

The Highland Council
Planning, Development and Infrastructure Committee
4 November 2015

Agenda Item	22
Report No	PDI 77/15

Highland Opportunity Limited

Report by Director of Development and Infrastructure

SUMMARY

This report provides a summary of Highland Opportunity Limited's financial performance and activities during the financial year 2014/2015. In addition, it provides details of the Company's recent performance against a range of targets set for it as part of its contract with the Council to deliver business support to Highland businesses.

Committee is invited to:

- note the performance of Highland Opportunity Limited and its subsidiary companies during 2014/2015;
- accept the financial statements for year ending 31 March 2015 of Highland Opportunity Limited on behalf of the Council (**appendix 1**); and
- Note the shareholder review now underway and the scope of the review (**appendix 2**).

1. Introduction

1.1 Highland Opportunity Ltd. (HOL) is the Council's wholly owned Enterprise Trust. The company was incorporated in 1986 as a company limited by guarantee with the mission to help businesses in the Highlands to start up and grow, and to create or sustain employment. At 31 March 2015 the HOL Group net asset value amounted to £2.90m. In financial year 2014/15 the group had a turnover of £1.66m and made an operating loss of £0.296m

1.2 HOL's present business activity falls into the following work streams:

- financial assistance to Small and Medium sized Enterprises (SME's): Affordable loan finance is offered to businesses to create or sustain employment in the Highlands. 17 businesses were awarded loan assistance amounting to £511.8k within the 2014/15 financial year. The Company holds the Highland agency for the Prince's Trust Youth Business Scheme (PTYBS). A further £8.9k worth of HOL loans were approved to match fund PTYBS loans to 3 young clients during the year. The Opportunity Fund and PTYBS assistance has helped sustain or create 164 full time jobs. Throughout the year 16 PTYBS clients were supported. All loans are supplemented by professional business advice and aftercare support. All commercial investment activity is handled by HOL's subsidiary company Highland Opportunity (Investments) Limited;

- community support and social enterprise: HOL's Community Enterprise Loan Fund provided discretionary loan finance to social enterprises, for example, community owned businesses. In 2014/15 the Community Enterprise Loan Fund (CELF) approved no loan assistance. HOL works closely with the Highlands and Islands Social Enterprise Zone (HISEZ) Community Interest Company. This organisation operates in partnership with the Just Enterprise consortium to support the start-up and growth of social enterprises. HISEZ purchased the West End Business Suite from HOL during 2014/15 is now located there. Previously HISEZ was co-located with HOL in its Castle Street offices.

Following a recent review of operations and performance the board has agreed to wind up the CELF and to continue to support community enterprises via the mainstream Opportunity Fund;

- European Business Support (EBS): HOL is a partner (with HC, HIE and SE) in the Scottish Enterprise Europe Network consortium. The European Commission awarded the consortium a new 2 year contract commencing January 2015. The EEN service provides free practical help to Highland businesses seeking European business opportunities by providing access to market research, information, business contacts, partner information and matching at European trade fairs or missions. During 2014/15 HOL's EEN team lead a joint initiative to clarify the international assistance available to SMEs in the Highlands and Islands. They also hosted 233 delegates at information events, 385 businesses received support to export or explore overseas opportunities and 67 businesses made direct connections with potential business partners through EEN;
- business premises: HOL provides low cost office accommodation for rent in its premises in Alness Enterprise Centre, Ness Horizons Business Centre (NHBC) at Beechwood Business Park, and in the office at 81a Castle Street, Inverness. During the year HOL sold premises in Wick and in Inverness. Across the remaining property portfolio occupancy levels vary reflecting the challenging property market. During 2014/15 the higher quality environments of NHBC and the Alness Enterprise Centre supported consistently high average occupancy rates of 94%, while the Castle Street property supported average annual occupancy of 77%. Average occupancy levels during the financial year, including poorly performing property now sold, were 58%;
- Business Gateway: HOL delivers the Business Gateway service under contract for Highland & Moray Councils through a three year 'shared service agreement'. During 2014/15 Business Gateway assisted 374 business start-ups. 189 businesses received expert advice and 208 business courses and events were delivered for 1600 delegates. Via the Create and Employ programme business advisers provided advice to 323 businesses and created 58 new jobs with first time employers. The Business Gateway service handled over 1,603 business enquiries from businesses at various stages of development from start-up to those planning for growth. 1 client company was accepted into HIE Account Management during the year; and

- Start Up Loan company: During the year 39 applications to the Start Up Loan Company were assessed by HOL for Highland and Moray Councils. 13 were approved. HOL earned £5.2K for the assessment work.

1.3 The 2014/15 Directors' report and financial statements for the HOL group were approved by the HOL board on the 2 October 2015. They are attached as **appendix 1**.

1.4 Copies of the 2014/15 Directors' report and those for HOL's subsidiary companies Highland Opportunity (Investments) Ltd., Highland Opportunity (EBS) Ltd., Highland Opportunity (Communities) Ltd., and Ness Horizons Limited are available on the committee bulletin and in hard copy in the Members' library.

1.5 The 2014/15 Annual Report outlines HOL's performance during 2014/15 and provides a summary of financial performance. Marie Mackintosh, the HOL Chief Executive, will attend the Committee.

2 Performance Summary 2014/15

2.1 The table below summarises HOL's performance against targets in 2014/15.

Performance against HOL's Contract Targets	Target	Actual
Businesses assisted with discretionary loans	30	17
Number of PTYBS Clients match funded	10	3
Total value of PTYBS match funding	£20k	£8.9k
No of PTYBS clients supported	30	16
Number of Community Enterprises assisted with loans (CELF)	3	0
Total value of CELF loans	£50k	£0k
Number of jobs created or retained (HOL, PTYBS)	N/A	164
Total value of business loans (Opportunity Fund)	£500k	£511.8k
Average occupancy level of property	100%	58%
BG No of Business start-ups (volume)	402	374
BG No of business enquiries	2600	1603
BG No of companies into HIE Account Management	19	1
BG Businesses receiving specialist advice	180	189
BG Business courses delivered	170	208
BG No of delegates on business courses	1380	1600

3 Review of Highland Opportunity Ltd

3.1 During 2014/15 directors and staff of Highland Opportunity Ltd have worked hard towards a profitable and sustainable business model for the organisation. In this regard the Council's Finance Service has contributed significantly.

3.2 Despite the efforts of directors and staff the financial position at the end of 2014/15 has been very disappointing. The large deficit has mainly been the result of:

- pension adjustments allocated to profit and loss account (- £148k);
- LEADER 2007/13 Programme losses (- £60k); and

- losses generated as a result of the sale of property (- £64k)

3.3 A meeting of the HOL board on 28 August 2015 agreed that a shareholder review of HOL should be undertaken by Highland Council and on 2 October 2015 the scope of that review was agreed by the board. The agreed scope is attached at **appendix 2** for information.

3.4 In line with the agreed scope an internal cross service review group has been established and is looking at options considered to be within scope. The HOL board will receive interim updates as progress is made and the final report and recommendations will come to Committee in February 2016 for consideration and approval.

4. Implications

4.1 Resource, and climate change/Carbon Clever: There are no resource or climate change/Carbon Clever implications arising from this report.

4.2 Legal, risk, Gaelic and equality: There are no legal, risk, Gaelic or equality implications attached to this report.

4.3 Rural: There are no additional rural implications arising from this report. During the course of the financial year HOL seeks to assist business growth in both rural and urban areas of the Highlands. Performance results demonstrate HOL's significant contribution to the rural economy of the Highlands.

5 Fit with the Single Outcome Agreement

5.1 The report considers actions that support delivery of SOA objectives for a competitive, sustainable and adaptable Highland Economy.

RECOMMENDATION

Committee is invited to:

- note the performance of Highland Opportunity Limited and its Subsidiary Companies during 2014/2015;
- accept the financial statements for year ending 31 March 2015 of Highland Opportunity Limited on behalf of the Council (**appendix 1**); and
- note the shareholder review now underway and the scope of the review at **appendix 2** of the report.

Designation: Director of Development and Infrastructure

Date: 6 October 2015

Author: George Hamilton, Head of Environment & Economic Development
(Ext: 2252)

Background papers:

- Highland Opportunity Limited: Director's Report and Financial Statements for the year ended 31st March 2015.
- Highland Opportunity Limited: Business Support Report – Quarter 4 to 31st March 2015.
- Shareholder review. Scope agreed by Highland Opportunity Board 2nd October 2015.

Registration number SC097373

Highland Opportunity Limited
Company limited by guarantee

Directors' report and financial statements

for the year ended 31 March 2015

Highland Opportunity Limited
Company limited by guarantee

Company information

Directors	D J Fallows J A H Ford I G Brown T J MacLennan W N Fernie W Lobban T G A Prag J H W Stone E Macdonald
Secretary	Michelle Morris
Company number	SC097373
Registered office	81a Castle Street Inverness IV2 3EA
Auditors	FKF Accounting Limited Metropolitan House 31 - 33 High Street Inverness IV1 1HT
Business address	81a Castle Street Inverness IV2 3EA
Bankers	Royal Bank of Scotland plc 29 Harbour Road Inverness IV1 1NU

Highland Opportunity Limited
Company limited by guarantee

Solicitors

Corporate Services
The Highland Council
Glenurquhart Road
Inverness
IV3 5NX

Highland Opportunity Limited
Company limited by guarantee

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Highland Opportunity Limited
Company limited by guarantee

Directors' report
for the year ended 31 March 2015

The directors present their report and the financial statements for the year ended 31 March 2015.

Principal activity

The principal activity of the company is to provide financial assistance and advice to businesses to protect and expand existing employment and assist in the creation of additional employment.

Directors

The directors who served during the year are as stated below:

D J Fallows
J A H Ford
I G Brown
T J MacLennan
W N Fernie
W Lobban
T G A Prag
J H W Stone
E Macdonald

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the directors are required to:

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

Highland Opportunity Limited
Company limited by guarantee

Directors' report
for the year ended 31 March 2015

..... continued

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

In so far as the directors are aware:

- there is no relevant audit information (information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and
- the directors have taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

FKF Accounting Limited are deemed to be reappointed in accordance with Section 487(2) of the Companies Act 2006.

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

This report was approved by the Board on 2 October 2015 and signed on its behalf by



D J Fallows
Director

Independent auditors' report to the members of Highland Opportunity Limited

We have audited the financial statements of Highland Opportunity Limited for the year ended 31 March 2015 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the Financial Reporting Standard for Smaller Entities (Effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 1-2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our 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). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors, including "APB Ethical Standard - Provisions Available for Small Entities (Revised)", in the circumstances set out in note 4 to these financial statements.

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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications of our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Independent auditors' report to the members of
Highland Opportunity Limited**

.....continued

Opinion on other matter prescribed by the Companies Act 2006.

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report.


Colin Gray B.Com/ C.A. (senior statutory auditor)

For and on behalf of FKF Accounting Limited

Chartered Accountants and

Statutory Auditors

Metropolitan House

31 - 33 High Street

Inverness

IV1 1HT

2 October 2015

Highland Opportunity Limited
Company limited by guarantee

Profit and loss account
for the year ended 31 March 2015

		2015	2014
	Notes	£	£
Turnover	2	1,337,807	1,297,212
Administrative expenses		(1,572,335)	(1,457,630)
Operating loss	3	(234,528)	(160,418)
Loss on sale of fixed assets		(64,022)	-
Loss on ordinary activities before interest		(298,550)	(160,418)
Other interest receivable and similar income	5	19,557	17,063
Loss on ordinary activities before taxation		(278,993)	(143,355)
Tax on loss on ordinary activities		-	-
Loss for the year	11	(278,993)	(143,355)
Statement of total recognised gains and losses			
Loss on ordinary activities after taxation		(278,993)	(143,355)
Actuarial gain/(loss) on pension scheme		(194,000)	(243,000)
Total recognised losses since last annual report		(472,993)	(386,355)

The notes on pages 8 to 20 form an integral part of these financial statements.

Highland Opportunity Limited
Company limited by guarantee

Balance sheet
as at 31 March 2015

		2015		2014	
Notes	£	£	£	£	
Fixed assets					
Tangible assets	6		367,483	520,623	
Investments	7		410,002	410,002	
			777,485	930,625	
Current assets					
Debtors	8	592,785		832,046	
Cash at bank and in hand		1,555,685		1,439,668	
		2,148,470		2,271,714	
Creditors: amounts falling due within one year	9	(1,788,848)		(1,875,239)	
Net current assets			359,622	396,475	
Total assets less current liabilities			1,137,107	1,327,100	
Provisions for liabilities	10		(876,000)	(593,000)	
Net assets			261,107	734,100	
Reserves					
Other reserves	11		(876,000)	(593,000)	
Profit and loss account	11		1,137,107	1,327,100	
Members' funds			261,107	734,100	

The notes on pages 8 to 20 form an integral part of these financial statements.

Highland Opportunity Limited
Company limited by guarantee

These financial statements have been prepared in accordance with the special provisions of Part 15 of the Companies Act 2006 and the Financial Reporting Standard for Smaller Entities (effective April 2008) relating to small companies.

The financial statements were approved by the Board on 2 October 2015 and signed on its behalf by

D J Fallows
Director



Registration number SC097373

The notes on pages 8 to 20 form an integral part of these financial statements.

Highland Opportunity Limited
Company limited by guarantee

Notes to the financial statements
for the year ended 31 March 2015

1. Accounting policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention modified to include the revaluation of certain fixed assets and in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008).

1.2. Turnover

Turnover represents the total invoice value, excluding value added tax, of sales made during the year and derives from the provision of goods falling within the company's ordinary activities.

1.3. Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost or valuation less residual value of each asset over its expected useful life, as follows:

Land and buildings	-	Straight line over 50 years
Fixtures, fittings and equipment	-	15% straight line & 33.3% reducing balance

1.4. Investments

Fixed asset investments are stated at cost less provision for permanent diminution in value.

1.5. Pensions and other post-retirement benefits

The company participates in The Highland Council Pension Fund, part of the Local Government scheme, a defined benefit pension scheme for employees. The assets of the scheme are held separately from those of the company.

Pension scheme liabilities are measured on an actuarial basis using a projected unit method and are discounted to their present value using an AA corporate bond rate.

Pension scheme assets are valued at market value at the balance sheet date.

The pension scheme deficit is recognised in full on the balance sheet.

The deferred tax relating to a defined benefit asset/liability is offset against the defined benefit asset/liability and not included with other deferred tax assets or liabilities.

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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1.6. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.7. Group accounts

The company is entitled to the exemption under Section 398 of the Companies Act 2006 from the obligation to prepare group accounts.

2. Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

3. Operating loss

	2015	2014
	£	£
Operating loss is stated after charging:		
Depreciation and other amounts written off tangible assets	14,656	16,131
Auditors' remuneration (Note 4)	6,695	5,225
	<u> </u>	<u> </u>

Highland Opportunity Limited
Company limited by guarantee

Notes to the financial statements
for the year ended 31 March 2015

..... continued

4. Auditors' remuneration

	2015	2014
	£	£
Auditors' remuneration - audit of the financial statements	<u>3,750</u>	<u>3,750</u>
Auditors' remuneration - other fees:		
- Accountancy and tax	<u>2,945</u>	<u>1,475</u>

In common with many other businesses of our size and nature we use our auditors to prepare and submit returns to the tax authorities and assist with the preparation of the financial statements.

5. Interest receivable and similar income

	2015	2014
	£	£
Bank interest	5,125	6,109
Other interest	2,432	1,954
Net finance income in respect of defined benefit schemes	<u>12,000</u>	<u>9,000</u>
	<u>19,557</u>	<u>17,063</u>

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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6. Tangible fixed assets	Land and buildings freehold	Fixtures, fittings equipment	Total
	£	£	£
Cost			
At 1 April 2014	597,776	122,849	720,625
Additions	-	14,030	14,030
Disposals	(178,981)	-	(178,981)
At 31 March 2015	<u>418,795</u>	<u>136,879</u>	<u>555,674</u>
Depreciation			
At 1 April 2014	100,814	99,188	200,002
On disposals	(26,467)	-	(26,467)
Charge for the year	8,376	6,280	14,656
At 31 March 2015	<u>82,723</u>	<u>105,468</u>	<u>188,191</u>
Net book values			
At 31 March 2015	<u>336,072</u>	<u>31,411</u>	<u>367,483</u>
At 31 March 2014	<u>496,962</u>	<u>23,661</u>	<u>520,623</u>

7. Fixed asset investments	Subsidiary undertakings shares	Other unlisted investments	Total
	£	£	£
Cost			
At 1 April 2014	360,002	50,000	410,002
At 31 March 2015	<u>360,002</u>	<u>50,000</u>	<u>410,002</u>
Net book values			
At 31 March 2015	<u>360,002</u>	<u>50,000</u>	<u>410,002</u>
At 31 March 2014	<u>360,002</u>	<u>50,000</u>	<u>410,002</u>

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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7.1. Holdings of 20% or more

The company holds 20% or more of the share capital of the following companies:

Company	Country of registration or incorporation	Nature of business	Shares held class	Proportion of shares held
Subsidiary undertaking				
Highland Opportunity (Communities) Limited	Scotland	Community Projects	Ordinary	100%
Highland Opportunity (EBS) Limited	Scotland	European Information Centre	Ordinary	100%
Highland Opportunity (Investments) Limited	Scotland	Investment	Ordinary	100%
Ness Horizons Limited	Scotland	Provision of office services	Ordinary	100%

The aggregate amount of capital and reserves and the results of these undertakings for the last relevant financial year were as follows:

	Capital and reserves £	Profit/(Loss) for the year £
Highland Opportunity (Communities) Limited	357,106	1,850
Highland Opportunity (EBS) Limited	67,763	(36,914)
Highland Opportunity (Investments) Limited	2,234,377	14,659
Ness Horizons Limited	(19,150)	4,114

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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8. Debtors	2015	2014
	£	£
Loans	51,821	63,754
Amount owed by connected companies	175,740	175,711
Other debtors	309,306	489,972
Prepayments and accrued income	55,918	102,609
	<u>592,785</u>	<u>832,046</u>

Amounts falling due after more than one year and included in debtors are:

Loans	38,065	49,998
	<u>38,065</u>	<u>49,998</u>

9. Creditors: amounts falling due within one year	2015	2014
	£	£
Trade creditors	325,632	475,090
Amounts owed to group undertaking	1,293,140	1,217,554
Other taxes and social security costs	55,852	29,810
Other creditors	109,374	147,935
Accruals and deferred income	4,850	4,850
	<u>1,788,848</u>	<u>1,875,239</u>

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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10. Provisions for liabilities

	Pensions and obligation £	Total £
At 1 April 2014	593,000	593,000
Movement for the year	283,000	283,000
At 31 March 2015	<u>876,000</u>	<u>876,000</u>

11. Reserves

	Profit and loss account £	Pension reserve £	Total £
At 1 April 2014	1,327,100	(593,000)	734,100
Transfer to pension reserve	89,000	(89,000)	-
Actuarial loss recognised in the year	-	(194,000)	(194,000)
Loss for the year	<u>(278,993)</u>	<u>-</u>	<u>(278,993)</u>
At 31 March 2015	<u>1,137,107</u>	<u>(876,000)</u>	<u>261,107</u>

Highland Opportunity Limited
Company limited by guarantee

Notes to the financial statements
for the year ended 31 March 2015

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12. Pensions and other post-retirement benefits

The company participates in The Highland Council Pension Fund, part of the Local Government Pension Scheme, a defined benefit scheme.

Pension contributions are determined by an actuary Hymans Robertson LLP, on the basis of triennial valuations using the projected unit method. A full actuarial valuation was carried out at 31 March 2011 and updated at 31 March 2014. The main assumptions used by the actuary were:

	2015	2014
	%	%
Rate of increase in salaries	4.3	5.1
Rate of increase in pensions	2.4	2.8
Discount rate	3.2	4.3
Inflation assumption	-	3.6

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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12.1 The fair value of the scheme assets and the expected rate of return, the present value of the scheme liabilities and the resulting deficit are:

	Long-term rate of return expected		Long-term rate of return expected		Long-term rate of return expected	
	at 31/03/15 %	Value at £	at 31/03/14 %	Value at £	at 31/03/13 %	Value at £
Equities	3.2	1,991,000	6.7	1,579,000	6.4	1,493,000
Bonds	3.2	577,000	4.0	423,000	3.6	272,000
Property	3.2	288,000	4.8	178,000	4.4	155,000
Cash	3.2	29,000	3.7	45,000	3.0	19,000
Total market value of assets		2,885,000		2,225,000		1,939,000
Present value of scheme liabilities		(3,710,000)		(2,772,000)		(2,235,000)
Surplus/(deficit) in the scheme		(825,000)		(547,000)		(296,000)
Net pension liability		(825,000)		(547,000)		(296,000)

An analysis of the movements in the deficit during the year are shown below:

	2015 £	2014 £
Deficit brought forward	(593,000)	(296,000)
Total operating charge	(249,000)	(197,000)
Total finance income	12,000	9,000
Actuarial gain/(loss)	(194,000)	(243,000)
Contributions	148,000	134,000
Deficit carried forward	(876,000)	(593,000)

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

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12.2 *Analysis of the amount charged to operating loss*

	2015	2014
	£	£
Current service cost	249,000	197,000
Total operating charge	<u>249,000</u>	<u>197,000</u>
	2015	2014
	£	£
Expected return on pension scheme assets	139,000	117,000
Interest on pension scheme liabilities	(127,000)	(108,000)
Total finance income	<u>12,000</u>	<u>9,000</u>

12.3 *Analysis of amount recognised in the statement of total recognised gains and losses*

	2015	2014
	£	£
Actual return less expected return on pension scheme assets	347,000	25,000
Experience gains/(losses) arising on the scheme liabilities	(63,000)	(4,000)
Loss arising from changes in assumptions underlying the present value of the scheme liabilities	(478,000)	(264,000)
Actuarial (loss)/gain	<u>(194,000)</u>	<u>(243,000)</u>

Highland Opportunity Limited
Company limited by guarantee

Notes to the financial statements
for the year ended 31 March 2015

..... continued

12.4 A history of experience gains and losses is shown below:

	2015	2014	2013	2012	2011
Difference between the expected and actual return on scheme assets:					
amount (£)	347,000	25,000	(190,000)	12,000	(291,000)
percentage of scheme assets	12.0%	1.1%	(12.0)%	0.8%	(22.1)%
Experience gains and losses on scheme liabilities:					
amount (£)	(63,000)	(4,000)	231,000	5,000	6,000
percentage of the present value of the scheme liabilities	(1.6)%	(0.1)%	11.9%	0.3%	0.3%
Total amount recognised in Statement of total recognised gains and losses:					
amount (£)	(740,000)	(546,000)	(303,000)	(386,000)	(242,000)
percentage of the present value of the scheme liabilities	19.6%	9.4%	19.9%	13.6%	24.9%

Highland Opportunity Limited
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Notes to the financial statements
for the year ended 31 March 2015

..... continued

13. Related party transactions

At 31 March 2015 the following balances were due from/(to) subsidiaries:

	2015	2014
	£	£
Highland Opportunity (Communities) Limited	(357,215)	(203,117)
Highland Opportunity (EBS) Limited	34,248	34,248
Highland Opportunity (Investments) Limited	(935,925)	(1,014,437)
Ness Horizons Limited	141,463	141,463

No interest was charged or paid on the above inter-company loans.

Included in other debtors at 31 March 2015 is £ nil (2014 - £93,259) due from Highland Opportunity (EBS) Limited. Included in trade creditors at 31 March 2015 is £41,665 (2014 - £153,180) due to Highland Opportunity (EBS) Limited. Highland Opportunity (EBS) Limited is a wholly owned subsidiary of Highland Opportunity Limited.

Included in other debtors at 31 March 2015 is £3,468 (2014 - £23,246) due from Ness Horizons Limited. Included in trade creditors at 31 March 2015 is £ nil (2014 - £1,200) due to Ness Horizons Limited. Ness Horizons Limited is a wholly owned subsidiary of Highland Opportunity Limited.

During the year ended 31 March 2015 the company was invoiced the following amounts by its subsidiary companies:

	2015	2014
	£	£
Highland Opportunity (Communities) Limited - Contract fee	-	1,000
Highland Opportunity (EBS) Limited - Contract fee	-	-
Highland Opportunity (EBS) Limited - EEN service	60,651	74,618
Highland Opportunity (Investments) Limited - Contract fee	1,950	1,000
Ness Horizons Limited - Office space rental	18,208	18,621

Highland Opportunity Limited
Company limited by guarantee

Notes to the financial statements
for the year ended 31 March 2015

..... continued

During the year ended 31 March 2015 the company invoiced the following to its subsidiary companies:

	2015	2014
	£	£
Highland Opportunity (Communities) Limited - Management fee	-	2,600
Highland Opportunity (EBS) Limited - Staff costs	82,079	94,461
Highland Opportunity (EBS) Limited - Office costs	12,629	13,871
Highland Opportunity (Investments) Limited - Management fee	29,750	20,500
Highland Opportunity (Investments) Limited - Business Advisors	18,404	-
Ness Horizons Limited - Salaries	-	10,969
Ness Horizons Limited - Administrative Costs	7,860	2,758

Included within other debtors at 31 March 2015 is £284,196 (2014 - £335,875) due from The Highland Council. During the year ended 31 March 2015 the company received income of £1,023,487 (2014 - £1,055,316) through The Highland Council.

Included within other creditors at 31 March 2015 is £243,129 (2014 - £244,354) due to The Highland Council. During the year ended 31 March 2015 the company was invoiced £ nil (2014 - £8,367) by The Highland Council for legal and other services and £1,023,487 (2014 - £938,351) for staff costs.

The Highland Council is the sole member of Highland Opportunity Limited and the board of directors of Highland Opportunity Limited is drawn from the elected members of The Highland Council.

14. Company limited by guarantee

The company has no share capital but the liability of the members is limited by guarantee. In the event of the company being wound up the liability of each member is limited to £100. If there should be a residue of funds after winding-up this will be divided amongst the members in the proportion in which they contributed funds to the company.

**Highland Opportunity Limited
Company limited by guarantee**

The following pages do not form part of the statutory accounts.

Highland Opportunity Limited
Company limited by guarantee

Detailed trading profit and loss account
and expenses schedule
for the year ended 31 March 2015

	2015		2014	
Sales	£	£	£	£
The Highland Council - Contract services income		17,952		21,118
Contribution PSYBT		28,124		35,317
Business Gateway		799,417		913,631
Business Gateway - Create and Employ		151,885		139,172
Business Growth Plus / ERDF		48,147		13,923
Leonardo St-Art App		10,000		9,648
Wick Business Suite		3,900		3,600
Desk space income		15,403		17,081
Fairer Scotland fund		-		1,087
HOL sales		1,950		3,620
Youth Enterprise Centre		8,640		9,420
HBGF		23,000		-
CNP		1,937		-
Enterprise Europe Network		145,354		101,129
SHARE project		8,708		-
Scottish Government contract		59,123		14,300
Hydro scheme		14,267		14,166
		1,337,807		1,297,212
Administrative expenses				
Staff costs - HOL	154,685		178,497	
Pension adjustment	(148,000)		(134,000)	
Pension scheme - current service cost	249,000		197,000	
Staff training and recruitment	1,593		1,242	
Office accommodation expenses	34,790		28,253	
Insurance	2,103		3,406	
Administration expenses	14,867		15,395	
Advertising	868		7,843	
Communication costs	8,782		9,697	
PSYBT expenses	28,908		4,800	
Travelling and subsistence	3,699		963	
West End Business Suite	12,713		11,326	
Wick Business Suite	5,400		4,585	
Business Gateway	792,552		826,581	
Business Gateway - Create and Employ	142,041		129,549	
Business Growth Plus	48,147		12,945	
Leonardo St-Art App	5,857		1,843	
Professional and financial services	10,425		9,892	
Accountancy	2,945		1,475	
Audit	3,750		3,750	
Bank charges	1,171		-	

Highland Opportunity Limited
Company limited by guarantee

Detailed trading profit and loss account
and expenses schedule
for the year ended 31 March 2015

	2015	2014
Recharged to subsidiaries	(49,674)	(33,696)
Bad debts	-	1,290
Irrecoverable VAT	1,949	2,719
Enterprise Europe Network costs	165,016	123,336
SHARE project	4,802	-
Scottish Government contract costs	53,748	5,514
HIE contract	-	19,835
Youth enterprise centre	5,542	6,039
Fairer Scotland	-	1,056
HISEZ costs	-	364
Depreciation on freehold property	8,376	11,956
Depreciation on fixtures & equipment	6,280	4,175
	<u>1,572,335</u>	<u>1,457,630</u>
Other operating income		
Loss on sale of fixed assets	(64,022)	-
	<u>(64,022)</u>	<u>-</u>
Operating loss	(298,550)	(160,418)
Other income and expenses		
Interest receivable		
Bank deposit interest	5,125	6,109
Other interest	14,432	10,954
	<u>19,557</u>	<u>17,063</u>
Net loss for the year	<u>(278,993)</u>	<u>(143,355)</u>

Highland Opportunity Ltd
Shareholder Review

1.0 **Background**

Following some unexpected financial statements in the annual accounts, the board of Highland Opportunity Ltd has concerns and wishes to test the reliability of the organisations financial recovery plans and has therefore agreed (28th August 2015) to review the organisation and its financial position. The board also felt the company shareholder (HC) might use the opportunity to review whether HOL was the most effective way to deliver current services for HC. The board therefore requested that the Highland Council:

- Consider HOL as the vehicle for efficient delivery of current services.
- Review HOL's financial recovery plan and its realistic contribution towards future financial sustainability.

2.0 **Scope**

- All financial aspects, activities, assets and structure of the HOL organisation are within scope.
- Consultation should take place with appropriate HOL staff, customers, partners and board members.

3.0 **Review process**

The review will be conducted by an internal HC team comprising representatives from:

- Development and Infrastructure (Business Gateway and Property)
- Finance
- Corporate Development (Legal advice and Human Resources)

4.0 **Options in scope**

The following options are identified as the most appropriate:

- Consider any appropriate additional activities HOL could deliver for HC
- Retain current organisation, structure, assets and activities
- Retain HOL but with reduced activity
- Bring activity in house, retaining current activity
- Bring in house with reduced activity

5.0 **Governance**

- Scope agreed with HOL board (Chair and Vice Chair) – Sept 2015
- Interim progress briefings to HOL board members – Oct/November/Dec 2015
- Draft final report and recommendations to HOL board – December 2015
- Final report and recommendations to PDI Committee for approval – February 2016

5.0 **Timescales**

- Approved report and recommendations implemented from 1st April 2016.