scotland. HIE Inverness and East Highland has been included in the group accounts prepared by Highlands and Islands Enterprise, copies of which can be obtained from Highlands and Islands Enterprise, Cowan House, Inverness Retail and Business Park, Inverness, IV2 7GF.