Presented to Parliament pursuant to Section 28(4) of the Severn Bridges Act 1992

Severn Bridges Act 1992 Account 2009-2010

LONDON: The Stationery Office
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Contents

Foreword and Management Commentary

Background Information

The road across the Rivers Severn and Wye was opened to traffic on 9 September 1966. Under the Severn Bridge Tolls Act 1965 (the 1965 Act) the Secretary of State for Transport (formerly the Minister of Transport) had powers to levy tolls for the use of this road on a scale which would be sufficient, but not more than sufficient, over a period of 40 years from the date of opening to provide for the purposes defined in the 1965 Act.

The 1965 Act was repealed by the Severn Bridges Act 1992 (the 1992 Act) which provided for the Secretary of State to procure, using private funds, the construction of a second tolled road crossing of the Severn Estuary and to operate a new tolling regime on both crossings.

The new tolling regime came into effect on 26 April 1992, operated by the private sector concessionaire, Severn River Crossing plc (SRC), under a concession agreement with the Secretary of State. SRC designed, constructed and built the second crossing, and operate and maintain both crossings. SRC retains revenues from tolls during the concession period.

Under Section 6 (4) of the 1992 Act, the concession period will run for a maximum of 30 years from 26 April 1992. During that period, SRC is responsible, among other aspects, for levying tolls and for preparing annual statements of accounts of revenue and associated costs. These accounts are independently audited by a firm of chartered accountants and laid before Parliament by the Secretary of State for Transport in accordance with Section 27 of the 1992 Act.

Under section 5.1.1 of the concession agreement, the concession period will end when SRC achieve a cumulative revenue of £995,830,000, expressed in July 1989 prices. The Highways Agency reviews the projected concession end date every six months using data supplied by SRC to gain assurance that the revenue target will be recovered within the concession period. The Agency also obtains assurance on the cumulative level of tolls from SRC's annual accounts.

Financing

Until 1992, finance for the project was provided by a number of banks and by debenture stockholders. Under the concession agreement, SRC assumed responsibility for £122m of the £126m outstanding debt on the existing bridge. Of that debt, £62m was paid by SRC on 26 April 1992, and the balance of £60m was subordinated (meaning that the loan ranks below other loans with regard to claims on assets or earnings) to lending banks and to stockholders under the terms of an Inter-creditor Agreement[1] until the end of the concession period. The amount of the subordinated debt due to the Consolidated Fund is increased annually in line with the Retail Price Index. Interest at a rate of 2.956 per cent per half annum on the indexed amount was originally payable by SRC by equal half yearly instalments. Under the 2003 refinancing package, described below, interest payable is now rolled up and added to the subordinated debt to be paid by SRC to the Consolidated Fund at the end of the concession period. The remaining £4m balance due to the Consolidated Fund is the responsibility of the Secretary of State.

Relevant events

On the 12 of September 2000, the European Court of Justice ruled that Value Added Tax (VAT) should be applied to tolls levied by private operators. The ruling included those undertakings operated by private companies under a PFI concession agreement with the Secretary of State. VAT was applied to the Severn bridges tolls on 1 February 2003.

1 Inter-creditor agreement made between the concessionaire, Bank of America International Limited as Agent Bank, Bank of America International Limited as trustee for EIB and the banks providing the Senior Bank Facility, BZW, EIB, The Prudential Assurance Company Limited and the Secretary of State in his capacity as lender.

The Government gave a commitment to offset the cost of VAT and protect the motorist from the impact of the ruling, and agreed to re-finance the SRC concession. As part of the re-financing deal, the required cumulative real revenue target rose from £976,837,740 to £995,830,000, expressed in July 1989 prices to fully compensate SRC for the loss of VAT-related revenue.

The Finance Act 2007 contains provisions to abolish Industrial Building Allowances (IBAs) over a phased period between 2008 and 2011. Under the terms of the concession agreement SRC notified the Highways Agency on the 22 February 2010 that it considered this change to be an Adverse Relevant Event (ARE) which significantly affected the financial viability of the concession. The HA has accepted in principle that this tax change does constitute an ARE and also identified the Corporation tax rate reductions over the concession period as a Beneficial Relevant Event (BRE). The Finance (No.2) Act 2010 increases the rate of VAT to 20 per cent with effect from the 4 January 2011. On the 27 August 2010, SRC gave notice of this tax change as a further ARE. The Highways Agency is currently in discussions with SRC to agree a remedy to these relevant events which will enable SRC to complete its obligations under the Concession Agreement.

On 19 March 2010 The Severn Bridges (Amendment) Regulations 2010 came in to force and permitted the Severn tolls to be paid by 'a recognised means of payment' rather than the previous requirement for payment 'in cash'. SRC introduced limited facilities for card payments of the tolls in late September 2010. This is a temporary system ahead of the implementation of a permanent system in Q1 2011. The Highways Agency agreed to underwrite the implementation costs of the card payment project up to £1.2m and this cost together with the ongoing additional costs will be included in the negotiations of the settlement for the relevant events.

If SRC went into administration or if the contract was terminated for any other reason, the Secretary of State would assume full responsibility for the assets and liabilities of SRC. Subject to the agreement of a remedy for the events identified above, and on the basis of SRC's audited accounts as at 31 December 2009 and SRC's latest cash flow forecast, the Highways Agency's own review concludes that SRC are likely to have sufficient funds to be able to meet its liabilities as they fall due. Therefore, the Highways Agency's considered view is that there is no significant risk of SRC not being able to meet its liabilities as they fall due.

Financial implications of cable corrosions

Significant corrosion of the main suspension cables of the M48 Severn Bridge was identified during an intrusive inspection programme that started in April 2006. The inspections were carried out, using guidelines published in December 2004, after corrosion was found in similar bridges in other parts of the world. Following completion of the special investigations, and the subsequent laboratory wire testing, structural assessment certificates for the Severn Bridge, valid for 12 months, were signed on 1 April 2008. A monitoring specification was also agreed by the Agency's Technical Approval Authority. The assessment certificates were re-certified on 1 April 2009 and 1 April 2010 and will continue to be reviewed annually.

As part of work to monitor and address the corrosion problem, the Agency has implemented measures to slow down further corrosion by providing a system of dehumidification to dry out the cables. This first stage system, for the most severe location, became operational in February 2008, although some of the work did not complete until July 2008 because of delays due to bad weather. A second phase of work to install the dehumidification system to the entire length of the cables began in February 2008 and became operational on 17 December 2008. The system monitoring data shows that the cables are being successfully dehumidified. The relative humidity at all 16 exhaust points has reduced to at or below 20 per cent, a level at which the corrosion processes are normally considered to have ceased.

Acoustic monitoring equipment that will help inform on the ongoing rate of cable deterioration, has been installed and is fully operational.

The bridge remains safe for use but, as a precautionary measure, vehicles over 7.5 tonnes are currently restricted to lane one in each direction. This is to reduce the risk of the bridge being heavily loaded during an exceptional event, such as an unplanned closure of the M4 Second Severn Crossing.

The M48 Severn Crossing provides a key transportation link supporting the surrounding local economies in England and Wales and the Agency recognises the importance of keeping this route safe and open to traffic. The Agency continues to review the long – term traffic management strategy for the M48 and has developed scenario plans, including traffic management measures and repair options with cost ranges. Further regular intrusive inspections will be needed at intervals of 4 to 5 years. Work started on the second routine intrusive cable inspection in February 2010 and the results will be available for the assessment re-certification due in April 2011.

The costs of dealing with this corrosion, defined as a latent defect, are borne by the Secretary of State and, therefore, shown in these accounts. These costs form part of the accumulated deficit and will be recovered from tolls to be levied by the Secretary of State during the period between the end of the concession period and the date on which the power to levy tolls will cease, being 25 April 2027 or such earlier date as may be determined under section 7 of the Severn Bridges Act 1992. To the end of the financial year 2007-2008, the work associated with the corrosion had cost £4.3m which is included under both the Operations and Administration expenditure. This includes the costs of the 2006 inspections, design, contract preparation and supervision, traffic management, wire testing and initial assessment work. In 2008-2009, the Agency spent a further £8m on completing the installation of the Dehumidification system and the ongoing work in relation to the monitoring and assessment of the cable and traffic conditions in addition to the upgrading of the signs for the crossing. In 2009-2010 the costs were £2.7m and costs are forecasted to be £3.4m for 2010-2011 and both include for the costs of the 2010 inspection.

Accounts of the Secretary of State

Under Section 28 (1) (b) of the 1992 Act the Secretary of State is required to prepare a statement of accounts in respect of each financial year, or part thereof, up to the last day on which tolls may be levied.

The accounts deal with the subordinated debt due to the Consolidated Fund, the debt balance of £4m due to the Consolidated Fund which remains the responsibility of the Secretary of State and any other expenditure arising on either of the bridges which does not fall under SRC's remit. The accounts of the Secretary of State record the cumulative net deficit due to the Exchequer. At the end of the concession period this deficit will be recovered from tolls levied by the Secretary of State. Under Section 5 (4) of the 1992 Act the power to levy tolls will cease on 25 April 2027 or such earlier date as may be determined under Section 7 of the 1992 Act when the total receipts accruing to the Secretary of State equal or exceed the cumulative net deficit owed to the Exchequer at the end of the concession period.

Expenditure shown in these accounts is part of the Department for Transport Resource Accounts. Interest receivable on the Subordinated Debt is also included in the Resource Accounts.

These accounts have been prepared in accordance with a Direction given by the Treasury in 1994 in pursuance of Section 28 (2) (a) of the 1992 Act. The Direction is reproduced as Appendix A to the Accounts. The Rates of Interest Direction given by the Treasury is provided at Appendix B.

The accounts have been audited by the Comptroller and Auditor General (C&AG) under the Severn Bridges Act 1992. His audit certificate and report are at pages 9 and 10.

Assurances over the Concession Agreement

Subject to any update that may result from the recent legislation changes, I am content that the cumulative revenue target will be reached within the concession period.

Statement regarding disclosure of information to the Auditors

So far as I am aware, there is no relevant audit information of which the auditors are unaware and I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information

Date of issue

The Account has been authorised for issue on 12 January 2011 by the Accounting Officer.

Graham Dalton 12 January 2011
Accounting Officer

Statement of Secretary of State and Accounting Officer responsibilities

Under Section 28 of the Severn Bridges Act 1992, the Secretary of State is required to prepare a statement of accounts for each financial year in the form and on the basis directed by the Treasury. The accounts are prepared on an accruals basis and must present fairly the income and expenditure for the financial year and the assets and liabilities at year-end.

The Treasury have appointed the Chief Executive of the Highways Agency as the Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in HM Treasury's *Managing Public Money*.

Statement on Internal Control

Scope of responsibility

Management and preparation of this account and the underlying accounting transactions are subject to the control environment of the Highways Agency to which the rest of this statement refers. There are no risks identified specifically for this account. In my role as Chief Executive Officer for the Highways Agency, I have the responsibility for signing this account.

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in *Managing Public Money*.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Agency's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place for the year ended 31 March 2010 and up to the date of approval of the Foreword and Management Commentary and Accounts, and accords with Treasury guidance.

Capacity to handle risk

I have established a framework of responsibility for risk management and control, with appropriate support, guidance and procedures in all parts of the Agency's business. This comprises 2 parts; a Control Framework and Risk Management arrangements.

Control framework

We have clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning. We ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place through a variety of control systems. We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality.

Risk management

The Agency's Directors and other senior managers are responsible for risk management in their commands. Risk management guidance is available to all staff. The guidance outlines key aspects of the risk management process and identifies the main reporting procedures. Senior managers have received training in risk management tailored to their responsibilities and concerns. Staff and managers are required to identify new or increased risks and opportunities as part of the routine performance reporting process. Risk is a standard agenda item in team meetings in many areas of the Agency.

Risks are reviewed, the effectiveness of mitigating actions and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners include reports on their handling of operational risk as part of their wider stewardship reports. The Board allocates the management of strategic risks to nominated directors who report back as appropriate through the year.

My staff work closely with their counterparts in the Department for Transport to ensure that risk management systems are compatible, there is clear accountability for managing risks, joint action is taken where appropriate to manage risks, and the Department is kept informed of risks as appropriate.

The Highways Agency Board sets the Agency's risk appetite in line with that of the National Networks Board. The Board remains committed to good risk management in the interests of improved delivery.

I hold regular meetings with Ministers when operational risks are discussed. Ministers receive direct reports about risks to key initiatives as well as reports on risks to delivery of Public Service Agreement Targets through the DfT reporting system.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

My Head of Internal Audit provides regular reports on key risk and control issues, in accordance with Government Internal Audit Standards, and an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. The implementation of recommendations is monitored closely by the HA Board and is included on the performance scorecard.

The Head of Internal Audit's opinion for the year 2009-2010 is based upon the review of the Agency's arrangements for risk management, governance and internal control arrangements. The HIA has informed me that the Agency's arrangements for the risk management, governance and control processes have been adequate and effective in 2009-2010.

Graham Dalton
Accounting Officer

12 January 2011

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the Severn Bridges Act 1992 Accounts for the year ended 31 March 2010 under the Seven Bridges Act 1992. These comprise the income and expenditure account, the statement of assets and financial liabilities and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

As explained more fully in the Statement of Secretary of State and Accounting Officer's Responsibilities, the Secretary of State is responsible for the preparation of the financial statements in accordance with the Severn Bridges Act 1992 and HM Treasury directions made thereunder. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 Highway Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Highway Agency; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Opinion on financial statements

In my opinion

- the financial statements present fairly the assets and liabilities of the Highways Agency in relation to its responsibilities under the Severn Bridge Act 1992 as at 31 March 2010 and the income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Seven Bridges Act 1992 and HM Treasury Directions issued thereunder.

Opinion on other matters

In my opinion the information given in Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records or returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

13 January 2011

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2010

	Note	**2009-2010 £000**	2008-2009 £000
Income and gain arising from Subordinated debt Due to the Consolidated fund			
Interest receivable	3	**8,032**	7,564
Indexation gain/(loss)	4	**(1,387)**	4,653
Total income and gain		**6,645**	12,217
Expenditure			
Capital	1c &5	**8**	0
Operations	6	**2,706**	7,049
Administration	7	**523**	966
Notional interest	8	**10,888**	10,062
Total expenditure		**14,125**	18,077
Deficit for the year		**7,480**	5,860
Deficit brought forward		**107,294**	101,434
Accumulated Deficit to be recovered through tolling		**114,774**	107,294

The accumulated deficit represents the cumulative net costs to the Exchequer in relation to the operation and maintenance of the Severn crossing, not borne by the concessionaire. These are recoverable from tolls to be levied by the Secretary of State during the period between the end of the concession period and the date on which the power to levy tolls will cease, being 25 April 2027 or such earlier date as may be determined under section 7 of the Severn Bridges Act 1992.

The notes on pages 13 to 16 form part of these accounts.

Statement of Assets and Liabilities as at 31 March 2010

	Note	**2009-2010** **£000**	2008-2009 £000
Non-current assets			
Subordinated debt	4	**95,481**	96,868
Accumulated interest receivable	3	**46,095**	38,063
Accumulated deficit recoverable through tolling	I&e	**114,774**	107,294
		256,350	242,225
Current liabilities			
Payables: amounts falling due within one year	9	**(766)**	(2,045)
Assets less liabilities		**255,584**	240,180
Total due to the Consolidated fund	10	**(255,584)**	(240,180)

Graham Dalton 12 January 2011

Accounting Officer

The notes on pages 13 to 16 form part of these accounts

Notes to the Accounts

1 Statement of accounting policies

a Accounting Convention

The Accounts are prepared under the historical cost convention on an accruals basis.

These accounts have been prepared in accordance with the 2009-2010 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. There has been no significant impact on these accounts as a result of the adoption of IFRS.

An Accounts Direction has been given by HM Treasury and is reproduced in Appendix A.

b Notional interest

Notional Interest, calculated at National Loans Fund rates prescribed by HM Treasury, is charged on

i The Subordinated Debt and the amount owed to the Consolidated Fund at the commencement of the concession;

ii Balances derived from the receipt and payment transactions undertaken in the financial year; and

iii The annual deficits brought forward from previous years, as if each were financed by a term loan.

An interest rate direction has been given by HM Treasury and is reproduced in Appendix B.

c Capital expenditure

Expenditure on capital items is charged to the Income and Expenditure Account in the year of acquisition, in order that the accumulated deficit fully represents the amount recoverable from tolling by the Secretary of State.

2 Claims

Claims by the concessionaires and contractors have arisen in the normal course of operation of the concession agreement. To the extent that it is judged that unmet claims will become payable, such amounts have been included as expenditure and accrued as current liabilities.

3 Accumulated interest receivable

	2009-2010 £000	2008-2009 £000
Opening balance as at 1 April	**38,063**	30,499
In year interest accrued	**8,032**	7,564
Closing Balance as at 31 March	**46,095**	38,063

With effect from 1 January 2003, interest receivable on the subordinated debt was added to the accumulated interest amount in accordance with clause 4.1 of the Loan Agreement. The concessionaire will pay the accumulated interest amount to the Secretary of State at the end of the concession period, currently predicted to be mid 2016.

4 Subordinated Debt

Subordinated Debt of £60 million due to the Consolidated Fund was assumed by SRC on 26 April 1992 and is indexed by reference to the Retail Price Index, as described in the Foreword and Management Commentary. The debt is repayable when the concession is terminated or in other specified circumstances. The concessionaire is entitled, at any time after it has repaid the Debenture Stock in full, to repay the subordinated debt, together with accrued interest subject to giving the Secretary of State not less than 30 days notice of its intention. In the event of termination of the concession agreement, other than termination by reason of default, the concessionaire shall be relieved of the outstanding obligations.

	2009-2010	2008-2009
	£000	£000
Opening balance as at 1 April	**96,868**	92,215
In year indexation	**(1,387)**	4,653
Closing Balance as at 31 March	**95,481**	96,868

5 Capital expenditure

	Freehold Land	Structures	Plant and Machinery	**Total**
	£000	£000	£000	**£000**
Cumulative acquisitions written off as at				
31 March 2009	11,121	4,799	122	**16,042**
Acquisitions in year				
Cumulative acquisitions written off as at 31 March 2010	8	0	0	**8**
	11,129	4,799	122	**16,050**

6 Operations

	2009-2010	2008-2009
	£000	£000
Operations expenditure comprises		
Ancillary works; repairs and strengthening; and structural maintenance*.	**2,706**	7,049
	2,706	7,049

* Includes the cost of investigating and monitoring the M48 Severn Bridge main cables defect.

7 Administration

	2009-2010	2008-2009
	£000	£000
Administration expenditure comprises		
Legal and Professional	**52**	31
Consulting Engineers	**457**	922
Audit Fee	**14**	13
	523	966

8 Notional Interest

	2009-2010 £000	2008-2009 £000
Notional Interest on		
Amount owed to Consolidated Fund at 26 April 1992	**734**	734
Subordinated Debt at 26 April 1992	**5,625**	5,625
Receipt and payment transactions	**6**	8
Accumulated annual deficits *	**4,523**	3,695
	10,888	10,062

* Interest is calculated based on the appropriate National Loans Fund maturity rate. For 2009-2010 the rate applied was 4.22 per cent (2008-2009 3.65 per cent).

9 Payables

	2009-2010 £000	2008-2009 £000
Operations	**727**	1,609
Administration	**39**	436
Capital		0
	766	2,045

10 Consolidated Fund

	2009-2010 £000	2008-2009 £000
Debt due to the Consolidated Fund at 1 April	**240,180**	223,058
Notional Interest	**10,888**	10,062
Notional Audit Fee	**14**	13
Net cash advances*	**4,502**	7,047
Debt due to the Consolidated Fund at 31 March	**255,584**	240,180

* Net cash advances	£000
Trade creditors outstanding as at 31 March 2009	3
In-year expenditure	4,521
Recoveries from Severn River Crossing	(22)
	4,502

11 Contingent liabilities

In the event of default by the concessionaire the Highways Agency would have to assume responsibility for operating and maintaining both the existing bridges. It is not practicable to estimate the potential net cost (if any) that would arise in such a situation. As described in the Foreword and Management Commentary the Highways Agency considers it unlikely that default could occur in the short or medium – term future.

12 Financial instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Highways Agency faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

Liquidity risk

This is the risk that the Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. The Agency's net revenue resource requirements are mainly financed by resources voted annually by Parliament to the Department for Transport. The Agency is therefore not exposed to significant liquidity risks.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfill their contractual obligations to the Agency. Some of the Agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public sector organisations, the Agency has policies and procedures in place to ensure credit risk is kept to a minimum.

Interest rate risk

This is the risk that the Agency will suffer financial loss due to interest rate fluctuation. The Agency's financial assets and its financial liabilities carry nil or fixed rates of interest, therefore the Agency is not exposed to significant interest rate risk.

Appendix A

Accounts direction given by the Treasury

The Treasury in pursuance of Section 28 (2) (a) of the Severn Bridges Act 1992, hereby gives the following direction

1 The statement of accounts which it is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 March 1994 and in any subsequent financial year shall comprise

    a a foreword which shall include

        i a statement that the accounts have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 28 (2) (a) of the Severn Bridges Act 1992;

        ii information on significant events during the period;

    b an Income and Expenditure Account

    c a Statement of Assets and Liabilities; and

    including in each case such notes as may be necessary to present fairly the income and expenditure for the period and the assets and liabilities at the end of the period in relation to functions under the Severn Bridges Act 1992. The statement of accounts shall disclose the total sum due to the Consolidated Fund as at 31 March 1994 and for any subsequent financial year.

2 The statement of accounts shall be prepared under the historical cost convention on an accruals basis and shall follow the format attached to this Direction although minor drafting changes may be made without seeking the approval of the Treasury.

3 Details of movements within the Consolidated Fund shall be disclosed by way of notes to the accounts.

4 The accounts prepared under the Severn Bridges Act 1992 shall observe all relevant accounting and disclosure requirements as given in 'Government Accounting' and in any disclosure and accounting requirements which the Treasury may issue from time to time.

5 This Accounts Direction (excluding the proforma accounts) shall be reproduced as an Appendix to the accounts.

F Martin 27 July 1994
Treasury Officer of Accounts

Appendix B

Rates of interest direction given by the Treasury

1 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are applicable to the accounts for the period 26 April 1992 to 31 March 1993 which were prepared in accordance with Section 28 of the Severn Bridges Act 1992

a for subordinated debt and the opening balance due to the Consolidated Fund the average National Loans Fund ER 10 to 15 year interest rate and

b the average National Loans Fund 1 year Maturity rate in respect of receipts and payments.

2 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are to be applied to the accounts from 1 April 1993 onwards are to be prepared in accordance with Section 28 of the Severn Bridges Act 1992

a for the subordinated debt and the amount owed to the Consolidated Fund at the commencement of the concession the National Loans Fund 25 year Maturity rate as at 26 April 1992. This rate is deemed to be fixed and unless altered by the Treasury is to remain as such for the duration of the concession;

b for receipt and payment transactions undertaken within a financial year the prevailing National Loans Fund 1 year maturity rate which is to be applied to each transaction when it takes place; and

c for the interest on the annual deficit carried forward the National Loans Fund Maturity rate as shown in the table .

Deficit for the Financial Period/Year	Carried Forward to 1 April	National Loans Fund Maturity Rate as at 1 April fixed for the duration of the Concession		Current National Loans Fund Banding
(1)	(2)	(3)		(4)
1992-1993	1993	29 year rate	=	Over 25 year band
1993-1994	1994	28 year rate	=	" " " "
1994-1995	1995	27 year rate	=	" " " "
1995-1996	1996	26 year rate	=	" " " "
1996-1997	1997	25 year rate	=	" " " "
1997-1998	1998	24 year rate	=	Over 15 year band
1998-1999	1999	23 year rate	=	" " " "
1999-2000	2000	22 year rate	=	" " " "
2000-2001	2001	21 year rate	=	" " " "
2001-2002	2002	20 year rate	=	" " " "
2002-2003	2003	19 year rate	=	" " " "
2003-2004	2004	18 year rate	=	" " " "
2004-2005	2005	17 year rate	=	" " " "
2005-2006	2006	16 year rate	=	" " " "
2006-2007	2007	15 year rate	=	" " " "
2007-2008	2008	14 year rate	=	Over 10 year band
2008-2009	2009	13 year rate	=	" " " "
2009-2010	2010	12 year rate	=	" " " "
2010-2011	2011	11 year rate	=	" " " "
2011-2012	2012	10 year rate	=	" " " "
2012-2013	2013	9 year rate	=	" " 9 "
2013-2014	2014	8 year rate	=	" " 8 "
2014-2015	2015	7 year rate	=	Over 7 year band
2015-2016	2016	6 year rate	=	" " 6 "
2016-2017	2017	5 year rate	=	" " 5 "
2017-2018	2018	4 year rate	=	" " 4 "
2018-2019	2019	3 year rate	=	" " 3 "
2019-2020	2020	2 year rate	=	" " 2 "
2020-2021	2021-2022	1 year rate	=	" " 1 "

The above rates are to be applied to the individual amounts of the annual deficits until such time as the concession is terminated or until the Treasury so directs.

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