

HIE Argyll and the Islands

(Limited by Guarantee)

Report and Financial Statements

SC 126604
31 March 2009

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COMPANIES HOUSE

HIE Argyll and the Islands

Registered No: 126604

Directors

F Duthie
D Yule

Secretary

A MacLeod

Auditors

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

Bankers

Bank of Scotland
Poltalloch Street
Lochgilphead
Argyll
PA31 8LW

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 2009.

Results

The net deficit for the year, after taxation, amounted to £11,947 (2008: £121,353) and is dealt with as shown in note 15 to the accounts.

Principal activity and review of business

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

Whilst the main business of HIE Argyll and the Islands has transferred to Highlands and Islands Enterprise there is a low level of residual activity in terms of administering some of the investments, loans and former activities which is planned will be ceased in the near future. The main activities within the areas of Argyll, Bute, Arran and the Cumbraes are now conducted by Highlands and Islands Enterprise. Interested parties are directed to the Highlands and Islands Enterprise website which can be found at www.hie.gov.uk which also contains a link to the annual report and accounts.

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 company's directors are those listed on page 1.



By order of the board

Secretary

21 August 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 members of HIE Argyll and the Islands

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 20. 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 the 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 2009 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

24/8/2009

Income and expenditure account

for the year ended 31 March 2009

| | | 2009 | 2008 |
|---|-------|----------|-----------|
| | Notes | £ | £ |
| Income | 2 | - | 8,534,964 |
| Operating expenditure | | - | 7,160,520 |
| Administrative expenditure | | 11,852 | 1,532,550 |
| Operating deficit | 3 | (11,852) | (158,106) |
| Interest receivable and other income | 6 | 5,942 | 133,331 |
| Interest payable | 7 | (5,942) | (92,140) |
| Net deficit on ordinary activities before taxation | | (11,852) | (116,915) |
| Tax on ordinary activities | 8 | 95 | 4,438 |
| Net deficit for the financial year | | (11,947) | (121,353) |

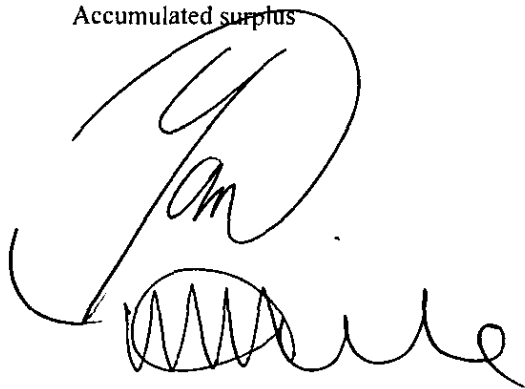
Statement of total recognised gains and losses

| | | 2009 | 2008 |
|--|-------|----------|-----------|
| | Notes | £ | £ |
| Net deficit for the financial year | | (11,947) | (121,353) |
| Actuarial gain | 20(b) | - | 252,000 |
| Total recognised gains/(losses) | | (11,947) | 130,647 |

Balance sheet

at 31 March 2009

| | | 2009 | 2008 |
|--|-------|---------|-----------|
| | Notes | £ | £ |
| Fixed assets | | | |
| Tangible assets | 9 | - | - |
| Investments | 10 | - | 492,045 |
| | | - | 492,045 |
| Current assets | | | |
| Debtors | 11 | 410,044 | 2,513,156 |
| Cash at bank and in hand | | 11,085 | 4,435 |
| | | 421,129 | 2,517,591 |
| Creditors: amounts falling due within one year | 12 | 417,377 | 2,474,892 |
| Net current assets | | 3,752 | 42,699 |
| Total assets less current liabilities | | 3,752 | 534,744 |
| Provisions for liabilities and charges | 13 | - | 492,045 |
| Net assets excluding retirement benefits | | 3,752 | 42,699 |
| Retirement benefits - liability | 20 | - | (27,000) |
| Net assets including retirement benefits | | 3,752 | 15,699 |
| Capital and reserves | | | |
| Accumulated surpluses before retirement benefits deficit | 15 | 3,752 | 42,699 |
| Retirement benefits deficit | 15 | - | (27,000) |
| Accumulated surplus | | 3,752 | 15,699 |



21 August 2009

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) Directors
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Statement of cash flows

for the year ended 31 March 2009

| | | 2009 | 2008 |
|--|-------|--------------|----------------|
| | Notes | £ | £ |
| Net cash outflow from operating activities | 16(a) | 11,183 | (23,450) |
| Returns on investments and servicing of finance | 16(b) | - | 22,191 |
| Taxation | 16(b) | (4,533) | (2,303) |
| Capital expenditure and financial investment | 16(b) | - | - |
| Decrease in cash | | <u>6,650</u> | <u>(3,562)</u> |

Reconciliation of net cash flow to movements in net funds

| | | 2008 | 2007 |
|-----------------------------------|-------|---------------|----------------|
| | Notes | £ | £ |
| Decrease in cash | 16(c) | <u>6,650</u> | <u>(3,562)</u> |
| Movement in net funds | | 6,650 | (3,562) |
| Net funds at 1 April 2008 | | <u>4,435</u> | <u>7,997</u> |
| Net funds at 31 March 2009 | | <u>11,085</u> | <u>4,435</u> |

Notes to the financial statements

at 31 March 2009

1. Accounting policies

(a) *Accounting convention*

The accounts are prepared under the historical cost convention, as modified by the revaluation of land and buildings, 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 programmes throughout the area of Argyll, Bute, Arran and the Cumbraes. 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 Highlands and Islands Enterprise being the sole member of the company.

(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 member of the Highlands and Islands Enterprise group.

(d) *Depreciation*

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

Equipment and furnishings - 25% per annum

(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.

(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 company 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.

Notes to the financial statements

at 31 March 2009

1. Accounting policies (continued)

(i) Pensions

Direct employees are members of the local government superannuation scheme. Seconded staff are members of Highlands and Islands Enterprise's defined benefit pension scheme.

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 loss.

2. 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.

An analysis of income by funding sources is given below:

| | 2009 | 2008 |
|----------------------------------|-----------------|-------------------------|
| | £ | £ |
| Highlands and Islands Enterprise | - | 7,425,405 |
| European Union | - | 479,213 |
| Other | - | 630,346 |
| | <u>-</u> | <u>8,534,964</u> |
| | <u><u>-</u></u> | <u><u>8,534,964</u></u> |

Notes to the financial statements

at 31 March 2009

3. Net operating surplus/(deficit)

This is stated after charging/(crediting):

| | 2009 | 2008 |
|---|-------------------|-------------------|
| | £ | £ |
| Auditors remuneration - audit services | 3,500 | 7,461 |
| - non audit services – tax compliance | 690 | 710 |
| Operating lease rentals - equipment | - | 2,372 |
| - property | 6,084 | 46,000 |
| Depreciation of fixed assets | - | 765 |
| Asset repayment provision released | - | (765) |
| Decrease in provision against investments | 176 | - |
| Investment repayment provision decreased | (176) | - |
| | <u> </u> | <u> </u> |

4. Directors' remuneration

None of the directors who held office during the year received any remuneration (2008 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £nil (2008 - £2,964).

5. Staff costs

Details of total charges made for all staff services during the year were as follows:

| | Employees | | 2009 | 2008 |
|-----------------------|-------------------|-------------------|-------------------|-------------------|
| | Core | Project | Total | Total |
| | £ | £ | £ | £ |
| Wages and Salaries | - | - | - | 869,316 |
| Social security costs | - | - | - | 61,522 |
| Other pension costs | - | - | - | 148,248 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | - | - | - | 1,079,086 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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

| | 2009 | 2008 |
|----------------------------------|-------------------|-------------------|
| | No. | No. |
| Senior management | - | 2 |
| Operation functions | - | 21 |
| Administration and support staff | - | 6 |
| | <u> </u> | <u> </u> |
| | - | 29 |
| | <u> </u> | <u> </u> |

Notes to the financial statements

at 31 March 2009

6. Interest receivable and other income

| | 2009 | 2008 |
|--|--------------|----------------|
| | £ | £ |
| Loan interest | 5,908 | 92,140 |
| Bank interest | - | 22,191 |
| Other interest | 34 | - |
| | <u>5,942</u> | <u>114,331</u> |
| Expected return on pension plan assets | - | 126,000 |
| Interest on pension plan liabilities | - | (107,000) |
| | <u>5,942</u> | <u>133,331</u> |

7. Interest payable

| | 2009 | 2008 |
|--|-------|--------|
| | £ | £ |
| Loan interest repaid to Highlands and Islands Enterprise | 5,942 | 92,140 |

8. Tax

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

| | 2009 | 2008 |
|------------------------------|-----------|--------------|
| | £ | £ |
| Current tax: | | |
| UK corporation tax | - | 4,438 |
| Underprovision in prior year | 95 | - |
| | <u>95</u> | <u>4,438</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 21% (2008 – 20%). The differences are reconciled below:

| | 2009 | 2008 |
|---|-----------|--------------|
| | £ | £ |
| Net deficit for the financial year before tax | (11,852) | (116,915) |
| Net deficit for the financial year multiplied by standard rate of corporation tax in the UK of 21% (2008 – 20%) | (2,489) | (23,383) |
| Disallowed expenses and non-taxable income | 2,489 | 27,821 |
| Underprovision in prior year | 95 | - |
| | <u>95</u> | <u>4,438</u> |

The tax charge relates to bank interest only.

Notes to the financial statements

at 31 March 2009

9. Tangible fixed assets

| | <i>Equipment and furnishings £</i> |
|--------------------------|--|
| Cost: | |
| At 1 April 2008 | 180,883 |
| Disposals | (180,833) |
| | <hr/> |
| At 31 March 2009 | - |
| | <hr/> |
| Depreciation: | |
| At 1 April 2008 | 180,883 |
| Provided during the year | - |
| Disposals | (180,833) |
| | <hr/> |
| At 31 March 2009 | - |
| | <hr/> |
| Net book value: | |
| At 31 March 2009 | - |
| | <hr/> |
| | <hr/> |
| At 1 April 2008 | - |
| | <hr/> |
| | <hr/> |

Notes to the financial statements

at 31 March 2009

10. Investments

| | <i>Unquoted shares £</i> | <i>Loans £</i> | <i>Total £</i> |
|--------------------------------|----------------------------------|--------------------|--------------------|
| Cost: | | | |
| At 1 April 2008 | 790,000 | 35,406 | 825,406 |
| Additions | - | - | - |
| Repayments | - | (22,219) | (22,219) |
| Transfer to parent undertaking | (750,000) | - | (750,000) |
| At 31 March 2009 | 40,000 | 13,187 | 53,187 |
| Provisions: | | | |
| At 1 April 2008 | 320,000 | 13,361 | 333,361 |
| Released in year | - | (174) | (174) |
| Relating to transfer to parent | (280,000) | - | (280,000) |
| At 31 March 2009 | 40,000 | 13,187 | 53,187 |
| Net book value: | | | |
| At 31 March 2009 | - | - | - |
| At 1 April 2008 | 470,000 | 22,045 | 492,045 |

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital is as follows:

| <i>Name of company</i> | <i>Shareholding</i> | <i>Proportion of class held</i> | <i>Nature of business</i> |
|----------------------------|---|-------------------------------------|-------------------------------|
| Argyll Bakeries Limited | 'C' cumulative redeemable preference | 100% | Bakery products |

11. Debtors

| | <i>2009 £</i> | <i>2008 £</i> |
|----------------------------------|-------------------|-------------------|
| Highlands and Islands Enterprise | 410,010 | 2,327,072 |
| Other debtors | 34 | 180,000 |
| Prepayments and accrued income | - | 6,084 |
| | 410,044 | 2,513,156 |

Notes to the financial statements

at 31 March 2009

12. Creditors: amounts falling due within one year

| | 2009 | 2008 |
|----------------------------------|----------------|------------------|
| | £ | £ |
| Highlands and Islands Enterprise | 410,503 | 1,904,138 |
| Other creditors | 1,684 | 521,861 |
| Current corporation tax | - | 4,438 |
| Accruals and deferred income | 5,190 | 20,108 |
| Other taxes | - | 24,347 |
| | <u>417,377</u> | <u>2,474,892</u> |

13. Provisions for liabilities and charges

| | <i>Loan/investment repayment provision</i> | <i>Asset repayment provision</i> | <i>Total</i> |
|--|--|--|--------------|
| | £ | £ | £ |
| At 1 April 2008 | 492,045 | - | 492,045 |
| Funding received from Highlands and Islands Enterprise | - | - | - |
| Funding repaid to Highlands and Islands Enterprise | (22,219) | - | (22,219) |
| Disposals | (470,000) | - | (470,000) |
| | <u>(174)</u> | <u>-</u> | <u>(174)</u> |
| Depreciation for the year (note 9) | - | - | - |
| Movement in provision against investments (note 10) | 174 | - | 174 |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 March 2009 | - | - | - |

14. Share capital

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

Notes to the financial statements

at 31 March 2009

15. Movement on reserves

| | <i>Accumulated Surpluses</i> £ | <i>Retirement Benefits - Liability</i> £ | <i>Total</i> £ |
|-------------------------------------|---------------------------------------|---|-------------------|
| At 31 March 2007 | 24,052 | (139,000) | (114,948) |
| Net surplus for the year | 18,647 | (140,000) | (121,353) |
| Actuarial gain (Note 20(b)) | - | 252,000 | 252,000 |
| At 31 March 2008 | 42,699 | (27,000) | 15,699 |
| Net surplus for the year | (11,947) | - | (11,947) |
| Transfer of FRS 17 Liability to HIE | (27,000) | 27,000 | - |
| At 31 March 2009 | 3,752 | - | 3,752 |

16. Notes to the statement of cash flows

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

| | 2009 | 2008 |
|---|-------------|-------------|
| | £ | £ |
| Net operating deficit | (11,852) | (158,106) |
| FRS 17 pension adjustments | - | 159,000 |
| | (11,852) | 894 |
| Decrease/(increase) in debtors | 2,103,112 | 2,104,033 |
| (Decrease)/increase in creditors | (2,080,077) | (2,128,377) |
| Depreciation | - | 764 |
| Decrease in asset repayment provision | - | (764) |
| Decrease in provision and write off against investments | (174) | (711,497) |
| Decrease in investment repayment provision | 174 | 711,497 |
| Net cash inflow/(outflow) from operating activities | 11,183 | (23,450) |

Notes to the financial statements

at 31 March 2009

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

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

| | 2009 £ | 2008 £ |
|--|-----------|-----------|
| <i>Returns on investments and servicing of finance</i> | | |
| Interest received | 5,942 | 114,331 |
| Interest paid | (5,942) | (92,140) |
| | - | 22,191 |
| | | |
| | 2009 £ | 2008 £ |
| <i>Taxation</i> | | |
| Corporation tax paid | (4,533) | (2,303) |
| | | |
| | 2009 £ | 2008 £ |
| <i>Capital expenditure and financial investment</i> | | |
| Payment to acquire shares | - | (375,000) |
| Receipts from Highlands and Islands Enterprise to fund loans and shares | - | 375,000 |
| Loans repaid | 22,219 | 572,968 |
| Funding repaid to Highlands and Islands Enterprise | (22,219) | (572,968) |
| | - | - |

(c) Analysis of changes in net funds

| | At 1 April 2008 £ | Cash flows £ | At 31 March 2009 £ |
|--------------|-------------------------|--------------------|--------------------------|
| Cash at bank | 4,435 | 6,650 | 11,085 |

17. 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 2009

18. Financial commitments

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

| | <i>Property</i> | | <i>Other</i> | |
|--------------------------------|-----------------|---------------|--------------|------|
| | 2009 | 2008 | 2009 | 2008 |
| | £ | £ | £ | £ |
| Operating leases which expire: | | | | |
| within one year | - | - | - | - |
| within two to five years | - | 38,000 | - | - |
| after five years | - | - | - | - |
| | | <u>38,000</u> | | |

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

19. Pension commitments

From 1 April 2008 HIE Argyll and the Islands ceased to be an operational Local Enterprise Company. As a result seconded staff from Highlands and Islands Enterprise were transferred back to Highlands and Islands Enterprise and remained as members of a defined pension scheme which is funded by Highlands and Islands Enterprise.

Direct employees of the company were transferred to Highlands and Islands Enterprise and continued to be members of the Strathclyde Pension Plan, a defined benefit pension scheme. The scheme liabilities attributed to these staff at 31 March 2008 were transferred to Highlands and Islands Enterprise on 1 April 2008.

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

(a) FRS 17 disclosures (relating to Strathclyde Pension Fund)

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 2009 | 31 March 2008 | 31 March 2007 | 31 March 2006 |
|--|------------------|------------------|------------------|------------------|
| Main assumptions: | | | | |
| Inflation rate (% per annum) | - | 3.6% | 3.2% | 3.1% |
| Rate of salary increases (% per annum) | - | 5.1% | 4.7% | 4.6% |
| Rate of pension increase (% per annum) | - | 3.6% | 3.2% | 3.1% |
| Discount rate (% per annum) | - | 6.9% | 5.4% | 6.0% |

Notes to the financial statements

at 31 March 2009

19. Pension commitments (continued)

HIE Argyll and the Island's share of the assets in the Strathclyde Pension Fund scheme and the expected rate of return were:

| | <i>Long-term rate of return expected at March 31 2009 %</i> | <i>Value at March 31 2009 £</i> | <i>Long-term rate of return expected at March 31 2008 %</i> | <i>Value at March 31 2008 £</i> | <i>Long-term rate of return expected at March 31 2007 %</i> | <i>Value at March 31 2007 £</i> |
|---------------------------------------|---|---|---|---|---|---|
| Equities | - | - | 7.7 | 1,264,000 | 7.8 | 1,278,000 |
| Bonds | - | - | 5.7 | 250,000 | 4.9 | 213,000 |
| Property | - | - | 5.7 | 171,000 | 5.8 | 174,000 |
| Cash | - | - | 4.8 | 55,000 | 4.9 | 76,000 |
| Estimated employer assets | | - | | 1,740,000 | | 1,741,000 |
| Present value of scheme liabilities | | - | | (1,622,000) | | (1,835,000) |
| Present value of unfunded liabilities | | - | | (145,000) | | (45,000) |
| Deficit in the scheme | | - | | (27,000) | | (139,000) |
| Related deferred tax liability | | - | | - | | - |
| Net pension liability | | - | | (27,000) | | (139,000) |

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

| | <i>2009 £</i> | <i>2008 £</i> |
|---|-------------------|-------------------|
| Actual return less expected return on pension scheme assets | - | (179,000) |
| Experience gains and losses arising on the scheme liabilities | - | (17,000) |
| Changes in assumptions underlying the present value of the scheme liabilities | - | 448,000 |
| Actual gain recognised in statement of total recognised gains and losses | - | 252,000 |

Notes to the financial statements

at 31 March 2009

19. Pension commitments (continued)

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

| | 2009 £ | 2008 £ |
|---|-----------|-----------|
| Share of deficit in scheme at beginning of the year | (27,000) | (139,000) |
| Movement in year: | | |
| Current service costs | - | (72,000) |
| Contributions | - | 55,000 |
| Contributions in respect of unfunded benefits | - | 22,000 |
| Past service costs | - | - |
| Impact of settlements and curtailments | - | (164,000) |
| Net return on assets | - | 19,000 |
| Actuarial gains | - | 252,000 |
| Transfer of liability to HIE | 27,000 | - |
| Share of deficit in scheme at end of the year | - | (27,000) |

(d) History of experience gains and losses

| | 2009 £ | 2008 £ | 2007 £ | 2006 £ | 2005 £ |
|---|-----------|-----------|-----------|-----------|-----------|
| Difference between the actual and expected return on scheme assets | - | (179,000) | 1,000 | 247,000 | 39,000 |
| Value of assets | - | 1,740,000 | 1,741,000 | 1,579,000 | 1,194,000 |
| Percentage of scheme assets | - | (10.3%) | 0.1% | 15.6% | 3.3% |
| Experience gains and losses on scheme liabilities | - | (17,000) | 5,000 | 96,000 | 7,000 |
| Present value of liabilities | - | 1,767,000 | 1,880,000 | 1,498,000 | 1,570,000 |
| Percentage of the present value of scheme liabilities | - | (1.0%) | 0.3% | 6.4% | 0.4% |
| Total amount recognised in statement of total recognised gains and losses | - | 252,000 | (252,000) | 458,000 | 13,000 |
| Present value of liabilities | - | 1,767,000 | 1,880,000 | 1,498,000 | 1,570,000 |
| Percentage of the present values of the scheme liabilities | - | 14.3% | (13.4%) | 30.6% | 0.8% |

20. 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 Argyll and the Islands 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.