



Scottish Government
Riaghaltas na h-Alba

FRAMEWORK DOCUMENT

between

SCOTTISH MINISTERS

and

HIGHLANDS AND ISLANDS ENTERPRISE



July 2024

HIGHLANDS AND ISLANDS ENTERPRISE FRAMEWORK DOCUMENT

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Introduction

1. This framework document is agreed between Highlands and Islands Enterprise (HIE) and the Scottish Ministers. It summarises how HIE and the Scottish Government (SG) will work together and sets out the key roles and responsibilities of:

- HIE's Board and Chair;
- HIE's Chief Executive and Accountable Officer;
- the Scottish Ministers; and
- the Portfolio Accountable Officer within the SG whose remit includes HIE.

2. While this document does not confer any legal powers or responsibilities, it forms a key part of the accountability and governance framework and as a live document should be reviewed by HIE and SG regularly, and at least every 2-3 years. Any changes will be agreed between the Board and the Scottish Ministers. Any question regarding the interpretation of the document will be determined by SG after consultation with HIE. Legislative provisions take precedence over any part of the document.

3. References to HIE include any subsidiaries and corporate joint ventures owned or controlled by HIE. HIE is not permitted to establish any subsidiaries or enter into corporate joint ventures without express approval from the Sponsor Team and SG's Finance Directorate. There must be a document setting out the arrangements between HIE and any subsidiary or corporate joint venture.

4. Copies of the document will be published on HIE's website.

Purpose

5. HIE's primary purpose is to focus its activities on the achievement of SG's vision, as set out in [Scotland's National Strategy for Economic Transformation \(NSET\)](#), for a wellbeing economy, thriving across economic, social and environmental dimensions.

6. Ministers expect HIE to do this by aligning its aims and objectives with NSET, SG's [National Performance Framework \(NPF\)](#) and the annual Programme for Government.

7. HIE's statutory functions under the [Enterprise and New Towns \(Scotland\) Act 1990](#) (the Act) include the following:

- preparing, concerting, promoting, assisting and undertaking measures for the economic and social development of the Highlands and Islands;
- enhancing skills and capacities relevant to employment in the Highlands and Islands and assisting persons to establish themselves as self-employed persons there; and
- furthering improvement of the environment of the Highlands and Islands.

8. HIE fulfils a series of financial duties and other functions as determined by Scottish Ministers under Section 26 of the Act. It also operates under a range of general and specific powers, set out in full in Section 8 of the Act.

9. As well as deploying its own resources effectively and efficiently in fulfilment of these functions, HIE should employ strong strategic leadership and collaborate with others so that best use can be made of collective resources. HIE should work with partners at local, regional,

national and international levels to deliver its aims and objectives whilst also responding to local circumstances and priorities.

Governance and accountability

10. HIE is established under the Enterprise and New Towns (Scotland) Act 1990. The constitution of HIE is set out in Schedule 1 to the Act. HIE does not carry out its functions on behalf of the Crown. For policy/administrative purposes, HIE is classified as an executive non-departmental public body. For national accounts purposes, HIE is classified to the central government sector.

11. The remainder of this section summarises the specific responsibilities and accountabilities of the key people involved in governance of HIE.

The Board

12. The HIE Board, including the Chair, consists of not less than six, nor more than eleven, non-executives appointed by Scottish Ministers in line with the [Code of Practice for Ministerial Public Appointments in Scotland](#). HIE's Chief Executive is also a member of the Board, as set out in Schedule 1 of the Act. The Chair and Board members are accountable to the Scottish Ministers and also to the Scottish Parliament and may be required to give evidence to Parliamentary Committees.

13. The Board has overall responsibility for the delivery of HIE's purpose and functions, as set out in sections 5 to 7 above, in accordance with the aims, policies and priorities of the Scottish Ministers. It has corporate responsibility, under the leadership of the Chair, for:

- a. ensuring that HIE's corporate plans reflect its strategic aims, objectives and key targets as agreed by the Scottish Ministers and focus on how its work can most effectively contribute to the achievement of NSET, the NPF and the annual Programme for Government in collaboration with SG and other public bodies;
- b. regularly scrutinising current and projected performance against the aims, objectives and targets set out in HIE's corporate plans and taking decisions on remedial action where required;
- c. ensuring that decision-taking is open and transparent and that effective arrangements are in place to provide assurance on governance, internal control and risk management. The Board must set up an Audit Committee, chaired by a non-executive member, to provide independent advice and assurance on the effectiveness of the internal control and risk management systems;
- d. approving the annual report and accounts (through its Audit Committee or equivalent) and ensuring these are provided to the Scottish Ministers to be laid before the Scottish Parliament;
- e. promoting the efficient, economic and effective use of staff and other resources consistent with the principles of [Best Value](#), including participation in shared services where appropriate;
- f. regularly scrutinising financial performance and compliance with financial guidance issued by SG;
- g. appointing, with the approval of the Scottish Ministers, HIE's Chief Executive and ensuring that the Chief Executive's objectives give due weight to the proper management and use of resources and the delivery of outcomes;

h. promoting the wellbeing, learning and development of staff, providing support and challenge to the Chief Executive on staffing matters and ensuring that HIE meets its staff management responsibilities as described in sections 35 - 42 below.

14. Specific guidance on how the Chair and Board members should discharge their duties is provided in their appointment letters and in [On Board – A Guide for Members of Statutory Boards](#). Individual Board members should at all times comply with the Code of Conduct adopted by HIE and with the rules relating to use of public funds and conflicts of interest.

15. Guidance on governance good practice is available in the [Scottish Public Finance Manual](#) (SPFM) and from the Sponsor Team, who may consult SG's Governance and Risk Team. A list of key aspects of governance to consider is included in the section on Governance and Risk below.

The Chair

16. In leading the HIE Board, the Chair must ensure that:

- a. all Board members receive suitable induction training so that they fully understand the role and their responsibilities;
- b. the skills and experience of all Board members are used effectively and the Board undertakes regular self-assessment of its performance and reviews its effectiveness annually;
- c. the performance of each Board member is reviewed at least once a year and the Board and/or individual Board members undertake development activity when required to ensure the effectiveness of the Board;
- d. a Code of Conduct (aligned to the Model Code of Conduct for Board Members) is in place, corporate actions are taken to implement it as required, and members understand their responsibilities, using the guidance provided by the Standards Commission;
- e. work is taken forward with the Portfolio Accountable Officer or their delegate(s) and SG's Public Appointments Team on succession planning for the Board, action necessary to fill vacancies as they arise, skills requirements and promoting diversity by encouraging applications from less represented groups, including younger people, people from minority ethnic backgrounds and people with disabilities.

17. The Chair, in consultation with the Board as a whole, is also responsible for undertaking an annual performance appraisal of the Chief Executive.

The Chief Executive

18. HIE's Chief Executive is employed and appointed by the Board, with the approval of the Scottish Ministers, and is the principal adviser to the Board on the discharge of its functions. The Chief Executive's role is to provide operational leadership to HIE's staff and ensure that its aims and objectives are met, its functions are delivered and its targets are achieved through effective and properly controlled executive action.

19. The Chief Executive's job description sets out specific duties; annual objectives will be agreed with the Chair and used to appraise the Chief Executive's performance. In addition to any other specific duties, the Chief Executive will:

- a. advise the Board on the discharge of its responsibilities - as set out in this Framework Document, in HIE's legislation and in any other relevant instructions and guidance issued by or on behalf of the Scottish Ministers;
- b. implement or oversee implementation of the decisions of the Board;
- c. work with the Board on preparation of HIE's corporate plan, including liaising with the Senior Sponsor and/or Sponsor Team on key points which need to be addressed and the timetable for preparation and review, and work with the Board to ensure that business plans are put in place to meet the corporate plan aims, objectives and performance measures;
- d. lead and manage HIE's staff, ensuring their wellbeing, learning and development are prioritised, and ensuring that staff management responsibilities set out in sections 35 - 42 below are addressed;
- e. manage HIE's budget in line with Scottish Government Finance guidance, policies and procedures, including the SPFM, and advise the Board on the financial implications of all Board decisions, ensuring that appropriate financial appraisal and evaluation techniques are followed (see the [Appraisal and Evaluation](#) section of the SPFM);
- f. agree with the Board and the Portfolio AO or Senior Sponsor what information is required to enable the Board and SG to scrutinise HIE's performance and progress against overall strategic and business plan aims and objectives, and ensure that the agreed information is provided and that is both accurate and timely;
- g. manage the day-to-day relationship with the Senior Sponsor and/or Sponsor Team, with other SG officials who have an interest in HIE's work and other key stakeholders, including staff of other public bodies.

20. In advising the Board, the Chief Executive will ensure that the key governance issues highlighted in the section on Governance and Risk below are addressed.

The Accountable Officer

21. The Principal Accountable Officer for the Scottish Administration (the Permanent Secretary) will designate the Chief Executive as the Accountable Officer for HIE. The Accountable Officer is personally responsible for the propriety and regularity of HIE's public finances ensuring that its resources are used economically, efficiently and effectively, as required by section 15 of the Public Finance and Accountability (Scotland) Act 2000 and may be called to give evidence to the Public Audit Committee of the Scottish Parliament. The responsibilities of the Accountable Officer are set out in full in the [Memorandum to Accountable Officers for Other Public Bodies](#) in the SPFM.

22. Under section 15(8) of the above Act, if the Accountable Officer considers that any action they are required to take is not consistent with their Accountable Officer responsibilities, they must obtain written authority from the Board and send a copy of the written authority to the Auditor General for Scotland and Clerk of the Public Audit Committee as soon as possible. The Accountable Officer should consult the Portfolio Accountable Officer before seeking written authority from the Board in these circumstances and should always notify the Portfolio Accountable Officer when such a written authority has been issued. It is important that the Chair and Board members are aware of this statutory requirement.

The Scottish Ministers

23. The Scottish Ministers appoint HIE's Chair and Board members and hold the Board to account for HIE's performance and its use of resources. They are ultimately accountable to the Scottish Parliament for ensuring that the Board is discharging its duties effectively, although the Parliament will scrutinise HIE's performance directly as it does with all public sector bodies.

24. Their responsibilities include:

- a. agreeing HIE's strategic aims, objectives and key targets as part of the corporate planning process;
- b. agreeing HIE's budget and securing the necessary Parliamentary approval;
- c. approving the Code of Conduct of HIE's Board;
- d. approving HIE's pay remit;
- e. laying HIE's accounts before the Scottish Parliament; and
- f. carrying out other responsibilities as specified in the Act, such as approving the terms and conditions of the Chair and Board members and the appointment and terms and conditions of the Chief Executive.

25. The Scottish Ministers are not directly responsible for HIE's day to day operational activity.

SG Portfolio Accountable Officer

26. The Principal Accountable Officer for the Scottish Administration has designated the Director-General for Economy as the Portfolio Accountable Officer for the SG portfolio budget which will provide funding for HIE.

27. The Portfolio Accountable Officer's duties are to establish a framework for the relationship between SG and a public body, oversee the operation of that framework, ensure that public appointments to the body are made appropriately and that appropriate assurance is provided on the performance and governance of the body. In practice, the Portfolio Accountable Officer is likely to delegate some or all of these sponsorship duties to a Director as Senior Sponsor and/or to other SG officials in the Sponsor Team. The responsibilities of a Portfolio Accountable Officer are set out in detail in the [Memorandum to Accountable Officers for Parts of the Scottish Administration](#).

28. The Portfolio Accountable Officer will:

- a. make sure the framework document is agreed between the Scottish Ministers and HIE's Board and is reviewed regularly, and oversee the operation of the roles and responsibilities set out;
- b. ensure that financial and other management controls being applied by HIE are appropriate and sufficient to safeguard public funds and conform to the requirements both of propriety and of good financial management;
- c. in line with [Code of Practice for Ministerial Appointments](#), ensure that public appointments are made in good time and secure appropriate skills, experience and diversity amongst Board members, working with the Chair on succession planning; that there is effective induction for new appointees; and that there is regular review and a formal annual appraisal of the performance of the Chair;

- d. support regular and effective engagement between HIE and the relevant Scottish Minister(s); and
- e. make sure there is clear, documented delegation of responsibilities to a Senior Sponsor and/or Sponsor Team and that HIE's Board and senior officials are aware of these delegated responsibilities.

29. The Portfolio Accountable Officer remains personally answerable to the Scottish Parliament for the effectiveness of sponsorship activity.

Relationship between the Scottish Government and Highlands and Islands Enterprise

30. Strategic engagement between the SG and HIE is essential in order that they work together as effectively as possible to maintain and improve public services and deliver improved outcomes. Both the SG and HIE will take all necessary steps to ensure that their relationship is developed and supported in line with the principles set out in the statement on [Strategic Engagement between the Scottish Government and Scotland's NDPBs](#). This emphasises the need for cooperation and good communication, and particularly early warning from either side about any emerging risk or issue with significant implications for the operation or governance of HIE.

31. The responsible Cabinet Secretary/Scottish Minister will meet HIE's Chair and Board formally, at least once a year, to discuss HIE's performance, its current and future activities and any policy developments relevant to those activities. Regular strategic engagement meetings between the responsible Cabinet Secretary/Scottish Minister and HIE's Chair and Chief Executive will also be scheduled. The Portfolio AO and Senior Sponsor will also meet regularly with HIE's Chair and Chief Executive.

32. To strengthen strategic engagement with the Board, the Senior Sponsor or a representative may attend any or all meetings of the Board and its Board Committees in an observer capacity. Attendance in an observer capacity does not amount to SG input to, agreement with or sign-off of any decisions of the Board. This arrangement will be kept under review by the Chair and Senior Sponsor. The Sponsor Team will receive all Board and Committee papers and minutes of Board and Board Committee meetings.

The Senior Sponsor and Sponsor Team

33. The Portfolio Accountable Officer has designated the Director for Economic Development as Senior Sponsor with responsibility for overseeing and ensuring effective relationships between the SG and HIE. The Senior Sponsor will work closely with HIE's Chief Executive and be answerable to the Portfolio Accountable Officer for developing and maintaining positive relationships with HIE that are characterised by openness, trust, respect and mutual support. The Senior Sponsor will be supported by the Deputy Director and Sponsor Team in discharging these functions.

34. The Sponsor Team's primary function is to carry out the responsibilities delegated to it by the Portfolio Accountable Officer, directly or via the Senior Sponsor. The Sponsor Team provides advice, help and support to HIE and is the primary source of advice to the Scottish Ministers on the discharge of their responsibilities in respect of HIE. It is the main, but not exclusive, point of contact between HIE and SG.

35. The Sponsor Team will:
- a. in line with the principles set out in the statement on [Strategic Engagement between the Scottish Government and Scotland's NDPBs](#), ensure that sponsorship is suitably flexible, proportionate and responsive to the needs of the Scottish Ministers and HIE;
 - b. ensure that key actions and decisions agreed are documented and implemented;
 - c. ensure proportionate monitoring of HIE's activities through an adequate and timely flow of appropriate information, agreed with HIE, on performance, budgeting, control and risk management;
 - d. address any significant problems arising in HIE or any subsidiaries and corporate joint ventures owned or controlled by HIE, alerting the Portfolio Accountable Officer and the responsible Minister(s) where considered appropriate;
 - e. ensure that HIE's objectives and the risks to them are properly and appropriately taken into account in SG's risk assessment and management systems;
 - f. ensure that appointments to HIE's Board are made in good time and in line with [Code of Practice for Ministerial Appointments](#); and
 - g. inform HIE of relevant SG policy in a timely manner and facilitate its participation in SG strategy development, where appropriate.

Business resilience risks

36. HIE and SG's Strategic Commercial Assets Division (SCAD) shall:
- a. work collaboratively to share information on and respond to business resilience risks and company issues; and
 - b. regularly engage on briefings for Ministerial engagements and announcements.

HIE staff management responsibilities

Broad responsibilities for HIE staff

37. The Chief Executive, challenged and supported by the Board, has responsibility for the recruitment, retention, motivation and development of HIE's staff and for adopting Fair Work First principles within the organisation. The broad responsibilities toward staff are to ensure that:
- HR policies, practices and systems comply with employment and equalities legislation, and standards expected of public sector employers;
 - the level and structure of staffing, including grading and staff numbers, are appropriate to its functions and the requirements of economy, efficiency and effectiveness (subject to the SG [Pay Policy for Staff Pay Remits](#));
 - the performance of staff at all levels is regularly appraised and performance management systems are reviewed from time to time;
 - staff are encouraged to acquire the appropriate professional, management and other expertise necessary to achieve HIE's objectives;
 - proper consultation with staff takes place on key issues affecting them, as appropriate, including working in partnership with trade unions;
 - effective grievance and disciplinary procedures are in place and staff know where to access and how to use them;
 - effective whistle-blowing policy and procedures consistent with the Public Interest Disclosure Act 1998 are in place and staff know where to access and how to use them; and
 - a code of conduct for staff is in place.

Staff costs

38. HIE is responsible for determining the number of staff required and the most appropriate organisational structure to deliver its remit economically, efficiently and effectively within the resources available to it. However, any significant changes in staff numbers or the organisational structure must be approved in advance by the Senior Sponsor.

Pay and conditions of service

39. HIE will comply with SG Pay Policy in relation to staff and the Chief Executive. The Chief Executive will ensure that a pay remit, in line with the SG [Pay Policy for Staff Pay Remits](#), is submitted to the SG for approval in line with the timetable notified and negotiate a pay settlement within the terms of the approved remit. This should normally be done annually, unless a multi-year deal has been agreed. Payment of salaries should also comply with the [Tax Planning and Tax Avoidance](#) section of the SPFM. Proposals on non-salary rewards will comply with the guidance in the [Non-Salary Rewards](#) section of the SPFM.

40. HIE will also seek appropriate approval under the SG [Pay Policy for Senior Appointments](#) for the Chief Executive's remuneration package prior to appointment, annually or when a new appointment or change to the remuneration package is being proposed.

41. Subsidiaries and corporate joint ventures, whilst not directly subject to SG pay policy, should take cognisance of the policy in applying pay increases. In all cases, subsidiaries and corporate joint ventures should ensure they pay the real Living Wage as a minimum.

Pensions, redundancy and compensation

42. Superannuation arrangements for HIE staff are subject to the approval of the Scottish Ministers. HIE staff will normally be eligible for a pension provided by HIE's own scheme. Staff may opt out of the occupational pension scheme provided by HIE, but the employer's contribution to any personal pension arrangement, including stakeholder pension, will normally be limited to the national insurance rebate level. Subsidiary companies and corporate joint ventures may operate separate pension arrangements for their employees.

43. Any proposal by HIE to move from existing pension arrangements, or to pay any redundancy or compensation for loss of office, requires the prior approval of the Scottish Ministers. Proposals on compensation payments must comply with the [Settlement Agreements, Severance, Early Retirement and Redundancy Terms](#) section of the SPFM. This includes referral to the Scottish Ministers of any proposed severance scheme (for example, a scheme for voluntary exit), business case for a settlement agreement being considered for an individual, or proposal to make any other compensation payment. In all instances, a body should engage with the Sponsor Team prior to proceeding with proposed severance options, and prior to making any offer either orally or in writing.

Remuneration etc. paid to the Chair and Board members

44. Remuneration, allowances and any expenses paid to the Chair and Board members must comply with the latest SG [Pay Policy for Senior Appointments](#) and any specific guidance on such matters issued by the Scottish Ministers.

Corporate and business plans

45. HIE will prepare a draft corporate plan (its 'strategy') setting out its strategic aims, objectives and targets over the period of the strategy, for consideration by the Scottish Ministers. When a new strategy is to be prepared, HIE will liaise with the Sponsor Team to agree the key points to be addressed and the timetable for preparation and review. The final, agreed version of the strategy will be published on HIE's website.

46. HIE's strategy will include:

- its purpose and principal aims;
- its contribution to the achievement of NSET, the NPF and the annual Programme for Government in collaboration with the SG and other public bodies;
- analysis of the environment in which HIE operates;
- key objectives and associated key performance targets for the period of the strategy, and the strategy for achieving those objectives;
- information on how HIE proposes to collaborate with others, locally, regionally, nationally and internationally to support delivery of its key objectives;
- indicators against which its performance can be judged;
- indicative budgets and details of planned efficiencies, describing how better value for money will be achieved, including through collaboration and use of shared services; and
- other key points agreed with the Sponsor Team.

47. The strategy will inform the development of a separate, annual business plan for each financial year. The annual business plan will include key targets and milestones for the year immediately ahead, aligned to NSET and the NPF. It will also include budgeting information so that, where possible, resources allocated to achieve specific objectives can be identified. A copy of the business plan will be provided to the Sponsor Team as soon as possible at the start of the relevant financial year.

Performance management

48. HIE will operate management information and accounting systems that enable it to review, in a timely and effective manner, its financial and non-financial performance against the strategic aims, objectives, targets and milestones set out in its strategy and annual business plan. The results of such reviews should be reported on a regular basis to HIE's Board.

49. HIE will take the initiative in informing the Senior Sponsor of changes in external conditions which make the achievement of its strategic aims, objectives, targets and milestones more or less difficult, or which may require a change to how these are expressed in its strategy or business plan and the relevant budgets.

50. HIE's performance in helping to deliver the Scottish Ministers' policies will be reported to the Sponsor Team on a regular basis. Reporting will cover both HIE's direct contribution and

the effectiveness of its work with partners at local, regional, national and international levels. The performance measures set by HIE should show clear links to NSET and to the outcomes in the NPF. Performance will be formally reviewed twice yearly by the Senior Sponsor. The responsible Cabinet Secretary/Scottish Minister will meet HIE's Chair and Board formally, at least once a year, to discuss HIE's performance, its current and future activities and any policy developments relevant to those activities.

Annual report and accounts

51. HIE will publish an annual report of its activities together with its audited accounts after the end of each financial year. The annual report will cover the activities of any corporate, subsidiary or corporate joint ventures under the control of HIE. It will comply with the Government [Financial Reporting Manual](#) (FReM) and outline HIE's main activities and performance against agreed objectives and targets for the previous financial year. It is the responsibility of the Chief Executive, as Accountable Officer, to sign the accounts.

52. The accounts will be prepared in accordance with relevant statutes and the specific accounts direction and other relevant guidance issued by the Scottish Ministers. Any financial objectives or targets set by Scottish Ministers should be reported on in the accounts and will, therefore, be within the scope of the audit. Any subsidiary or corporate joint venture owned or controlled by HIE will be consolidated in its accounts in accordance with International Financial Reporting Standards (IFRS) as adapted and interpreted for the public sector context.

53. The Sponsor Team should receive a copy of the draft annual report for comment, and a copy of the draft accounts for information, by the end of July or if not possible, as soon as they are available. Whilst the statutory deadline for laying and publishing accounts audited by the Auditor General for Scotland (AGS) is 31 December after the end of the relevant financial year, the Scottish Ministers expect that accounts will be laid before the Scottish Parliament and published as early as possible. The final version should, if possible, be made available for laying before the Scottish Parliament by Scottish Ministers by end of August, in accordance with the commitment made to the Economy and Fair Work Committee. The accounts must not be laid before they have been formally sent by the AGS to the SG and must not be published before they have been laid. HIE is responsible for publication of the annual report and accounts on its website.

External audit

54. The AGS audits, or appoints auditors to audit, HIE's annual accounts and passes them to the Scottish Ministers who then lay them before the Scottish Parliament, together with the auditor's report and any report prepared by the AGS. The AGS, or examiners appointed by the AGS, may also carry out examinations into the economy, efficiency and effectiveness with which HIE has used its resources in discharging its functions and/or carry out examinations into the arrangements made by HIE to secure Best Value.

55. The AGS, or the AGS's appointed auditors or examiners, have a statutory right of access to documents and information held by relevant persons, including any contractors to or recipients of grants from HIE. HIE will ensure that this right of access to documents and information is made clear in the terms of any contracts issued or conditions of any grants awarded where government funding is being used, and will use its best endeavours to secure access to any other information or documents required which are held by other bodies.

Internal audit

56. HIE will:

- establish and maintain arrangements for internal audit in accordance with the [Public Sector Internal Audit Standards](#) and the [Internal Audit](#) section of the SPFM;
- set up an Audit Committee of its Board (or equivalent), in accordance with the [Audit Committees](#) section of the SPFM, to advise both the Board and the Chief Executive as HIE's Accountable Officer;
- ensure that the Sponsor Team and the Portfolio AO/Senior Sponsor receive promptly after they are produced or updated: the audit charter, strategy, periodic audit plans and annual audit assurance report, including HIE's Head of Internal Audit's opinion on risk management, control and governance – and provide any other relevant audit reports as requested by the Sponsor Team;
- keep records of, and prepare and forward promptly to the SG an annual report on fraud and theft suffered by HIE and notify the Portfolio AO or Senior Sponsor immediately of any unusual or major incidents.

57. SG's Internal Audit and Assurance Directorate has an expectation of cooperation and access to relevant material when required, the parameters for which would be set out in an engagement document before information was shared. HIE should make it clear in its own Privacy Notice that material may be shared with SG's Internal Audit and Assurance Directorate in certain circumstances.

European audit

58. Ultimate responsibility for the oversight and scrutiny of funds provided to HIE by the European Commission rests with the Commission's auditors and with the European Court of Auditors. European auditors should therefore always be permitted access to the books of accounts and records of HIE and its subsidiaries in relation to historic and legacy EU income.

59. HIE's internal audit service will review the effectiveness of the management and control systems in place internally, to ensure compliance with EC regulatory requirements and provide access to external auditors as required. Information on 'matters relating to the audit of accounts' can be found in the [EU Funding](#) section of the SPFM.

Budget management

60. Each year, the Sponsor Team will send HIE a Budget Allocation and Monitoring letter, notifying HIE of the budget provision, any related matters, and details of the budget monitoring information required. HIE will comply with the format and timing of the monitoring information requested and with any requests for further information.

61. The Budget Allocation and Monitoring letter will set out the budget within the classifications of Resource Departmental Expenditure Limits (RDEL), Capital DEL (CDEL), Ring-fenced (non-cash) (RfDEL) and Financial Transactions (FT). These categories are explained in [Annual Budget Processing](#) in the SPFM, and HIE will not transfer budgetary provision between the categories without the prior approval of SG's Finance Directorate, which should be sought via the Sponsor Team. Transfers within the categories are at the discretion

of the Board or, subject to delegated authority, the Chief Executive or relevant senior manager, if these do not breach any other constraints, for instance the approved pay remit.

62. The Scottish Ministers may also make adjustments to HIE's budget provision during the course of the financial year. This will normally take place as part of the Autumn or Spring Budget Revisions. The timetable for the Budget Revision processes will be confirmed by the Sponsor Team as soon as practicable after the start of each financial year. HIE will be formally advised of such adjustments.

63. As part of SG's normal budgetary cycle, HIE will be required to submit an assessment of its requirement for Annually Managed Expenditure (AME) on an annual basis. This will form part of SG's overall submission in respect of AME. The deadline for submission is normally November, but this may be subject to change. SG should also be advised in the event that estimated net expenditure is forecast to be lower than budget provision.

64. HIE will ensure that SG's Finance Directorate and Sponsor Team are made aware promptly of any material changes in forecast income - usually via the monthly budget monitoring statement. The Scottish Ministers' expectation is that any shortfall in income will be offset by a matching reduction in gross expenditure, and prior approval from SG's Finance Directorate and the Sponsor Team must be sought for any alternative arrangement. Similarly, if income is higher than originally projected, this may only be used for additional spending or to meet pressures with the prior approval of SG's Finance Directorate and Sponsor Team. Failure to obtain prior approval for the use of excess income to fund additional expenditure may result in corresponding reductions in budgets for the following financial year. Prior approval is not required for the use of income from gifts, bequests and donations. However, this must be spent within the same financial year as the receipt unless agreement is received through the Sponsor Team.

Banking and cash management

65. The banking arrangements adopted by HIE must comply with the [Banking](#) section of the SPFM, except where it is agreed there are overriding commercial reasons.

66. Any [grant in aid](#) (i.e. the cash provided to HIE by the SG to support the allocated budget) for the year in question will be authorised by the Scottish Parliament in the annual Budget Act. HIE will normally receive monthly instalments based on updated profiles and information on unrestricted cash reserves and will not seek any payment in advance of need. HIE will keep its unrestricted cash reserves held during the year to the minimum level needed for its efficient operation and to meet any relevant liabilities at the year-end. Grant in aid not drawn down by the end of the financial year will lapse. HIE will not pay grant in aid into any restricted reserve it holds.

67. At the same time, it is noted that HIE holds funds in a separate account for particular designated purposes. These are specific ring-fenced funds for specific designated initiatives which should not be mixed with grant in aid.

Asset and property management

68. HIE should maintain an accurate and up-to-date record of its current and non-current assets consistent with the [Property: Acquisition, Disposal & Management](#) section of the SPFM.

69. Where HIE holds property for accommodation/operational purposes (rather than for investment), it is also subject to the [SG Asset Management Policy](#). This requires the acquisition of a new lease, continuation of an existing lease, decision not to exercise a break option in a lease or purchase of property to be approved in advance by the Scottish Ministers. SG's Property Controls Team should be consulted as early as possible in this process.

70. Assets should be recorded on the balance sheet at the appropriate valuation basis in accordance with the FReM. When an asset (including any investment) suffers impairment, when there is significant movement in existing provisions and/or where a new provision needs to be created, this should be communicated to the Sponsor Team and the SG Finance Directorate as soon as possible to determine the implications for HIE's budget.

71. HIE should take suitable and proportionate steps to safeguard its financial interests when giving funds to others to acquire or develop assets. HIE should adhere to the guidance in the [Clawback](#) section of the SPFM in setting conditions on such funding.

Governance and risk

72. Guidance on governance requirements is available in several documents referred to earlier in this framework document:

- [the Scottish Public Finance Manual](#) (SPFM);
- [the Audit and Assurance Committee Handbook](#); and
- [On Board – A Guide for Members of Statutory Boards](#).

73. If in any doubt about a governance issue, the Chair or Chief Executive should consult the Senior Sponsor or Sponsor Team in the first instance, and sponsors may in turn consult SG's Public Bodies Unit, SG's Governance and Risk Branch and/or other teams with relevant expertise.

74. The Board and Chief Executive are advised to pay particular attention to guidance on the following issues.

Risk management

75. HIE must develop an approach to risk management consistent with the [Risk Management](#) section of the SPFM and establish reporting and escalation arrangements with the Portfolio AO or Senior Sponsor. Reporting arrangements should ensure that the Sponsor Team is made aware of relevant risks and how they are being managed. Risks will be formally reviewed twice yearly by the Senior Sponsor.

76. The Board should have a clear understanding of the key risks, threats and hazards it may face in the personnel, accommodation and cyber domains, and take action to ensure appropriate organisational resilience, in line with the guidance in: [Having and Promoting Business Resilience | Ready Scotland](#) (part of the Preparing Scotland suite of guidance) and [Cyber Resilient Scotland: strategic framework](#). HIE's Risk and Assurance Committee is also required, at the earliest opportunity, to notify the Senior Sponsor if it considers that it has identified a significant problem which may have wider implications and should be included on the Directorate for Economic Development Risk Register and escalated to the DG Economy Risk Register.

77. In addition, HIE should take risk-based and proportionate steps to appraise the financial standing of any supplier or other body with which it intends to enter into a contract or to provide funding.

Internal control

78. The Board should establish clear internal delegated authorities with the Chief Executive, who may in turn delegate responsibilities to other members of staff and establish an assurance framework consistent with the [internal control framework](#) in the SPFM.

79. HIE should adopt and implement counter-fraud policies and practices to safeguard itself against fraud and theft in accordance with the [Fraud](#) section of the SPFM. Application of these processes must be monitored actively, supported by a fraud action plan and robust reporting arrangements. This includes the establishment of avenues to report any suspicions of fraud.

80. Any major¹ investment programmes or projects undertaken should be subject to the guidance in the [Major Investment Projects](#) section of the SPFM. The Sponsor Team must be kept informed of progress on such programmes and projects and Ministers must be alerted to any developments that could undermine their viability. ICT investment plans must be reported to SG's Office of the Chief Information Officer.

81. Any proposal to undertake a major investment programme or project above £5m must be notified in advance to SG, before HIE's Chief Executive submits the proposal to HIE's Board for approval.

82. HIE must comply with the requirements of the Freedom of Information (Scotland) Act 2002 and ensure that information is provided to members of the public in a spirit of openness and transparency. HIE must also register with [Information Commissioners Office](#) and ensure that it complies with the Data Protection Act 2018 and the General Data Protection Regulations, commonly known as GDPR.

83. SG's Public Bodies Support Unit has produced a register of reporting requirements for public bodies to help them ensure compliance with certain legislative asks. Copies of the register can be obtained via the [PBSU mailbox](#).

Specific financial provisions

The SPFM provides guidance on the proper handling and reporting of public funds. It sets out the relevant statutory, Parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

¹ Major investment programmes or projects are those with a total budget of £5m+ inclusive of fees and VAT. However, it is recognised that there are circumstances where a project's total budget is more than £5m, but the project is being led by a 'Project Partner'. In those circumstances, provided HIE's contribution is below the £5m threshold, the guidance in the SPFM on consultation with the SG does not apply. However, all other relevant guidance in the SPFM will continue to apply.

Many of the provisions included in this section - and other sections - of the framework document highlight specific requirements in the SPFM that are considered of particular relevance to HIE. It should be noted, however, that guidance in the SPFM should always be considered in its entirety as and when relevant issues arise.

Delegated authorities

84. HIE's specific delegated financial authorities - as agreed in consultation between the Board and SG - are set out in **Annex A**. HIE will obtain prior written approval from the Sponsor Team and SG's Finance Directorate before entering into any undertaking to incur any expenditure that falls outside these specific delegations. HIE will also comply with any requirements for prior SG approval included in the SPFM and/or this document.

85. Prior SG approval must always be obtained before:

- incurring expenditure for any purpose that is or might be considered novel or contentious² or repercussive and which has, or could have, future cost implications; or
- making any significant change in the scale of operation or funding of any initiative or particular scheme previously approved by SG under the terms of this framework document.

86. HIE should consult the Sponsor Team on the need for prior SG approval at an early stage. Where SG approval is required, HIE should forward information to SG setting out the purpose of the expenditure and detailing the proposed expenditure, value for money considerations and HIE approval process and timescales, allowing sufficient time for SG consideration. Provision of Board papers in advance of decisions being made is considered appropriate communication of proposals, provided sufficient time is built in for SG consideration.

Capital expenditure

87. Proposals for large-scale individual capital projects or acquisitions will normally be considered within HIE's corporate planning process and within the context of its long-term estate strategy/asset management plan. Any such project will be subject to the guidance in the [Major Investment Projects](#) section of the SPFM and, where appropriate, the [Construction Procurement Handbook](#).

Income generation

88. HIE will seek to optimise income (not including grant in aid) from all sources, provided that this is consistent with HIE's main functions and its strategy as agreed by the Scottish Ministers, and ensure that SG is kept informed. Novel or contentious proposals for new sources of income or methods of fundraising must be approved by the Sponsor Team and SG's Finance Directorate. Fees or charges for any services supplied by HIE must be determined in accordance with the [Fees & Charges](#) section of the SPFM.

² Novel projects include proposed expenditure or financial arrangements of a sort not previously undertaken or entered into or that could not be considered, reasonably, to be standard practice. Contentious projects include proposed expenditure or financial arrangements where there is doubt as to regularity i.e. compliance with relevant legislation, guidance or propriety. Proposed expenditure or financial arrangements that might be considered to be politically sensitive would also be regarded as contentious. Information on 'novel or contentious projects' can be found in the [Delegated Authority](#) section of the SPFM.

89. HIE should seek to optimise its receipts and so should keep all activities under regular review with the aim of identifying surplus assets. The treatment of income receivable and receipts should be in accordance with the guidance in the [Income Receivable and Receipts](#) section of the SPFM.

90. During the financial year any excess receipts identified may be deducted from the next grant in aid drawdown request. However, allowance may be made for income for specific ring-fenced projects with specific approval from the SG.

91. Interest earned by HIE on cash balances may be recycled subject to it being included in the approved budget and the overall requirements of section 61.

92. Gifts, bequests or donations received by HIE score as income and should be provided for in the agreed resource DEL and capital DEL budgets, but should not fund activities or assets normally covered by SG grant in aid, trading or fee income. HIE must consider any conflicts of interest in line with the principles in the [Gifts](#) section of the SPFM. HIE must keep a record of any gifts, bequests or donations and what has happened to them. Note that this relates to gifts to HIE - gifts to individuals are covered in the Model Code of Conduct.

Financial investments

93. HIE will not aim to build up cash balances or net assets in excess of what is required for reasonable working capital processes.

94. Section 8(1)(b) of the Act gives HIE the power to acquire, hold and dispose of securities, as part of its normal course of business. HIE's authority to make such investments is limited in the following ways.

95. HIE must not enter into any investment that would result in effective control by the public sector and/or require an element of consolidation without prior approval of the Scottish Ministers. Any investment activity that would result in the creation of a new body classed to the public sector requires prior and explicit approval by the SG.

96. In addition, HIE must not acquire share capital which would take the cost of its total investment beyond £3.5m without prior approval of the Scottish Ministers. This limit applies cumulatively to all investment by HIE (whether equity or loan) in an individual entity and the investment value relates to original cost.

97. As set out in section 85, HIE must not incur expenditure for any purpose that is or might be considered novel or contentious or repercussive and which has, or could have, significant future cost implications without prior approval of the Scottish Ministers.

98. HIE must keep its equity holdings under regular review with the objective of assessing suitability for disposal of holdings in line with the principles of the SPFM, including value for money.

Unconventional financing

99. Unless otherwise agreed with the Sponsor Team and the SG Finance Directorate, HIE will not enter into any unconventional financing arrangement if outwith its normal lending and investment.

Subsidy control

100. Any activity that HIE undertakes itself, or funds other bodies to undertake, that can be offered on a commercial market for goods and services, is subject to the regulations set out in the Subsidy Control Act 2022. A full assessment is required prior to disbursing any funding, subject to the guidance in the [subsidy control](#) section of the SPFM.

Borrowing

101. Section 26(3) of the Act enables HIE, with the consent of the Scottish Ministers, to borrow money for the purpose of exercising its functions or powers. The Act specifies that in any financial year the net amount borrowed must not exceed the amount specified for that year by Budget Act, and that no security shall be constituted over land owned by HIE.

102. There is a presumption that all borrowing by HIE - excluding agreed overdrafts - should be from the Scottish Ministers in accordance with guidance in the [Borrowing, Lending & Investment](#) section of the SPFM.

Subsidiary companies and corporate joint ventures

103. In planning and implementing any project or programme (including participation in corporate joint ventures), HIE must ensure that:

- activities are within HIE's statutory remit and its delegated powers;
- projects and programmes do not cut across SG policy - HIE should refer to the Sponsor Team for guidance in cases where there is any doubt;
- in developing new programmes, it consults the relevant SG Directorate that has a policy interest and is involved in complementary activity.

104. In judging such proposals, the Sponsor Team will have regard to the Scottish Ministers' wider strategic aims and objectives.

105. Any subsidiary company or corporate joint venture controlled or owned by HIE must be consolidated with it in accordance with IFRS as adapted and interpreted for the public sector context (subject to any particular treatment required by IFRS). Unless specifically agreed with the Sponsor Team, such subsidiary companies or corporate joint ventures will be subject to the controls and requirements set out in this document.

106. HIE will produce accounts that show a "true and fair" view and comply with the relevant accounting guidance in the FReM.

107. Where HIE has formed a subsidiary body, the accounts direction - where appropriate - will make clear that consolidated accounts are to be prepared in accordance with IFRS as adapted for the public sector. HIE must also comply with any additional or specific requirements set out in the framework document.

108. Further information can be found in the [Annual Accounts](#) section of the SPFM.

Tax arrangements

109. Non-standard tax management arrangements should always be regarded as novel and/or contentious and must therefore be approved in advance by the Portfolio AO and the SG Finance Directorate. Relevant guidance is provided in the [Tax Planning and Tax Avoidance](#) section of the SPFM. HIE must comply with all relevant rules on taxation, including VAT, and recover input tax where it is entitled to do so. The implications of VAT in relation to procurement and shared services should be considered at an early stage to ensure that financial efficiency is achieved. HIE must also ensure that it accounts properly for any output tax on sales or disposals. All individuals who would qualify as employees for tax purposes should be paid through the payroll system with tax deducted at source. HIE has authority to appoint external tax advisers for general tax and compliance advice.

Settlement, severance, early retirement and redundancy

110. HIE will seek to deliver and demonstrate robust governance processes, best practice and value for money when developing and implementing a severance scheme or when developing a settlement agreement, in compliance with current policy, observing all policy limits as set out in the [Settlement, severance, early retirement, redundancy section](#) of the SPFM.

Lending and guarantees

111. HIE is able to lend money, charge an asset, give a guarantee or indemnity or letter of comfort, and incur any other contingent liability (as defined in the [Contingent Liabilities](#) section of the SPFM) as part of its normal course of business. Any such activity that falls outwith HIE's normal course of business requires the prior approval of the Scottish Ministers.

112. The [Contingent Liabilities](#) section of the SPFM sets out the circumstances in which the prior approval of the Parliament must be secured before HIE enters into any specific guarantee, indemnity or letter or statement of comfort. It also sets out the circumstances in which contingent liabilities must be notified to the Parliament's Finance and Constitution Committee.

Third party grants or loans

113. Section 8(1)(a) of the Act gives HIE the power to make grants or loans to a third party, whether one-off or under a scheme, as part of its normal course of business. HIE's authority to make grants or loans is limited in the following ways.

114. As set out in section 81, HIE must not incur expenditure for any purpose that is or might be considered novel or contentious or repercussive and which has, or could have, significant future cost implications without prior approval of the Scottish Ministers.

115. HIE must not make a loan which would take the cost of its total investment beyond £3.5m without prior approval of the Scottish Ministers. This limit applies cumulatively to all investment by HIE (whether loan or equity) in an individual entity and the investment value relates to original cost.

116. Any lending by HIE must be in line with the guidance in the Borrowing, Lending & Investment section of the SPFM.

117. Guidance on a framework for the control of third party grants is provided as an annex to the Grant & Grant in Aid section of the SPFM. Such funding will also be subject to the guidance in the Subsidy Control section of the SPFM.

Impairments, provisions and write-offs

118. Assets should be recorded on the balance sheet at the appropriate valuation basis in accordance with the FReM. Where an asset - and that includes investments - suffers material impairment it is important that the prospective impairment and background is notified to the SG to determine the implications for HIE's budget. Similarly any significant movement in existing provisions or the creation of new provisions should be notified to SG. HIE should notify SG at the earliest opportunity, at monthly finance meetings and through monthly monitoring processes. Write off of bad debt and/or losses must be treated in accordance with latest budget guidance. It is noted that impairments and write-offs are primarily due to business failure and therefore not wholly within HIE's control.

119. HIE has delegated authority to write off the original cost of equity investments, bad debt and/or waive/abandon claims for sums due to it where the debtor company/entity has been dissolved, liquidated, or otherwise entered into formal insolvency proceedings (including administration or similar) and where there is no reasonable prospect of recovery. Where such a write-off is less than £250,000, there is no requirement to notify SG. Where such a write-off is more than £250,000, HIE should notify SG by providing full details to the sponsor Directorate.

120. In all other cases (including those cases where the urgent approval of write-off is likely to have a bearing upon a company's survival - usually as part of a rescue/re-financing package), there is no requirement to notify SG where a write-off is less than £250,000. Write-offs in excess of £250,000 require SG approval. HIE should provide full details to the sponsor Directorate.

121. A record should be kept of all losses, whether within HIE's delegated powers or not. All cash losses sustained should also be recorded in the Statement of Accounts for each financial year. Details of all losses written off in the preceding financial year should be submitted to the sponsor Directorate by 30 April each year.

Insurance

122. HIE is subject to the SG policy of self-insurance. Commercial insurance must, however, be taken out where there is a legal requirement to do so and may also be taken out in the circumstances described in the Insurance section of the SPFM - where required with the prior approval of the Sponsor Team and SG's Finance Directorate subject to the level of inherent risk. In the event of uninsured losses being incurred the SG will consider, on a case by case basis, whether or not it should make any additional resources available to HIE. The Sponsor Team will provide HIE with a Certificate of Exemption for Employer's Liability Insurance.

Procurement and payment

123. HIE's procurement policies should reflect relevant guidance in the [Procurement](#) section of the SPFM and any other relevant guidance issued by SG's Procurement and Property Directorate. Procurement should be undertaken by appropriately trained and authorised staff and treated as a key component of achieving HIE's objectives consistent with the principles of [Best Value](#), the highest professional standards and any legal requirements.

124. All external consultancy contracts over the value of £100,000 or any proposal to award a contract without competition (non-competitive action) over the value of £100,000 must be endorsed in advance by the Chief Executive.

125. All matured and properly authorised invoices relating to transactions with suppliers should be paid in accordance with the [Expenditure and Payments](#) section of the SPFM wherever possible and appropriate within Scottish Ministers' target of payment within 10 working days of their receipt.

Gifts made, special payments and losses

126. Unless covered by a specific delegated authority, prior approval from the Sponsor Team and SG's Finance Directorate is required before making gifts or special payments or writing off losses. Special payments and losses are subject to the guidance in the [Losses and Special Payments](#) section of the SPFM. Gifts by management to staff are subject to the guidance in the [Non-Salary Rewards](#) section of the SPFM.

SPECIFIC DELEGATED FINANCIAL AND PROCUREMENT AUTHORITIES

	Delegated Limit
Major investment projects	HIE to notify SG of all major investment projects.
Special payments: <ul style="list-style-type: none"> extra-contractual and ex gratia payments to contractors; other ex gratia payments; compensation payments. 	Up to £2,000 per case.
Approval of equity investments and issuing of loans	Up to £3.5m (individual or cumulative investments and/or loans; the investment value relates to original cost and to investment in an individual entity).
Property for accommodation/operational purposes	No delegated limit - all commitments to be approved by the Scottish Ministers.
Claims waived or abandoned or bad debts written off where the debtor has been dissolved, liquidated or otherwise entered into formal insolvency process <u>and where there is no prospect of recovery.</u>	No limit. HIE to notify the SG if over £250,000.
All other claims waived or abandoned or bad debts written off.	Up to £250,000 per case.
Guarantees, indemnities and letters of comfort	No limit where it arises in the normal course of business.
Gifts including presentations to staff	Up to £500 per case.
Fruitless payments and constructive losses	Up to £10,000 per case.
Losses of assets, stores and equipment	Up to £10,000 per case.
Cash losses	Up to £10,000 per case.

Note:

For further guidance, also see:

- (1) Asset and property management (sections 68-71)
- (2) Major investment projects over £5m (sections 80-81)
- (3) Delegated authorities (sections 84-86)
- (4) Financial investments (sections 93-98)
- (5) Guarantees and indemnities (sections 111-112)
- (6) Third party grants or loans (section 113-117)
- (7) Claims waived or abandoned - write-offs (sections 118-121)
- (8) Consultancy contracts and contracts awarded without competition (section 124)