Safe roads, Reliable journeys, Informed travellers

HIGHWAYS AGENCY

Highways Agency **Annual Report** 2009-10

Annual Report

2009-10

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An Executive Agency of the Department for Transport

The Highways Agency
Annual Report and Accounts 2009-2010

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Foreword by the Chief Executive

Graham Dalton

At the end of an exceptionally challenging year, I am pleased to report that the Highways Agency has met or exceeded all the key objectives set out in our 2009-10 Business Plan.

The year presented some significant challenges. Our preparations for severe winter weather proved well founded as we kept the network open for traffic through the worst winter for nearly 30 years, and we delivered a substantial programme of additional capital investment under the previous government's fiscal stimulus programme.

The motorways and trunk roads in England are there to serve road users, and the communities that they connect. As pressure on the network increases, we are investing more time and money in keeping traffic moving, in clearing incidents as quickly as possible, and undertaking maintenance and repair with as little impact as possible. The use of modern technology enables us to intervene more quickly and more effectively to reduce delay, and to do so in a way that reduces the impact on our environment.

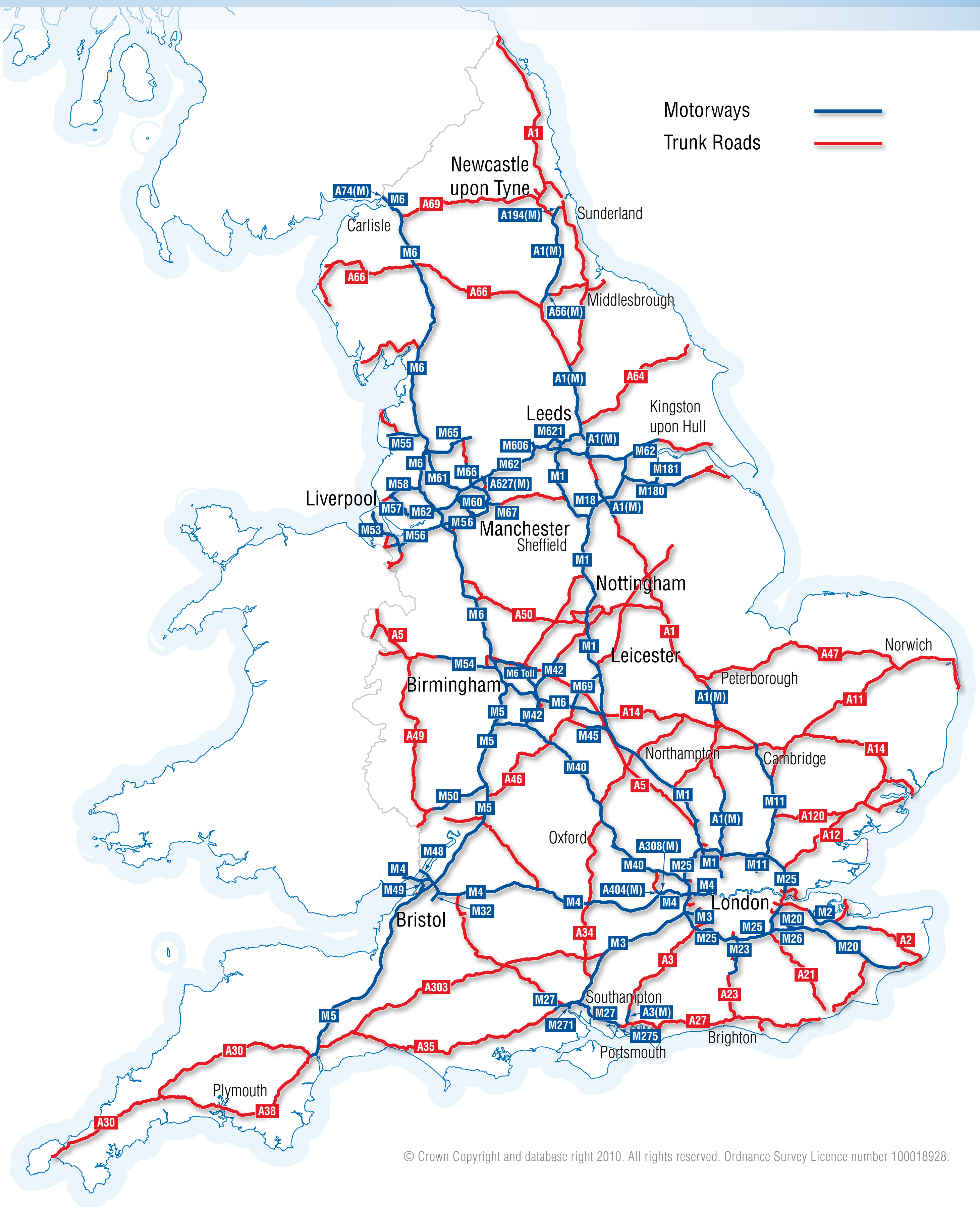
During the year we re-structured the Agency to focus on traffic management and on maintenance of the road infrastructure - a vital national asset. These changes took effect smoothly in February 2010, and have given us the right shape to maintain our level of service whilst reducing the cost of maintaining an ageing asset.

Working on our network is a difficult, and potentially a dangerous, job. We have launched a new programme to improve road worker safety, and to make road users more aware of the risks associated with temporary and long term road works. The rate of injuries and accidents to the workforce is falling, but remains unacceptable. So at the Highways Agency we look forward to working with those suppliers who can really make a difference in this important area.

My thanks go to all those who have moved on from the Highways Agency for their contribution - to Alex Jablonowski who served as a non-executive director for five years, and to Denise Plumpton who developed our channels for delivering real time traffic information to road users. But above all, I would like to thank staff, both at the Agency and at our suppliers. Their dedication and commitment is instrumental to the Agency achieving all that it does, and their unflagging effort and enthusiasm - allied to their successful track record - inspires great confidence in our ability to rise to the challenges ahead.

Graham Dalton

Highways Agency **Strategic Road Network**



Section 1: In support of a five year strategy

Did you know?

The strategic road network in England is valued at over £86 billion and comprises over 4,000 miles of motorways and trunk roads.

Our role

The Highways Agency is an executive agency of the Department for Transport (DfT). We are responsible for operating, maintaining and improving the strategic road network in England, made up of motorways and trunk roads, on behalf of the Secretary of State for Transport. A map of our network is shown opposite. We also set and maintain road, safety and structural standards used by many local authorities for the non-trunk A-roads and other roads that they manage.

The Agency is managed by a formal board as shown in Annex A. Our role is laid down by the DfT in our framework document which is published on our website. We support the DfT's aim of **'transport that works for everyone'**.

In 2009-10 the Agency was set 13 key targets which we published in our 2009-10 Business Plan. We met all thirteen of our business plan targets as detailed in Annex B of this report.

Our people

We employ 3,800 staff on various working patterns across the country. This includes part-time workers and approximately 1,700 members of the 24/7 Traffic Officer Service. This service is made up of operational traffic officers on patrol, supported by traffic officers based in seven Regional Control Centres.

We attach considerable importance to securing the full engagement of all staff. This is supported through regular communications, including an in-house newsletter, intranet and cascaded briefings for discussion at team-meetings. We also hold regular meetings with recognised trade unions.

Vision and goals

In December 2009 we published our 2010-15 Strategic Plan. This sets a bold vision for us to be **'The world's leading road operator'**. This aspiration is essential to drive business improvement and strengthen our contribution to Government goals. We have five strategic goals that support our vision:

- We provide a service that our customers can trust
- Our network is a dynamic and resilient asset
- Our roads are the safest in the world
- We deliver sustainable solutions
- We set the standard for delivery

The structure of this annual report has been based around these five goals to explain our performance in relation to our vision.

Re-shaping our organisation

In common with most public service providers, the expectations of the quality of our service delivery are increasing relentlessly; and it is clear that we have to deliver that service, and to maintain the strategic road network, more cost effectively than ever before. In February 2010, we implemented organisational changes to enable us to better achieve our goals. Our new structure is reflected in Annex A.

Section 2:
We provide a service that our customers can trust

Making journeys more reliable

We understand that our road users need to know when they can expect to arrive at their destinations. Improving journey reliability has been one of our main aims in recent years. As a result of our work in this area delays on the strategic road network fell to their lowest level in 2009-10 since monitoring began in 2005.

Managed motorways – using technological advances to improve reliability

> **Did you know?**
>
> **Some 4 million customers use our network every day.**
>
> **83 billion vehicle miles are travelled on our network each year – more than 30% of all traffic in England on only 2.3% of its roads.**

We recognise that we need to think innovatively about how we make better use our existing asset. To this end we have introduced **managed motorways**, an innovative approach to dynamically manage the existing road space and actively control traffic. To keep traffic moving, the hard shoulder is opened to traffic at peak times, reducing congestion and delivering safer journeys. Speed limits can be varied by the control centre in line with traffic flows, which are monitored by electronic loops under the road surface. Drivers are kept informed by means of overhead signals and gantry mounted signs. Closed circuit television (CCTV) monitoring of the hard shoulder and emergency refuge areas, which are provided at frequent intervals, mean that road users in difficulties can be assisted rapidly.

Managed motorways are 40% less expensive on average to deliver in comparison to conventional road widening.

Over the course of the year we have taken strides in converting stretches of hard shoulder for use during the busiest periods. Innovative communications play a crucial role in making the strategic road network a dynamic asset. Variable message signs (VMS), CCTV and motorway incident detection and signalling systems (MIDAS) all contribute directly to the improved reliability of journey times. We continue to achieve efficiencies in their delivery, and in 2009-10 we installed another 63 miles of MIDAS and established 25 further CCTV sites.

Making better use of the network

Our second hard shoulder running scheme was opened on the **M6 in the West Midlands** in December 2009, a month earlier than planned.

In March 2010 we began work on a three year managed motorways scheme on the **M1 in Bedfordshire** between junctions 10 to 13.

Our **National Vehicle Recovery Service**

became fully operational from July 2009, allowing traffic officers to arrange quick and safe removal of abandoned or broken down vehicles from the network.

Our traffic officers

We are very proud of our traffic officers and the service that they provide to our customers. They attend, on average, 26,500 incidents a month and aim to arrive to at least 80% of incidents on heavily trafficked routes within 20 minutes and, where lanes are blocked, get traffic moving by promptly re-opening all live lanes on 80% of occasions within 30 minutes. In clearing incidents quickly, traffic officers reduce the impact of incident-related congestion and lessen the risk of secondary incidents. In addition, in our control centres keep road users informed directly through the prompt and accurate setting of signs and signals warning of hazards ahead.

We conducted regular surveys about our Traffic Officer Service through questionnaires which were handed out by traffic officers when assisting customers at the roadside. Results consistently show how highly respected traffic officers are among the people they have assisted, finding the service to be professional, courteous and comforting during what is often a very stressful situation.

New Incident Management booklet launched

In January 2010 our Traffic Incident Management team launched a booklet for incident responders, including traffic officers, helping them to use the Traffic Incident Management Guidance Framework.

During the year we also conducted an annual national awareness survey regarding customer recognition of the Traffic Officer Service and Highways Agency. The results show that recognition of the traffic officers continued to grow – 69% of respondents in the latest survey, compared with 68% in 2008, and 53% in January 2006. We will continue to measure awareness of the Traffic Officer Service through our national and area road user satisfaction surveys.

New iPhone app provides traffic alerts to mobile phones

From February 2010 we made travelling on our network even easier thanks to new software that can be downloaded to a mobile phone. Our free iPhone app provides constant live updates from the National Traffic Control Centre helping road users plan their journeys and avoid congestion hotspots.

On line traffic information for historic attraction

In autumn 2009 Bekonscot, the oldest model village and railway in the world, began to provide our live traffic data on its website. Many of their visitors arrive via the M40 motorway making the on line information really useful in avoiding a frustrating car journey and meaning visitors are more likely to arrive happy.

National Traffic Control Centre

Providing information to road users

Providing traffic and network information to our road users where and when they need it allows them to better plan their journeys, thereby reducing congestion and lowering vehicle emissions.

Our customers have wide ranging needs for information about our network – the real-time traffic information we provide both directly and through other service providers, enables all road users to make better journey planning decisions. Quality information is also needed for our own operational requirements, especially to help our traffic officers quickly attend and clear incidents. We are confident in the accuracy of the information services we provide.

Our **National Traffic Control Centre**, based near Birmingham, uses its live traffic data to feed a range of information services including:

- overhead variable message signs on motorways
- telephone information services
- Highways Agency Information Points (HAIPs)
- Traffic Radio on DAB digital radio and the internet
- travel bulletins available to all local and national radio stations
- Google maps©
- more than 300 different websites run by various media organisations, and
- our website, Traffic England.

Listening to our customers

As well as traffic officer on-road questionnaires we also seek feedback from our customers through national and area road users' satisfaction surveys, carried out throughout the year. In 2009-10 we met our performance target to improve satisfaction in our National Road Users' Satisfaction Survey by 0.25% compared with 2008-09.

M25 public exhibition

In March 2010 we staged a public exhibition marking the next stage of our work to widen the M25. We will widen the motorway from three lanes to four between junction 16, Uxbridge, for the M40, and junction 23, Barnet, for the A1M.

Section 3: Our network is a dynamic and resilient asset

Did you know?

In 2009-10 we started 68 route miles and completed 11 route miles of road building and improvements.

We installed signs on the hard shoulder of 474 miles of the motorway network to help locate road users in difficulty.

Dealing with the worst winter in almost 30 years

Over 2009-10, we and our contractors dealt with the most prolonged period of snow and ice this country has seen for 29 years. Both our staff and contractors rose to the challenge.

We managed to keep the strategic road network safe, serviceable and available for our customers, despite the heavy snowfall and very low temperatures across much of the country. And, despite receiving a month's worth of website visits in only 13 hours, our online information services stayed operational.

We implemented measures to preserve our salt stocks including reduced spreading rates and not directly salting the hard shoulder where safe and appropriate. To increase our salt stock resilience we facilitated the delivery of over 100,000 tonnes of salt imported from Egypt, Tunisia, Spain and the USA. We also responded to the national shortage, playing a key role in the successful operation of the Government-run 'Salt Cell' to prioritise deliveries to areas most need.

A1 Bramham to Wetherby

Improving the network

Through our **managed motorways** programme, mentioned previously in this report, work is underway to transform sections of motorways so the existing road space can be dynamically managed and traffic can be actively controlled to improve reliability. However, other **traditional road improvement** activities still continue and, in 2009-10 we completed:

- A1 Bramham to Wetherby major scheme - six miles of dual carriageway upgraded to motorway standard
- A1 Peterborough to Blyth major scheme - removed six bottleneck roundabouts along a 60-mile route
- 170 smaller local network management schemes (LNMS), each costing less than £10 million, to improve traffic flows and increase safety.

In December 2008 the Highways Agency was tasked by DfT with the challenge of delivering an additional £400 million capital spending during 2009-10. Despite the difficulties presented by the severe winter we completed the programme and delivered the following:

A46 Newark to Widmerpool

- The A46 Newark to Widmerpool improvement scheme was accelerated by three years
- Around 100 asset renewal schemes such as technology upgrades, resurfacing and the installation of concrete safety barriers were brought forward
- Hard shoulder strengthening works in advance of managed motorways schemes were started earlier than planned during the year.

Increased work on the network required more communication with our customers and put greater pressure on our Traffic Officer Service to help keep our customers moving. A large proportion of the work was delivered through our extended supply chain.

M25 Bell Common Tunnel upgraded

Our upgrade to the 563 yard-long Bell Common Tunnel on the M25 in Essex was opened in March 2010. The project, completed two months ahead of schedule, is part of a major investment to improve journey time reliability and safety on Europe's busiest motorway.

Avonmouth Bridge refurbished

In December 2009 major resurfacing and waterproofing work on the northbound carriageway of the Avonmouth Bridge on the M5 was completed three weeks ahead of schedule and £0.75 million under budget.

Maintaining our network to an optimum condition

Maintenance of the network continues to be our core responsibility. It covers a wide range of essential activities required to keep the network safe and maintained at an optimum level as follows:

- **Routine maintenance** such as clearing debris, litter and hazardous defects, treating ice and snow, clearing drains, and cleaning and replacing signs
- **Roads renewals** including new road surfaces, and other roadworks such as footways, cycle tracks, safety fences and drains
- **Structures renewals**, for example the repair and rebuilding of bridges and underpasses, tunnels and gantries
- **Technology renewals** including repair of variable message signs, cameras, emergency telephones and equipment in control centres.

In October 2009 the National Audit Office published *'Contracting for Highways Maintenance'*. It concluded that our managing agent contracts (MACS) offered good value for money potential and noted that, since their introduction, there had been greater certainty over delivery of maintenance schemes within budgets, and improvements in journey time reliability. The report made a number of improvement recommendations including the assignment of higher priority to the development and implementation of our **Integrated Asset Management System**. During 2009-10 the programme successfully delivered a number of key elements including a national whole life cost modelling environment that uses actual asset data to robustly predict asset performance and condition for different investment scenarios.

Partnership with Severn Trent Water minimises disruption

Adopting a partnership approach, the Highways Agency brought programmed works forward by several months to November 2009 on the A40 in Gloucestershire so they could be carried out at the same time as work by Severn Trent Water.

Our role in infrastructure planning

Our regional teams participate at all stages of the planning process to support national and regional economic performance including:

- **Regional strategies:** We work with regional stakeholders in developing regional spatial and economic strategies.
- **Regional funding advice:** We promote and deliver improvements to the strategic road network that support wider spatial, economic and environmental priorities.
- **Local development frameworks:** We are a statutory consultee and continue to engage with local planning authorities in supporting development that does not adversely impact on the safe and efficient operation of the strategic road network.
- **Planning applications:** We continue to exercise the Secretary of State's statutory responsibilities for providing substantive responses to planning applications that impact on the strategic road network.

Section 4: Our roads are the safest in the world

Did you know?

Our roads are among the safest in the world for road users.

Several of our major projects, for example the M25 Bell Common Tunnel, exceeded 1 million man hours of works on site without a reportable incident taking place.

Our work in improving safety

In 2009-10 we achieved our business plan target of reducing the number of people killed or seriously injured on our network.

This work has been steered via our Strategic Safety Action Plan. The three main themes are:

- Provision of information and raising awareness
- Partnership-working to achieve objectives
- Applying robust procedures.

Our progress so far results from many improvements in road design, technical standards and remedial action to address accident cluster sites. Improved vehicle technology has also contributed to improved safety. We will continue to progress this work but it cannot provide the entire solution. Our road safety improvement activity has therefore included influencing driver behaviour by education, engagement and enforcement, improving public awareness and helping people use our roads more safely.

Ensuring the safety of our roadworkers

Working near moving traffic is a high risk occupation for our staff, construction workers, vehicle recovery operators, emergency services' personnel, and those who undertake maintenance on the network. In November 2009 we introduced our 2009-11 road worker safety strategy with the aim of eliminating all fatalities and serious injuries to road workers.

The road worker safety strategy forms a key part of '**Aiming for Zero**', a new vision for health and safety performance for road workers, construction workers, traffic officers and office-based staff across the Agency, introduced in spring 2010.

aimingforzero

One workforce, zero harm

Influencing road users to drive safely

The road worker safety strategy 2009-11 will also seek to influence driver behaviour. Changing the public's attitude to road works is a major challenge and will take time. We have made a start, working with the Institution of Highways and Transportation and the Driving Standards Agency, to encourage drivers to drive carefully through road works by updating the driving theory test and other training material.

New driver information programme launched – child pedestrians

We launched a new driver information programme (DIP) at the Road Safety GB annual conference in November 2009. The Right Way or No Way is a child pedestrian project educating young people to keep away from the motorways and high speed roads. This programme is supported by a DVD, parents' factsheet, guidance notes for teachers and youth leaders and a series of posters.

Improving Road Worker Safety

As part of our major maintenance road renewals, last year we installed around 64 miles of concrete step barrier. This has a design life several times that of the traditional steel barrier, but more importantly, means fewer emergency repairs following damage to barriers. This reduces the amount of traffic management needed and the exposure of our workforce to live traffic.

Section 5: We deliver sustainable solutions

Did you know?

We are amongst the largest planters of trees in England after the Forestry Commission, and planted some 600,000 during 2009-10.

And we have also installed a total of 1,000 bat boxes to help with conservation by providing safe roosting sites.

2009-10 Sustainability Report

Our network plays a vital part in Britain's sustainability through supporting its economy and its quality of life. But we are also clear that we need to work and operate our network in a way that reduces the global threats of climate change and reduced biodiversity. This is recognised in one of the five goals of our new 2010-15 Strategic Plan: *'We deliver sustainable solutions'*.

We have continued our work on HM Treasury's Sustainability Working Group to assist in developing cross-departmental guidance on sustainability reporting to incentivise improved performance in this area. Our 2009-10 Sustainability Report, produced in line with developing HM Treasury guidance, is shown at figure 1.

We also continue to produce a Sustainable Development Action Plan (SDAP) each year and report at year-end on performance against our commitments.

Greenhouse gas emissions

We met both of our two 2009-10 business plan targets to reduce our greenhouse gas emissions, and we are striving for further reductions in the future.

Environmental sustainability

During 2009-10 we:

- helped deliver the UK's air quality strategy through implementing projects in local authority designated air quality management areas.
- completed the population of a cultural heritage database and started developing cultural heritage management plans.
- consolidated our biodiversity action plan to complement and support the objectives of external nature conservation bodies.
- continued to install lower noise surfacing materials on new roads and when renewing existing roads.
- published new guidance implementing new water quality assessment techniques and drainage design guidance.

Influencing road users to be more sustainable

We operate an open network - generally, any vehicle can enter and exit at will. As such, we have very little control over road users' emissions. However, we do recognise that we, alongside DfT, have a major role to play in terms of influencing drivers to behave more sustainably through improvements in information provision to help them plan their journies.

Midnight switch-off

We successfully implemented the midnight to 5am switch-off of road lighting at six sites in the south of England, at locations with excellent safety records and where traffic flows are low between midnight and 5am. Electronic timers automatically switch the lights off at midnight and back on at 5am. Our control centres can remotely manage these timers and turn the lights back on again if necessary. This has contributed to our savings in both carbon emissions and electricity consumption in 2009-10.

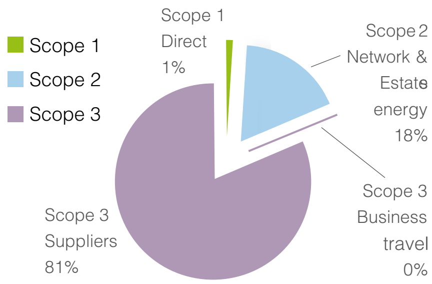
Recycling

Resurfacing work on the M25 between junctions 7 and 6 re-used more recycled asphalt on the network than ever before. Thanks to a partnership between Mouchel and Tarmac for the Highways Agency, more than 700 tonnes of the original road surface was processed and re-used as part of the new surface. This made up 40% of the material in the new surface – a first for any of our roads.

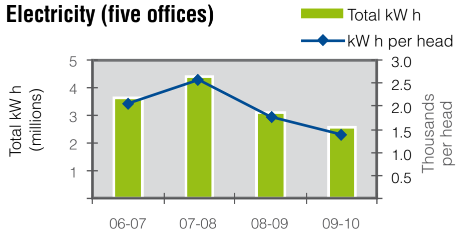
Figure1: Highways Agency Sustainability Report for the Year ended 31 March 2009

GREENHOUSE GAS (GHG) EMISSIONS (CO_2e - tonnes)		2008-09	This year 2009-10
Gross Emissions (tonne CO_2e)	Scope 1: Direct	10,000	7,000
	Scope 2: Energy indirect emissions from network energy and offices	130,000	124,000
	Measured Scope 3 items: Business travel	2,000	1,500
	Measured Scope 3 items: suppliers' emissions on our behalf	408,000	567,500
	Total	550,000	700,000
Related Consumption Data	Office electricity (kW h)	3,108,225	2,616,372
	Gross emissions: Office electricity (tonne CO_2e)	1,691	1,424
	kW h per head	1,782	1,383
	Gas (kW h)	1,968,312	1,280,207
	Gross emissions: office gas (tonne CO_2e)	362	236
	kWh per head	1,964	1,193
	Private car usage (measured by vehicle mileage – million road miles)	2.00	1.68
	Hire car usage (measured by vehicle mileage – million road miles)	2.12	1.75

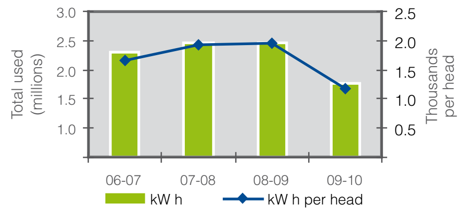
Greenhouse gas emissions 2009-10



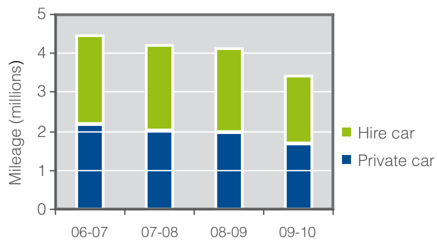
Electricity (five offices)



Gas (four offices)



Road mileage



Performance Commentary and Targets

This is our second year of carbon footprint reporting from six areas of our business. The emissions scopes are formed from the following emissions sources:

- Scope 1 – Highways Agency consumption of gas and water; and owned fleet; H&S vehicle and traffic officer operations (1% of all reported emissions)
- Scope 2 – Electricity supplied to Highways Agency offices, regional control centres (RCCs) and outstations, plus the network energy of lighting signs and signals (18%)
- Scope 3 – Other transport (including business travel), plus all the supply-chain emissions (MAC, DBFO, Major Projects) (81%)

Overall, it is likely that estimates of emissions made during 2009-10 are more representative of the Highways Agency's operations, due to improvements in both the data collection process itself, and in the completeness, robustness and quality of data sets being returned. The influence of improved reporting by the supply chain becomes apparent when considering the increase of Scope 3 emissions. Whilst Scope 3 emissions have increased the overall emissions for the Highways Agency, it is important to recognise that Scope 1 and 2 emissions reduced during 2009-10.

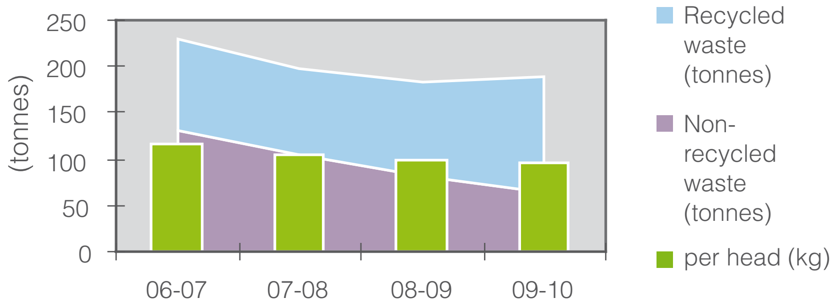
In 2009-10 we were set two business plan targets relating to emissions arising from our:

- network lighting and
- office accommodation, and administrative business travel

Both targets were achieved. For full details see Annex B.

WASTE (measured in seven offices)		2008-09	This year 2009-10
Non-financial indicators	Total waste (tonnes)	183	189
	Recycled (tonnes)	103	124
	Kg per head	100	95
	Percentage recycled	56%	66%

Waste (seven offices)



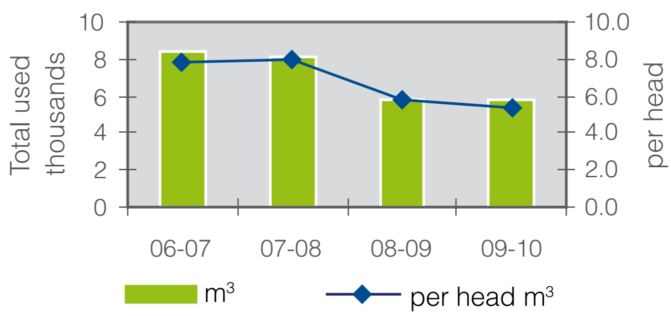
Waste
Performance commentary and targets

For 2009-10 in total, despite waste reduction efforts, we produced 189 tonnes of waste against 183 tonnes for 2008-09. During 2009-10 we recycled 124 tonnes of office waste. Therefore we recycled 65% of our waste which far exceeds the target of 40%.

We are on target to meet the two wider targets for non-construction waste (measured in six offices); the targets are to reduce by 5% and increase recycling to 40% by 2010-11 compared to 2004-05 figures. In 2009-10 we achieved a decrease of 13.3% and recycled 65%.

FINITE RESOURCE CONSUMPTION: WATER (measured in four offices)		2008-09	This Year 2009-10
Non-financial indicators	Water m^3	5,811	5,810
	Gross emissions: office water tonnes (tonne CO_2e)	2	2
	Per head m^3	5.8	5.4

Water consumption (four offices)



Water consumption
Performance commentary and targets

The Highways Agency's water footprint comprises its direct and indirect water consumption, and the water collected through drainage of the road network. The key areas of impact are being investigated in order to determine how the Highways Agency might best address the emerging water footprint agenda within its sustainability and corporate responsibility efforts.

Against the wider target to reduce water consumption by 25% by 2020, relative to the 2004-05 baseline, we remain on target.

Section 6: We set the standard for delivery

Did you know?

Our network technical standards are recognised as world class, and have been adopted by other countries' roads administrators, as well as UK local authorities.

We reduced our business travel by 20% during 2009-10.

Procuring an effective service

Measured by budget 95% of our work is delivered through a tiered relationship with our supply chain. In 2009 we published our Procurement Strategy. This positions us to deliver a first class and consistent approach to procurement, based on the three key themes of value-for-money, delivery and sustainability.

Ensuring efficient delivery

Improved efficiency continues to be an important element in adding value to service delivery. At the end of the financial year 2009-10, the Agency had delivered cumulative gains of £199 million. In April 2009 we embarked on an ambitious programme to apply 'Lean' techniques in the supply chain. Lean is a systematic approach to remove waste from business processes which will enable us to make significant savings on our construction and maintenance schemes. Lean also acts as an effective driver of continuous improvement in our working practices and those of our supply chain.

Meeting the needs of our diverse customer base

We strive to deliver services that all our customers can access. We also understand our legislative duty to promote equality and to eradicate discrimination and harassment. As such we endeavour to recruit and retain a workforce that is representative of the diverse society we serve, ensuring that everyone has an equal opportunity to contribute and develop. Our Single Equality Plan was published in January 2010. It outlines how we intend to promote equality of opportunity and eliminate discrimination both as a service provider and as an employer.

A flexible and responsive organisation

During 2009-10 we introduced a flatter, more flexible organisational structure. We also delivered a targeted leadership programme and increased our programme and project management capabilities. In recognition of our commitment to learning and development, we were re-accredited to the Investors in People standard in 2009-10. We have also embedded a robust set of sickness absence policies and have procedures in place to support managers in managing attendance. In 2009-10 the average sick leave was 7.27 days-per-person compared to 2008-09 when the average was 7.6 days-per-person.

Maintaining good governance

Our system of governance is outlined in our statement on the system of internal control in section 7 of this report. Elements of the system of internal control are assessed regularly by auditors depending on their level of risk. We have taken actions to ensure that good information management remains a priority. All of our staff have been trained in the basics of secure information handling and senior managers are required to report on how they have ensured confidentiality, integrity and availability of the information assets in their stewardship.

The DfT publishes tables in the departmental resource accounts providing details of the number and nature of personal data related incidents occurring in the department.

Lean Construction on the A46

Lean techniques have been used on the A46 to improve earthworks efficiency on site. By measuring and analysing the movement of earthworks machinery on site, productivity was maximised so that £2 million was saved, with savings expected to multiply as improvement practices are implemented across other highway construction projects.

Section 7: Financial review

Contents

Management commentary

The Highways Agency, established in 1994, is an executive agency of the Department for Transport (DfT). It is responsible for managing, maintaining and improving the strategic road network in England, made up of motorways and all purpose trunk roads, on behalf of the Secretary of State for Transport. Its primary functions are to manage traffic, tackle congestion, provide information to road users and improve safety and journey time reliability, whilst minimising the impact on the environment.

Financial Statements

The statements cover the period 1 April 2009 to 31 March 2010 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at **www.hm-treasury.gov.uk**. The financial statements of the Agency are audited by the Comptroller and Auditor General (C&AG).

The financial statements have been prepared in accordance with the 2009-10 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. Implementation of IFRS in the public sector was announced in the March 2008 Budget.

These financial statements are the first to be prepared and published by the Highways Agency using IFRS. In reaching this point the Agency has followed an HM Treasury timetable for transition comprising a series of key milestones. The major tasks were the restatement of the 31 March 2008 balance sheet onto an IFRS basis, and the production of shadow IFRS-based accounts for 2008-09, audited by the National Audit Office (NAO) in autumn 2009.

The switch to IFRS required some changes to be made to budgets; these were approved as part of the Winter Supplementary Estimates in November 2009. The main impact on the Agency was to transfer approximately £300 million of expenditure on the renewal of roads and structures from the resource to the capital budget.

As an executive agency of the Department for Transport (DfT), the Agency's financial statements are consolidated within the resource accounts produced and published by the DfT. These are available online on the DfT website at **www.dft.gov.uk**.

Significant accounting policies

There are two areas of the Agency's financial statements where accounting judgements have a significant impact on financial outturn. These are outlined below:

Valuation of the trunk road network

As explained in note 1.5 to the accounts, professional surveyors undertook a full valuation of the network during the year. Such a full valuation is required at intervals not exceeding five years. The valuation process requires the use of assumptions and estimates. As a result of the full valuation, the net book value of the network decreased by £162m, and the value at 31 March 2010 was £86,916m. The reduction in the valuation of the network was influenced by internal and external factors including more efficient and better value design and construction processes resulting in cost reductions, and a realignment of costs to actual rather than indexed values.

The valuation is based on a standard costs model, the UK Asset Valuation System (AVS). The AVS model is used in the years between full valuations to generate updated values for the trunk road network by recording material capacity changes as well as the application of indices for the costs of land, and road construction. The cost of the network includes any irrecoverable VAT and estimates for compensation costs.

Under IFRS, depreciation of the road network is now calculated in two parts. The valuation of the road network is adjusted to reflect deterioration or improvements in surface condition based on an annual survey of the condition of the road surface. The second component reflects the value of service potential replaced through the maintenance programme.

Recognition and the valuation of provisions

Due to the long-term nature of the Agency's road improvement activities, certain assumptions, judgements and estimates are made in the recognition and valuation of legal and constructive obligations that are of uncertain timing or amount, such as provisions relating to compensation claims and acquisition of land. The Agency is also subject to contractual and damages claims. We assess the likelihood of adverse judgements or outcomes, as well as the ranges of probable and estimated losses.
These are detailed in note 14 to the accounts. Our assumptions regarding the recognition and valuation of provisions are based on a variety of data sources, and experience.

Financial results

The Agency's budget is divided into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME):

- DEL budgets (resource and capital) are firm three year plans set in the Spending Review. These have been changed since CSR07 to reflect the impact of IFRS.
- AME budgets apply to items that are demand-led or exceptionally volatile, where the Agency could not be expected to absorb the effects of volatility in its DEL.

The Agency's Request for Resources voted by Parliament for the year was £8,048m. The Agency's total budget (which includes Consolidated Fund Extra Receipts) was £8,035m. The outturn against this budget can be summarised in the table above as follows:

	2009-10		
	Actual £m	Budget £m	Variance £m
Budget			
Resource Near-Cash DEL	1,157	1,159	2
Resource Non-Cash DEL	790	1,116	326
Resource AME	3,639	3,831	192
Total Net Operating Cost	5,586	6,106	520
Capital DEL	1,927	1,929	2
Grand Total	**7,513**	**8,035**	**522**

Resource AME Variance

The notional cost of capital charge on the Agency's net assets (£2,995m) is the principal item falling into this category. This was in line with budget. The other main item in AME is the write-down reflecting the difference between the actual cost and the standard cost for assets that are capitalised and open for traffic. The variance reflects the Agency's revised strategy to develop Managed Motorways as opposed to motorway widening.

Resource Non-Cash DEL Variance

As noted above, part of the network depreciation charge reflects the deterioration or improvement in surface condition. The budget assumed a deterioration in line with previous years and surveys in the early part of 2009-10. However, the surface condition saw a small improvement over the course of 2009-10. This is partly due to the fiscal stimulus spending during the year. Consequently, the non-cash budget shows an under spend for the year.

Funding of the Agency

Resources to fund the Agency's day-to-day costs and capital investment programme are obtained through the Parliamentary supply process and allocated within the main DfT Estimate.

The Agency's funding takes account of income generated by the Agency, such as recoveries of costs for work carried out on behalf of third parties or rental income from surplus properties. More details of operating income can be found in note 6 to the accounts.

In addition to the above, private sector funding has been obtained under Private Finance Initiative (PFI) and Public Private Partnership (PPP) arrangements. The choice between public and private financing is made on a value for money basis.

How the Agency used resources in 2009-10

The Agency used its resources to meet all business plan targets set by DfT for the year. Full details of the Agency's performance against these targets are shown on page 80 and 81. The main areas of expenditure incurred by the Agency in 2009-10 are shown in the Segmental Report as note 3 to the accounts.

Key aspects of these activities in 2009-10 include:

Maintenance: The trunk road infrastructure is one of the most valuable single public assets in England, and maintenance of it consumed a high proportion (over 44%), of the Agency's expenditure in 2009-10 (excluding capital charges and other non-cash items). The work undertaken includes the enhancement and maintaining of surfaces, bridges and other structures. It also includes the associated upkeep of fencing, drainage, lighting and signage, and the cost of keeping the network moving in winter.

Fiscal Stimulus: In support of the previous Government's fiscal stimulus programme the Agency brought forward some £400 million of planned investment from 2010-11 and future years. This included preparatory works for some Managed Motorways improvement projects, and an extended asset renewal programme to repair and replace some of our older carriageway and structures. The Agency also began constructing the A46 Newark to Widmerpool improvement some three years earlier than originally planned.

Capital Investment: During 2009-10 £1,927m (2008-09 £1,148m) was invested in the road network. This expenditure was across some 1,100 schemes, with the 50 highest value schemes accounting for £946m (2008-09 1,100 schemes, 50 highest value, £825m).

The eight largest major road schemes accounted for a third of the overall spend:

Scheme	Expenditure in 2009-10 (£m)
M1 Junctions 21- 30 Widening Phase 1	126
A3 Hindhead Improvement	93
M25 DBFO Junctions 16-23	84
A1 Dishforth to Leeming	84
A421 M1 Junction 13 to Bedford	84
Birmingham box: Active Traffic Management Phases 1 & 2	71
A46 Newark to Widmerpool	62
A14 Technology Scheme	40

Widening the M25: In May 2009, the Agency finalised the contract for the largest capital project in the Agency's portfolio - the M25 Design, Build, Finance and Operate (DBFO) contract. This encompasses the capital works to create four running lanes on most of the remaining three lane sections of the M25, as well as responsibility for maintaining the motorway and its structures over a 30 year period. The preferred bidder was Connect Plus, a consortium consisting of Balfour Beatty, Skanska, Atkins and Egis Projects. Connect Plus mobilised for a start of works at the end of May 2009. This was necessary in order to complete widening works before the 2012 Olympics. Service Commencement, the full handover of responsibilities for operations and maintenance, took place in mid September 2009, to allow time for an effective transition, and minimise any risk to the quality of service.

Dartford-Thurrock Crossing road user charging scheme: The Transport Act 2000 Sections 163 and 167 of Part 3 Chapter 1 and subsequent secondary legislation gives powers to introduce a road user charging scheme at the Dartford -Thurrock Crossing. Following the signing of the M25 Design, Build, Finance and Operate (DBFO) contract in May 2009, Connect Plus took responsibility for managing the crossing and the collection of charges from September 2009. The crossing had previously been operated since 1 April 2003 by Le Crossing Company Limited. All monies received are passed on to the Agency and subsequently to DfT. The Agency publishes separate accounts for the Dartford-Thurrock Crossing road user charging scheme under Section 3(1) (b) of the Trunk Road User Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

Relationship with suppliers

The Highways Agency procures from suppliers over 95% of what we need to provide efficient, effective and value for money services to our customers. Contracts are planned and managed in terms of value for money (cost, time and quality), delivery (including management of the supply chain to ensure it remains diverse and competitive) and sustainability. Further details about how the Agency works with its many suppliers can be found in the Highways Agency Procurement Strategy published in 2009.

The Agency is committed to the prompt payment of bills for goods and services received and aims to settle 98% of undisputed invoices within contract terms. Performance in the last five years is shown in the table below.

Year	2005 -2006	2006 -2007	2007 -2008	2008 -2009	2009 -2010
% invoices paid within terms	98%	99%	98%	98%	99%

No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

In addition to the above target, from December 2008, Government required public sector bodies to pay suppliers where possible within 10 days. This measure is intended to help reduce financial pressures on companies by improving cash flows. The Agency paid 81% of invoices within ten days.

Government and the Highways Agency spending plans

The Agency's Strategic Plan, **http://www.highways.gov.uk/aboutus/25917.aspx**, covers a five year horizon up to 2015 and sets a bold vision for the Agency to be 'the world's leading road operator. This aspiration is essential to drive business improvement over the coming years and strengthen the Agency's contribution to a sustainable transport system.

The previous Government's Comprehensive Spending Review was published in 2007. This issued departmental budget allocations and Public Service Agreement (PSA) targets for 2008-09, 2009-10 and 2010-11.

The new Government is currently reviewing spending priorities and this will impact the Agency's budgets for 2010-11 and beyond. However, in the year ahead, the Agency will continue to employ initiatives that make the best use of the network by providing additional capacity and improving the use of existing road space to reduce congestion whilst maintaining the highest standards of safety. Full details for 2010-11, including the indicative budget, can be found in the Highways Agency 2010-11 Business Plan **(http://www.highways.gov.uk/businessplan)**.

Market Conditions

During 2009-10 the Agency benefitted from the general reduction in construction sector workload with Baxter indices showing reduced prices for highway works. However, the picture was far from uniform for our key inputs with labour and equipment resource costs rising slightly; costs of material resources such as aggregates, cement, concrete and steel falling and costs of timber and oil based products, such as blacktop and fuel rising significantly.

To put the roads sector in perspective: total construction output in the UK is estimated by the Office of Government Commerce (OGC) to have fallen by 12% during 2009 with a small increase of 1.5% forecast for 2010. Infrastructure output during the same period increased by 6% in 2009, with a 15% increase forecast for 2010. While the Office of National Statistics (ONS) estimate of total construction output in the UK is about £120bn, the infrastructure component is only about 10% of which about half is in highway works.

Increasingly, highway construction products are manufactured and traded globally. Prices are influenced by global demand and for example, manufacturing capacity in steel, and by the exchange rates applying to imported timber and oil based products. Reductions in the value of sterling against other currencies over the last year are now feeding through into prices and will continue to add a degree of volatility in the actual costs paid for highway works going forward into 2010-11. In the longer term, with a number of large infrastructure projects underway or planned, year on year increases in infrastructure output are expected to continue until 2015 and are likely to exert continued upward pressure on highway prices.

Legislation Changes

During the March 2007 budget, the previous Government announced significant changes in the tax legislation by introducing the phased withdrawal of the Industrial Building Allowance (IBA) by 2011. The Agency is currently reviewing with Severn River Crossing plc (SRC) the impact of these changes on the future finance of SRC. The Agency's considered view is that SRC should have sufficient funds to meet its liabilities as they fall due.

Employee related information

Information on the following items is included in other sections of the annual report as referenced below:

- reporting of personal data related incidents – see page 36
- full time equivalent numbers and related costs – see note 4 to the accounts
- sickness absence data – see page 18
- employment of disabled persons – see page 18
- provision of information to, and consultation with employees – see page 5

Board member interests

There are no circumstances relating to the interests of members of the Board that require disclosure.

Auditors

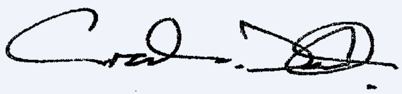
The statutory audit of the Agency's financial statements is undertaken by the Comptroller and Auditor General and cost £300,000 (2008-09 £320,000). In addition £14,000 (2008-09 £13,000) was paid to the National Audit Office in respect of the audit of the 2008-09 Dartford-Thurrock Road User Charging Scheme account, and a notional charge of £13,000 (2008-09 £12,000) was made for the audit of the 2008-09 Severn Bridges account.

Significant events since the end of the financial year

The Government's Spending Review was announced in June 2010. This aims to set out a long term vision for public services and a programme of key reforms to deliver that vision, including a step change in the drive for efficiency and consideration of fundamental changes to the way vital services are provided. The Agency is playing a full role in this review which will conclude in the Autumn.

Date of issue

The Agency account has been authorised for issue on 22 July 2010 by the Accounting Officer.



Graham Dalton
Accounting Officer
9 July 2010

Remuneration Report for the year ended 31 March 2010

Senior civil servants' pay and performance management is not delegated to Departments. Departments operate within a framework set by the Cabinet Office. Some elements of the framework are mandatory; in other areas Departments have flexibility to meet departmental business needs.

The remuneration of the Agency's senior civil servants for current and future years is determined by the Department for Transport's Remuneration Committee in accordance with recommendations of the independent Review Body on Senior Salaries.

Remuneration Committee

The Remuneration Committee comprises the Department for Transport's Permanent Secretary (as Chairman), all DfT Directors General, the Agency's Chief Executive and a non-executive board member.

Remuneration Policy for Senior Civil Servants (SCS) within the Highways Agency

The reward package for the SCS in the Highways Agency is designed to attract, retain, engage and motivate senior leaders, professionals, and specialists of the right calibre in order to continuously improve performance and to deliver business objectives. The package comprises four elements:

- Pay - base salary which is consolidated, pensionable pay (for some members of the SCS not all base salary is pensionable), and variable pay which is a non-consolidated (non-pensionable and conditional) one-off awards to recognise in-year performance;
- Conditions - pension which is defined benefit and index-linked, and other contractual benefits such as annual leave;
- Benefits including any taxable benefits and allowances; and,
- Intangibles, for example, a commitment to work/life balance; interesting and socially valuable work; commitment to development; and, a supportive work environment made up of a diverse workforce.

Pay System and Performance Management - Permanent Staff

The Senior Civil Service pay system is a pay band structure, underpinned by a tailored job evaluation scheme (JESP - Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay. The Agency has 3 SCS pay bands:

- Pay band 1 (Deputy Director) JESP range of 7-12 points
- Pay band 2 (Director) JESP range of 13 – 18 points
- Pay band 3 (Chief Executive) JESP range of 19 – 22 points.

Each pay band has a minimum and a maximum base salary.

SCS in the Agency have objectives in the following categories:

- Business Delivery Objectives: defining business outcomes for the specific post, reflecting business priorities for the year ahead.
- Corporate Objectives: Leadership activity that contributes to the effective corporate management and coherence of the Department and/or the civil service as a whole.
- Capability Objectives: ensuring that individuals, the Department and civil service have the right capability to deliver business outcomes now and in the future.
- Personal Development Objectives: Emphasis on the importance of continuous personal development and an individual's growth in competence.

Objectives incorporate diversity by embedding it in business, capability or corporate objectives, or through a separate diversity objective.

Performance against objectives, and relative to SCS peers, determines allocation to a Performance Group, to which non-consolidated variable pay is linked. There are four Performance Groups:

- Group 1 - Top 25% of performers
- Group 2 - Next 40% of performers
- Group 3 - Next 25-30% of performers
- Group 4 - Bottom 5-10% of performers

To be allocated to Performance Group 1 an individual must deliver to the highest standards in all objective categories.

The annual value of non-consolidated variable pay is set by the government's response to the Review Body on Senior Salaries (SSRB), together with the maximum percentage of staff who may receive it. Variable pay is determined on the basis of an individual's performance group; the highest awards are made to staff in Performance Group 1. Most staff in performance group 3 and all staff in Performance Group 4 do not normally receive a bonus.

The annual value of any SCS base pay increases is set by the government's response to SSRB.

Individual increases are made to:

- move individuals, as quickly as their contribution deserves and funds permit, to the salary level appropriate to their role.
- remove unjustified pay gaps.

Contribution is determined using three criteria:

- Growth in competence; Professional Skills for Government provides the framework for assessing competence;
- Challenge associated with the job; informed by job weight and departmental priorities; and
- Confidence in the individual's future performance; based on sustained past performance and rigorous assessment of potential.

Fixed Term Appointments

The performance of fixed term appointees is assessed against specific terms set out in their contracts, which in turn reflect the market conditions prevailing at the time of appointment.

Remuneration Policy for Non-Executive Directors

The Agency undertook a review of the fees payable to non-executive directors during 2008, comparing them with other DfT agencies. As a result rates were increased with effect from 1 September 2008. No changes were made to rates during 2009-10.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition. Exceptions may be made in certain circumstances. Further information about the work of the Civil Service Commissioners can be found at **www.civilservicecommissioners.gov.uk**.

Senior managers are either permanent appointments or on fixed term contracts. Their contracts are standard with terms and conditions set by the Cabinet Office.

	Date of initial appointment	Unexpired term 31/3/10 (months*)
Executive Directors serving at 31/03/10		
Graham Dalton	30/06/2008	Open-ended
Ginny Clarke	02/07/2001	Open-ended
Stephen Dauncey	02/02/2009	Open-ended
Nirmal Kotecha	14/04/2008	12
Simon Sheldon-Wilson[1]	01/02/2010	Open-ended
Derek Turner	07/03/2005	14
Steve Williams	12/03/2001	Open-ended
Executive Directors leaving before 31/03/10:		
Denise Plumpton[2]	17/01/2005	-
Non-executive Directors serving at 31/03/10		
Tracey Barlow	01/08/2007	16
David Hughes[3]	15/07/2009	15
Andrea Gregory	01/09/2005	5
Non-executive Directors leaving before 31/03/10:		
Alex Jablonowski[4]	28/09/2004	-

** months remaining from 31/03/10*

1 Simon Sheldon-Wilson joined the Board on 1 February 2010 as Director of Traffic Management Directorate.

2 Denise Plumpton left the Agency on 16 January 2010. Richard Willson was appointed on a temporary basis as Director of Information for the period 17 to 31 January 2010, when the Information Directorate ceased to exist.

3 David Hughes joined the Agency on 15 July 2009.

4 Alex Jablonowski left the Agency on 27 September 2009.

Non-executive directors are generally appointed for a fixed term of two years. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation.

Details of the service contract for each senior manager and letters of appointment for the non-executive directors who served during the year are shown in the table at the bottom of the previous page.

Salary and Pension Entitlements (Audited)

The following sections provide details of the remuneration and pension interests of the Agency's executive directors.

	2009-10 Salary, including performance pay		2008-09 Salary, including performance pay	
	Actual	Full-year equivalent[1]	Actual	Full-year equivalent[1]
	£000	£000	£000	£000
Graham Dalton	160-165	-	105-110	140-145
Ginny Clarke	115-120	-	115-120	-
Stephen Dauncey[2]	120-125	-	15-20	110-115
Nirmal Kotecha	210-215	-	140-145	150-155
Denise Plumpton[3]	125-130	155-160	150-155	-
Simon Sheldon-Wilson	15-20	95-100	-	-
Derek Turner	165-170	-	150-155	-
Steve Williams	115-120	-	110-115	-

[1] Full-year equivalent salaries are included for those directors appointed or standing down part way through the year.

[2] Stephen Dauncey's salary for 2008-09 was previously reported as £95-100k. However, this included his salary for the period 1 April 2008 and 1 February 2009 in his role as Finance Director of the Network Operations Directorate.

[3] Following a significant restructuring of several of the Agency's main operating directorates to give a greater focus to front line services, Denise Plumpton stood down from her position as Executive Director and departed from the Agency on 16 January 2010 by way of compulsory early retirement. This arrangement was agreed between the Department for Transport and Ms Plumpton.

The total compensation paid to Ms Plumpton is as follows:

- A lump sum compensation payable at date of leaving of £94k
- An annual compensation payment of £17k payable until age 60
- An annual compensation payment of £8k payable from age 60

No directors in either 2008-09 or 2009-10 were in receipt of any benefits in kind.

Salary

'Salary' includes gross salary, performance pay or bonuses received in year, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances and any other allowance to the extent that it is subject to UK taxation. The payment of legitimate expenses is not part of salary.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. During the year there were no benefits in kind, no compensation was payable to former senior managers other than as noted above, and no payments were payable to third parties for the services of a senior manager.

Pension Benefits (Audited)

Pension benefits are provided through the Civil Service pension arrangements for which details are given in Note 4 to the accounts.

	Accrued pension at age 60 as at 31 March 2010	Real increase in pension at age 60	CETV at 31 March 2010	CETV at 31 March 2009
	£000	£000	£000	£000
Graham Dalton	15-20 no lump sum	2.5-5 no lump sum	272	216
Ginny Clarke	40-45 plus 130-135 lump sum	0-2.5 plus 5-7.5 lump sum	926	839
Stephen Dauncey	5-10 no lump sum	2.5-5 no lump sum	135	79
Nirmal Kotecha	5-10 no lump sum	2.5-5 no lump sum	78	37
Derek Turner	10-15 no lump sum	0-2.5 no lump sum	193	139
Steve Williams	45-50 plus 135-140 lump sum	2.5-5 plus 7.5-10 lump sum	1,087	975
Denise Plumpton	10-15 no lump sum	2.5-5 no lump sum	260	194

	Real increase in CETV as funded by employer	Employee contributions and transfers-in	Compensation Lump Sum in Payment awarded	Employer contribution to partnership pension account
	£000	£	£000	Nearest £100
Graham Dalton	38	4,326	-	-
Ginny Clarke	40	1,589	-	-
Stephen Dauncey	47	4,024	-	-
Nirmal Kotecha	36	4,326	-	-
Simon Sheldon-Wilson[1]	-	-	-	9,100
Derek Turner	41	4,326	-	-
Steve Williams	60	1,596	-	-
Denise Plumpton	35	15,834	94	-

[1] Simon Sheldon-Wilson has opted to open a partnership pension account. Details of this type of pension can be found in note 4 to the Accounts on page 57.

The Cash Equivalent Transfer Value (CETV)

This is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements and for which the CS Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in the value of the CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the Board member (including the value of any benefits transferred from another pension scheme or arrangement) and is calculated using common market valuation factors for the start and end of the period.

Remuneration of Non Executive Directors

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2010:

	£000's
Tracey Barlow	15-20
Andrea Gregory	15-20
David Hughes	15-20
Alex Jablonowski	10-15

The amounts reported above were paid to the individual or the individual's company inclusive of VAT where applicable. We do not regard these payments as being of a third party nature.

Graham Dalton
Accounting Officer
9 July 2010

Statement of Highways Agency and Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Highways Agency to prepare for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency at the year-end and of its income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

In preparing the accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- observe the Accounts Direction issued by HM Treasury, including relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the Accounts; and
- prepare the Accounts on a going-concern basis.

The Permanent Secretary for the Department for Transport has appointed the Highways Agency Chief Executive as an additional Accounting Officer of the Department.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money. Details may be accessed online at **www.hm-treasury.gov.uk**.

Statement regarding disclosure of information to the Auditors

As Accounting Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the National Audit Office have been made aware of that information in connection with their audit.

Insofar as I am aware there is no relevant audit information of which the National Audit Office is unaware.

Statement on Internal Control

Scope of Responsibility

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 departmental 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 in the Highways Agency for the year ended 31 March 2010 and up to the date of approval of this annual report 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 two parts; *Risk Management* arrangements and a *Control Framework*.

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.

The Agency's **risk appetite** is set to ensure that:

- All risks with a high impact on the Agency's performance, stewardship of public funds, stewardship of the environment or the reputation of the Agency or the wider Government receive focused, cost-justified management attention, and
- Where appropriate, action is escalated through the line management chain to DfT and Ministers, and this process of risk escalation has been clarified during the year.

The Board identifies and manages strategic risks to the Agency's business which are shown elsewhere in this annual report. Managers identify and evaluate risks to successful delivery of the Agency's operational and control objectives when they prepare and monitor directorate and divisional management plans.

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.

I am keenly aware that risks to public stakeholders arise from many aspects of the development and operation of the strategic highways network.

While developing new works, the Agency involves the public in risk management through the normal consultation process. My senior staff and I regularly meet with stakeholder groups and cover their views on risks to their interests in these meetings. Road Safety risks are managed through a developing set of safety action plans based on the views from the public and stakeholders with the objective of meeting the targets set by the DfT Road Safety Strategy.

Various significant risks have been or continue to be managed and are dealt with elsewhere in this report. These include:

- A terrorist incident on the network results in serious congestion.
- Bad weather disrupts the network.
- Delivery of fiscal stimulus.
- The Agency has insufficient resource capacity to carry out its role
- Loss, irregular disclosure or corruption of important data

Control Framework

Objectives and Targets - We have clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning.

Public Funds & Assets - 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 including;

- An mandatory Investment Control Framework which encompasses Office of Government Commerce (OGC) and DfT investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers affordability, prioritisation, risk and strategy. These arrangements dovetail with those of our parent Department for larger investments that require approval from DfT or Ministers.
- The Investment Control Framework also addresses financial propriety and other requirements from *Managing Public Money, the Green Book* and other Treasury requirements.
- ORACLE accounting system.
- Asset Management procedures to record and account for all assets.
- A dedicated officer coordinates action on fraud related matters and when necessary a Fraud Committee of HA Board Directors is convened to oversee the handling of any significant issues or investigations. The Fraud Committee is a sub-committee of the Agency's Audit Committee and provides regular updates to them on anti-fraud measures and any investigations undertaken.
- The Agency is IiP (Investors in People) accredited – this is a proven business improvement framework that significantly improves financial performance, profitability, productivity and employee involvement and focus.

Project & Contract Management - We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality. Control systems include;

- A Project Control Framework which specifies the detailed governance processes and procedures that major projects must follow to ensure they deliver the required outputs of each project phase on time and to budget. The framework also defines the project lifecycle, roles and responsibilities and project deliverables.
- Use of the OGC Gateway Review method of providing project assurance. Competent Programme and Project management ensures that issues are not overlooked, time and money is not wasted, and resources are effectively deployed.
- Centralised procurement function for contracts >£15k which are handled by a central Division and any single tender action requires the personal approval of the Procurement Director.
- Compliance by Managing Agents to their contracts is checked by an external team of auditors under a Performance Audit Function Framework.

Compliance with Standards & Requirements - Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements. The Agency's arrangements include:

- A dedicated team deals with compliance with the statutory processes for the acquisition, management and disposal of land and property in connection with the Agency's activities. Others deal with the statutory requirements concerning road building, and the management and maintenance of the strategic road network.
- Technical governance procedures to ensure that the Agency conducts its business in accordance with the appropriate technical standards, and includes measures to govern any necessary departure from engineering standards.
- Adoption of "Aiming for Zero" – a goal of zero accidents and ill-health for our work force, where legal compliance is seen as the minimum standard of health and safety – world class performance will be delivered through our strategies for improvement. This includes both our own staff in the Traffic Officer Service and our people who work in and from our offices. It also applies to our supply chain of operatives working on our network.
- Compliance with European Union legislation and standards where appropriate regarding several areas including procurement and health and safety.

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.

Key elements

The Highways Agency Board (which comprises six senior Executive Board Directors and three independent non-executive directors) meets frequently to consider the plans, performance and strategic direction of the Agency, the most important risks to successful delivery of those plans and the Agency's stewardship of public assets. Disclosures about how the Board and its sub committees operate, the independence of non–executive directors, and the Audit Committee's terms of reference are detailed elsewhere in this annual report.

The Audit Committee is made up of the Agency's three non-executive directors, one of whom chairs it.

The Chair of the Agency's Audit Committee also sits on the DfT Audit Committee and meets with his fellow chairmen. I, my Head of Internal Audit, Finance Director and representatives from the DfT and National Audit Office attend meetings of the Audit Committee but have no vote. The independent Chairman of the Audit Committee advises as appropriate on key risk and control issues. The Audit Committee meets approximately every quarter and reviews the Agency's assessment of corporate risk, considering wider Departmental risk as appropriate. In addition, it considers reports from the Agency's Fraud Committee and monitors progress with the internal audit programme, health and safety audits and other assurance processes operating across the Agency, ensuring recommendations arising are implemented. During 2009-10, the Audit Committee specifically reviewed or considered various topics including the:

- 2008-09 Highways Agency Annual Report & Accounts,
- 2008-09 AICD Annual Report & opinion,
- 2008-09 Highways Agency Stewardship Report,
- the Highways Agency Corporate Risk Register,
- Reporting of fraud to the Audit Committee and the frequency and nature of reports,
- AICD and NAO audit strategies and progress for providing assurance to the Chief Executive as Accounting Officer,
- Health and Safety audit programme.

- Operation of the Gateway Assurance Process within the Agency and an audit of Agency ethical standards.

Audit Committee's terms of reference and related matters.

My **Head of Internal Audit** provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Manual, 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 Agency Board and is included on the performance scorecard. The Head of Internal Audit's opinion for the year 2009-10 is that on the basis of the evidence obtained during the year sound systems of corporate governance, risk management and internal control are established and found to be operating effectively with some minor exceptions. In his opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control. Actions to rectify specific weaknesses identified by my internal auditors are under way.

During the year the Agency continued to comply with the Cabinet Office guidance on information risk management. My **Senior Information Risk Officer's** assessment of information risk performance is that the Agency's information assets held on the Agency's business IT infrastructure are being managed effectively and appropriate risk controls are in place. All existing staff were trained in data handling and new staff are required to complete the training and pass a test of their knowledge in their first week of employment. We continue to pursue a policy of continuous improvement in our controls and have no personal data related incidents to report.

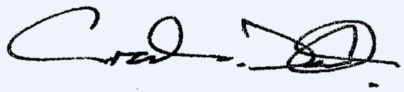
The Agency's **corporate governance arrangements** are designed to comply with the Code of Good Practice on Corporate Governance in Central Government Departments. They are illustrated in the diagram of the governance framework below.

Other explicit reviews/assurance mechanisms

- Twice a year Agency Board Directors provide Stewardship Reports that take account of assurances from Divisional Directors and others who report on the full range of delegations, policies and procedures laid down by the Agency. The output from this exercise is included in the SIC where appropriate. Directors report on;
  - Compliance within their division.
  - The adequacy of the arrangements within their division.
  - What remedial action is being taken where assurance cannot be provided.
- HM Treasury publishes an annual review of fraud suffered by government organisations and the lessons to be learnt which is considered and acted upon by the Agency.
- The Agency is participating in the National Fraud Initiative being run by the Audit Commission. This initiative enables Government Departments and other bodies to participate in data matching exercises. This involves comparing computer records held by one body against other computer records held by the same or another body to see how far they match. This is usually personal information and allows potentially fraudulent claims and payments to be identified for further investigation and has proved successful in some organizations.
- The recently received report from the Public Sector Fraud Taskforce *'A Fresh Approach to Combating Fraud in the Public Sector'* will be considered and acted upon. This Taskforce was established as a cross-Government initiative to make recommendations on ways to reduce fraud against the public sector, drawing particularly from best practice within the private sector. The report makes a range of recommendations to combat fraud in the public sector.
- As part of the DfT initiative to transfer functions to the Shared Service Centre (SSC) the Agency transferred its payroll and Human Resource services to the SSC in April 2009. The development of the SSC is to drive greater efficiency and effectiveness in the functions

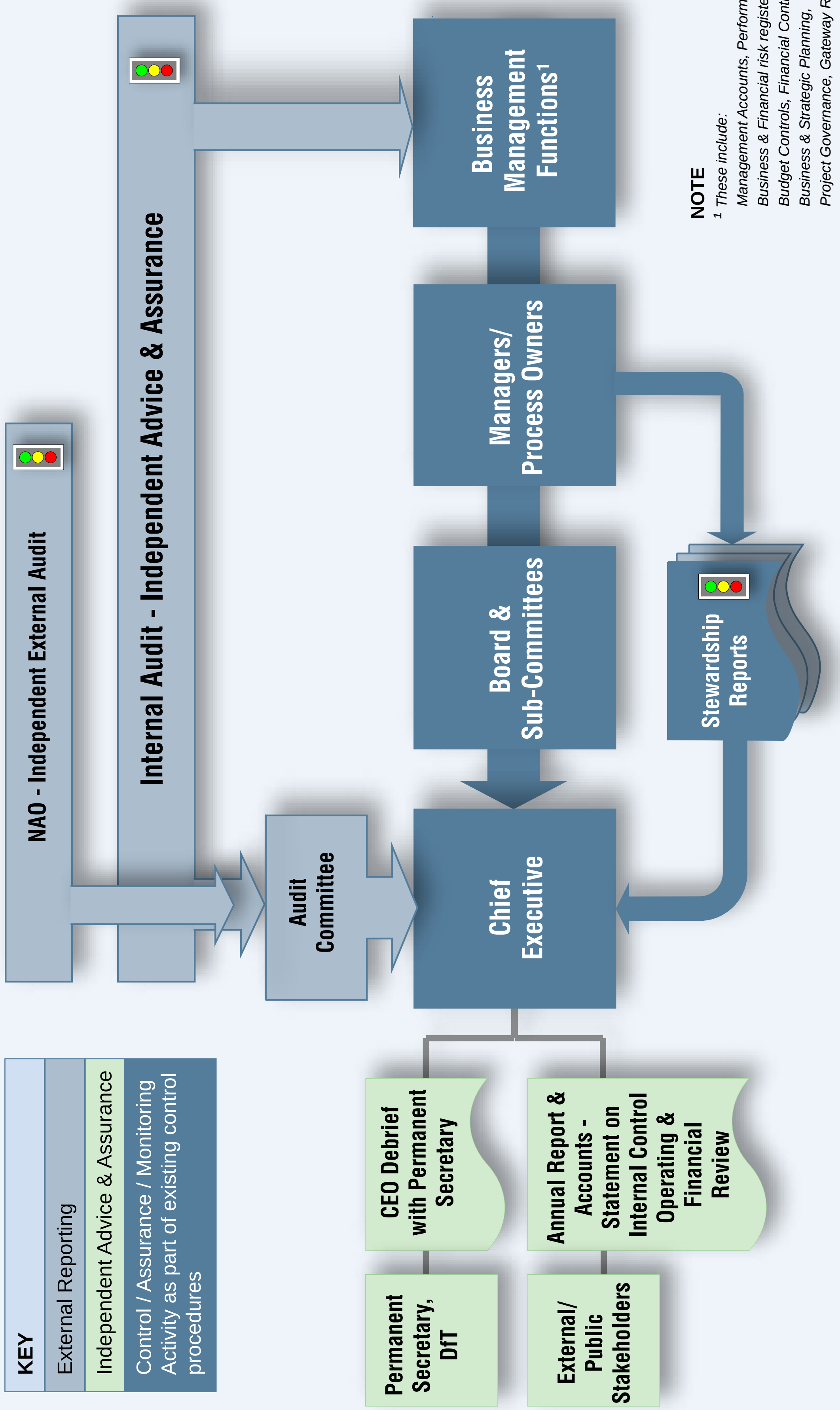
transferred and I am a member of the Business Process Programme Board (BFPB) which is overseeing this initiative.

- The Agency, working closely with the Department and the SSC, has progressively improved control since implementation and ensured any risks are identified and addressed or mitigated before material impact. During 2010-11 we will be continuing to work through outstanding issues including progression to an automated payroll interface and, through our Information Risk Management processes, evaluating the risks to confidentiality, integrity and availability of our data to ensure SSC complies with the Data Handling Review Minimum Mandatory Measures.
- The NAO report 'Contracting for Highways Maintenance' and subsequent Public Accounts Committee hearing about the Agency's Managing Agent Contracts (MACs) and maintenance arrangements. The report acknowledged that the MAC contract followed best practice and contained the mechanisms necessary to allow the Agency to manage risks and deliver efficiencies over time. It did contain some criticisms that contracts could be further improved and more should be done to maintain competition. The Agency is taking action to address these comments.
- In 2009 the NAO carried out an audit of the 2008-09 efficiency gains claimed by the Agency (a total of £103m). NAO gave a green rating to 67% of the Agency's gains and an amber rating to 33% of the Agency's gains, the latter on the basis that the Agency could not demonstrate that claimed savings have released cash. The Agency will continue to develop its evidence base to demonstrate the cash releasing nature of all efficiencies being claimed and will also continue to claim all the efficiencies against target as we feel we can provide a robust defence should we be challenged.



Graham Dalton
Accounting Officer
9 July 2010

Highways Agency governance framework



NOTE

[1] *These include: Management Accounts, Performance Reports, Business & Financial risk registers, Budget Controls, Financial Controls, Business & Strategic Planning, Project Governance, Gateway Reviews, Investment Appraisal, Procurement Procedures, Technical Governance, Contract Management, Asset Management, Way We Work reviews.*

The Certificate and Report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Highways Agency for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of the Agency and Accounting Officer's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the 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 the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, cash flows and changes in taxpayers' equity for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in the 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

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

16 July 2010

Operating Cost Statement for the period ended 31 March 2010

		2009-10			
		Staff Costs	Other Costs	Income	2008-09 Total
	Note	£000	£000	£000	£000
Administration Costs					
Staff costs	4	56,762			52,134
Other administration costs	5a		27,173		36,268
Operating income	6			(1,681)	(2,397)
Programme Costs					
Staff costs	4	68,803			63,570
Programme costs	5b		5,508,802		5,590,076
Operating income	6			(73,505)	(100,915)
Totals		**125,565**	**5,535,975**	**(75,186)**	
Net Operating Cost				**5,586,354**	**5,638,736**

All income and expenditure is derived from continuing activities.

The notes on pages 45 to 78 form part of these accounts

Statement of Financial Position as at 31 March 2010

	Note	31 March 2010 £000	31 March 2009 £000	1 Apr 2008 £000
Non-current assets				
Property, plant and equipment	7	87,930,679	88,018,021	84,435,529
Intangible assets	8	16,442	23,991	18,959
Trade and other receivables	11	285,973	273,993	223,725
Total non-current assets		**88,233,094**	**88,316,005**	**84,678,213**
Current assets				
Assets held for sale	9	8,062	11,741	34,504
Inventories	10	90,188	28,117	21,606
Trade and other receivables	11	144,058	111,045	180,313
Cash and cash equivalents	12	30,499	48,983	(58,850)
Total current assets		**272,807**	**199,886**	**177,573**
Total assets		**88,505,901**	**88,515,891**	**84,855,786**
Current liabilities				
Trade and other payables	13	727,948	643,896	558,585
Provisions	14	139,556	262,068	166,902
Total current liabilities		**867,504**	**905,964**	**725,487**
Non-current assets less net current liabilities		87,638,397	87,609,927	84,130,299
Non-current liabilities				
Provisions	14	270,150	374,859	514,653
Other payables	13	1,367,639	1,299,741	1,331,936
Total non-current liabilities		**1,637,789**	**1,674,600**	**1,846,589**
Assets less liabilities		**86,000,608**	**85,935,327**	**82,283,710**
Taxpayers' equity				
General Fund		38,908,966	38,545,549	38,634,643
Revaluation Reserve		47,084,328	47,389,778	43,649,067
Grant Reserve		7,314	-	-
Total taxpayers' equity		**86,000,608**	**85,935,327**	**82,283,710**

Graham Dalton
Accounting Officer
9 July 2010

The notes on pages 45 to 78 form part of these accounts

Statement of Cash Flows for the period ended 31 March 2010

	Note	2009-10 £000	2008-09 £000
Cash flows from operating activities			
Net operating cost		(5,586,354)	(5,638,736)
Adjustment for non-cash transactions	5,6	4,405,012	4,594,891
(Increase) in Inventories		(62,071)	(6,511)
(Increase) in trade and other receivables		(44,992)	19,000
less movement in receivables relating to items not passing through the OCS		(5,268)	(74,499)
Increase in trade and other payables		151,950	53,116
less movement in payables relating to items not passing through the OCS		8,767	(39,808)
Use of provisions		(170,758)	(166,902)
Non-cash movement in classification of provision		-	87
In year spend on detrunkings		-	(9,326)
Adjustment for capital and interest element of PFI payments		52,970	49,242
Net cash outflow from operating activities		**(1,250,744)**	**(1,219,446)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,931,718)	(1,502,308)
Proceeds of disposal of assets held for sale		4,719	20,804
Capital element of movement in provisions		9,127	111,608
Net cash outflow from investing activities		**(1,917,872)**	**(1,369,896)**
Cash flows from financing activities			
From Consolidated Fund (Supply): Current year		3,190,257	2,673,364
From Consolidated Fund (Supply): Prior year		25,068	73,636
Capital element of payments in respect of on balance sheet PFI contracts		(52,970)	(49,242)
Net Financing		**3,162,355**	**2,697,758**
Net (decrease)/increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		(6,261)	108,416
Payments of amounts due to Consolidated Fund		(12,223)	(583)
Net (decrease)/increase in cash and cash equivalents in the period		(18,484)	107,833
Cash and cash equivalents at the beginning of the period	12	48,983	(58,850)
Cash and cash equivalents at the end of the period	12	30,499	48,983

The notes on pages 45 to 78 form part of these accounts

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2010

	Note	General Fund £000	Revaluation Reserve £000	Grant Reserve £000	Total Reserves £000
Balance at 31 March 2008		**39,274,159**	**44,014,606**	**-**	**83,288,765**
Detrunkings		(639,516)	(365,539)	-	(1,005,055)
Restated balance at 1 April 2008		**38,634,643**	**43,649,067**	**-**	**82,283,710**
Changes in taxpayers' equity for 2008-09					
Net gain on revaluation of property, plant and equipment		-	3,934,742	-	3,934,742
Release of reserves to the Operating Cost Statement		8,408	-	-	8,408
Adjustments to non-current assets		(153,572)	(86,945)	-	(240,517)
In year spend on detrunked and trunked roads		(9,326)	-	-	(9,326)
Reversionary interest on M6 toll road		18,746	-	-	18,746
Non-cash charges - cost of capital	5	2,952,459	-	-	2,952,459
Non-cash charges - auditors' remuneration	5	320	-	-	320
Non-cash charges - payroll and legal costs	5	955	-	-	955
Transfers between reserves		107,086	(107,086)	-	-
Net operating cost for year		(5,638,736)	-	-	(5,638,736)
Total recognised income and expenses for 2008-09		(2,713,660)	3,740,711	-	1,027,051
Funding from Department for Transport		2,648,295	-	-	2,648,295
CFERs payable to the Consolidated Fund		(23,729)	-	-	(23,729)
Balance at 31 March 2009		**38,545,549**	**47,389,778**	**-**	**85,935,327**
Detrunkings		-	-	-	-
Restated balance at 1 April 2009		38,545,549	47,389,778	-	85,935,327
Changes in taxpayers' equity for 2009-10					
Net loss on revaluation of property, plant and equipment		-	(145,650)	-	(145,650)
Adjustments to non-current assets		(268,887)	(137,139)	-	(406,026)
Reversionary interest on M6 toll road		(4,288)	-	-	(4,288)
Non-cash charges - cost of capital	5	2,995,413	-	-	2,995,413
Non-cash charges - auditors' remuneration	5	300	-	-	300
Transfers between reserves		22,661	(22,661)	-	-
Net operating cost for year		(5,586,354)	-	-	(5,586,354)
Total recognised income and expenses for 2009-10		(2,841,155)	(305,450)	-	(3,146,605)
Funding from Department for Transport		3,224,113	-	-	3,224,113
CFERs payable to the Consolidated Fund		(19,541)	-	-	(19,541)
Grant Reserve		-	-	7,314	7,314
Balance at 31 March 2010		**38,908,966**	**47,084,328**	**7,314**	**86,000,608**

Notes to the Agency's Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2009-10 Government 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. Where the FReM permits the choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Highways Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Highways Agency are described below. They have been applied consistently in dealing with items considered material to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of non-current assets and inventories where material.

1.2 First time adoption of International Financial Reporting Standards

As these financial statements represent the Agency's first-time adoption of IFRS, an explanation of the effect of transition is given in note 2 to these financial statements. Note 2 includes a reconciliation of the Agency's equity as previously reported under UK GAAP as at the date of transition and up to 31 March 2009 and a reconciliation of the Net Operating Cost for the previous accounting period under UK GAAP.

In accordance with IFRS 1, the Agency prepared an opening IFRS balance sheet, as at 1 April 2008.

1.3 Other recent accounting developments

Standards

A number of new standards, amendments and interpretations of standards, effective in 2010 were issued and adopted early by the Agency. These had no impact on the Agency's financial statements (unless stated otherwise):

- IFRS 8 Operating Segments Disclosure: The standard was revised to enable the reporting of segmental analysis without disclosing assets held by each segment. This amended standard was adopted early by the Agency.
- IFRS 1 First time adoption of IFRS: No new technical changes made. The standard was updated to make it easier to adopt future changes. This was applied in these financial statements.

As at the 31 March 2010, the following Standards and Interpretations have been issued but are not yet effective (and in some cases not yet adopted by the EU):

- IAS 24 Related party disclosures (amended), effective for annual periods beginning on or after 1 January 2011.
- IAS39 Financial Instruments (amended): effective for annual periods beginning on or after 1 July 2009. The amendment provides clarification on how the principle that determines whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.
- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2013. However, this can be adopted in phases. Phase 1 is on or after 1 January 2009. This is a new standard on classification and measurement of financial assets that will replace IAS39.

The adoption of the above standards and interpretations in future periods will have no material effect on the Agency's financial statements.

FReM

The Government Financial and Reporting Manual (FReM) includes the following accounting changes that have been issued and will be effective in 2010-11:

- FRS 30 Accounting for Heritage Assets: this will have no impact on the Agency's financial statements.
- Notional Cost of Capital charge: the notional Cost of Capital calculated for each class of business, as required by HM Treasury, will no longer be applicable. This will affect the Operating Cost Statement (which for 2009-10 includes a charge of £2,995m) and will be offset by an equivalent adjustment in the Statement of Changes in Taxpayers' Equity.
- Accounting for consolidated fund revenue: Introduction of Trust Statements for revenue collected by entities that is due to the Consolidated Fund – this will have no impact on the Agency's financial statements.

1.4 Prior Year Adjustments

Material adjustments applicable to prior periods arising from either changes in accounting policy, correction of material errors, or the value of trunked/detrunked roads are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated.

1.5 Non-Current Assets: Property, Plant and Equipment

Property, plant and equipment is sub-categorised into network assets and non-network assets. Network assets relate to the motorways and trunk roads in England, which form a single integrated network. The network infrastructure consists of carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter. Non-network assets include land and buildings outside the highway's perimeter, non operational buildings, plant and equipment and information technology. All residential properties owned by the Highways Agency and not part of an existing scheme under construction are reported as dwellings and valued at open market value.

Capitalisation Policy

Expenditure on property, plant and equipment for acquisition or enhancement of an asset is capitalised above the thresholds as summarised below:

Non network assets (excluding Land) £2,000

Land No minimum value

Network Infrastructure – new build £100,000

Road & Structures renewals £100,000

Expenditure falling below these values is charged as an expense in the Operating Cost Statement. Other than assets included within the network infrastructure and ring-fenced relocation projects, there are no grouped assets.

Expenditure on construction schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will go ahead. Where a scheme is subsequently withdrawn from the capital programme, cumulative design expenditure is written-off to the Operating Cost Statement. Any retained land and property is transferred to surplus land and buildings or dwellings, as appropriate. Surplus land, buildings or dwellings to be sold within 1 year are valued and reported as assets held for resale.

Internal staff costs that can be attributed directly to the construction of an asset have been capitalised.

The road network is inspected regularly to enable maintenance to be planned on a priority basis and ensure the safety of the road user. All planned non-routine road renewals maintenance expenditure is capitalised as it is recognised the maintenance spend enhances or replaces the service potential of the road network. Routine maintenance expenditure, e.g. repairing potholes is regarded as day to day servicing and is charged to the Operating Cost Statement.

Expenditure on renewal of structures is capitalised when the planned maintenance spend enhances or replaces the service potential of the structure. All routine maintenance expenditure such as clearing structure drainage is charged to the Operating Cost Statement.

Internal staff costs attributed to capital renewal schemes have been capitalised.

Purchased operating software or any in-house developed software that can only operate on a given hardware platform is capitalised with the hardware as a property, plant and equipment asset.

Valuation

Infrastructure Assets

The network infrastructure, which is intended to be maintained at a specific level of service potential by continual replacement and refurbishment, is valued at depreciated replacement cost.

The infrastructure asset valuation is based on a standard costs model. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using internal costing and physical assets records provided by the Agency. In the years between full valuations, the value of the network is adjusted to reflect:

a) Movements in prices using appropriate published indices (see below);

b) Expenditure on new schemes or enhancements which increase the capacity of the network; and

c) Detrunkings (refer to note 15).

The valuation is based upon a non recoverable VAT rate of 17.5% which reflects a consistent long- term approach to valuing the network. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

A full valuation of the network infrastructure was carried out by EC Harris LLP, professional surveyors, during the year ended 31 March 2010.

Between full valuations the values are adjusted using the following indices:

Roads and structures	ROCOS (resource cost index of road construction); published on a quarterly basis by the Department for Business, Enterprise and Regulatory Reform (BERR)
Communications	BEAMA (British Electrotechnical & Allied Manufacturers) index sourced from its website.
Land	Land indices published twice yearly by the Valuation Office Agency (VOA)

Assets Under Construction

Assets in the course of design or construction are capitalised at the lower of actual costs and standard cost. This is a two stage process:

- During the course of construction capital additions are made at actual costs; and
- A review of the additions is carried out and an adjustment is made to reflect the difference between actual and standard costs.

Land and Buildings, including Dwellings

Freehold land and buildings have been valued on the basis of open market value for existing use.

External professional surveyors, in accordance with the RICS Appraisal and Valuation Manual, undertake a full valuation of these assets at intervals not exceeding five years. Between valuations values are adjusted using regional land and building indices published twice yearly by the VOA.

Land and buildings are freehold and leasehold. Some Regional Control Centres are leasehold properties under 50 years and defined as short leasehold properties.

The land and buildings assets were last fully valued as follows:

Asset	*Valuation Date*	*Undertaken By*
Federated House	17 March 2010	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2006	VOA
Motorway Service Areas	31 March 2010	VOA
Surplus properties (including dwellings)	31 Dec 2009	VOA

Plant and Equipment

Structural steelwork is stated at fair value using the current market value of steel. Other plant and machinery is stated at fair value using monthly plant and equipment indices supplied by BERR.

Information Technology

Information Technology consists of IT Hardware and Database Development. Database Development is the development of Highways Agency IT databases and is stated at cost. Other information technology assets are stated at fair value using monthly plant and equipment indices supplied by BERR.

Assets Held for Sale

Assets held for resale within 1 year, being land and property released from road schemes, are valued at open market value, less provision for selling costs where material.

1.6 Depreciation

Infrastructure Assets

The road surface is recognised as a single asset. Depreciation for the road surface is not based on asset life. It is calculated in two parts:

- Renewal maintenance expenditure on network road surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation. The value of materials replaced by subsequent expenditure is derecognised from gross book and accumulated depreciation values.
- The condition of the road surface is measured by rutting. Rutting is a good indicator for the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. The condition of the road surface, as assessed by condition surveys, is undertaken and any movement in the condition is taken to the Operating Cost Statement as a depreciation charge or conversely an improvement credit.

Road surface assets comprise: -

- Surface layer of flexible pavements
- Sub pavement layer of determinate life pavements
- Fencing, drainage, lighting, signage, kerbs, footways
- Road markings and studs
- Rigid concrete pavements

Depreciation for structures is determined in two parts as follows:

- Renewal maintenance expenditure on structures is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation. The value of materials replaced by subsequent expenditure is derecognised from gross book and accumulated depreciation values.
- Structures have a number of definable components with different design finite life and are depreciated on a straight-line basis at rates to write off the assets over their economic life.

  Structures and communication infrastructure assets have the following economic life and depreciate on a straight line basis as follows: -

	Life in years
• Road bridges, tunnels and underpasses	20 to 120
• Road culverts	20 to 120
• Retaining walls	20 to 120
• Gantries	20 to 120
• Road communications assets	15 to 50

The following infrastructure components are considered to have an indefinite life and are not depreciated: -

- Freehold land
- Sub pavement layer of long life pavements
- Earthworks

The road surface and other infrastructure components are subject to an annual impairment review. Impairment is recognised as required by the International Accounting Standard (IAS) 36, Impairment of Assets.

Non-Network Assets

Freehold land is not depreciated. Other assets are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis as follows: -

Property	**Life in years**
• Freehold buildings	up to 60 years
• Leasehold buildings	length of the lease
• Historic leasehold building	length of the lease
• Surplus properties awaiting sale	no depreciation
Plant and Equipment	**Life in years**
• Winter maintenance equipment	10 to 25 years
• Office equipment	5 to 10 years
• Communications equipment	15 to 25 years
• Vehicles	5 to 10 years
• Test equipment	5 to 10 years
• IT equipment	5 years
• Database development costs	5 years
• Structural steelwork	10 years
• Assets in storage	no depreciation
• Assets awaiting sale	no depreciation

Assets in storage (for example overhead gantries), become a network asset once issued from stores. These items are kept in controlled conditions and do not deteriorate. Whilst not depreciated, they are subject to an annual impairment review.

1.7 Non-current assets: Assets held for sale

Assets in this category comprise surplus land, buildings and dwellings (being land and property released from road schemes), plant and equipment and other assets no longer used. Assets held for sale are available for sale within 1 year, in their present condition, and are being actively marketed. These assets are valued at the lower of carrying amount and fair value less costs to sell.

1.8 Non-Current Assets: Intangible Assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,000 or more is incurred. These are valued at cost.

Internally developed intangible assets, such as software or databases, are recognised as intangible assets if, the software can be run on different hardware platforms, if there is an identifiable asset that will produce future benefits and if the cost can be determined reliably.

Intangible assets are amortised over their useful lives, typically on a straight-line basis, which is considered to be three to five years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

1.9 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories comprise all costs incurred in bringing the inventories to their present location and condition. Where excess or obsolete inventory holdings have been identified, a provision has been made to reduce the carrying value to estimated net realisable value.

1.10 Research and Development

Expenditure on research is not capitalised. Expenditure on development is capitalised and written off over the useful life of the asset if it meets the criteria specified in the FReM. Expenditure that does not meet the criteria for capitalisation is treated as an expense and shown in the Operating Cost Statement in the year in which it is incurred.

Non-current assets acquired for use in research and development are depreciated over the life of the associated project.

1.11 Operating Income

Operating income is income that relates directly to the operating activities of the Agency. It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. It includes not only income appropriated in aid of the Estimate but also income due to the Consolidated Fund, which in accordance with the FReM is treated as operating income. Operating income is stated net of VAT, and is measured at the fair value of the consideration received or receivable.

1.12 Administration and Programme Expenditure

The Operating Cost Statement is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury.

Administration costs reflect the costs of running the Agency and include expenditure on administrative staff (such as wages and salaries, training and development and travel expenditure) and associated costs including accommodation, communications and office supplies.

Programme costs reflect the costs of operating, managing, maintaining and improving the motorway and trunk road network. They include staff costs where they directly relate to service delivery.

1.13 Capital Charge

As required by the FReM, a charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) as follows: -

Property, plant and equipment, non-current assets held for re-sale and Intangible Assets

The cost of capital charge is based on opening values, adjusted for the effects of any in year revaluations and adjusted for in-year additions at cost, disposals as valued in the opening statement of financial position (plus any subsequent capital expenditure prior to disposal), impairments at the amount of the reduction of the opening statement of financial position value (plus any subsequent capital expenditure), and depreciation.

All Other Assets Less Liabilities

The cost of capital charge is based on the average carrying amount.

1.14 Pensions and other employee benefits

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 4. The defined schemes are unfunded and are mostly non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

The Agency recognises liabilities for short-term employee benefits (which fall due within twelve months of the period in which they are earned). In practice, all material short-term employee benefits are settled during the period in which they are earned.

The Agency is required to pay, as termination benefits, the additional cost of benefits, beyond the normal PCSPS benefits, in respect of employees who retire early, unless the retirements are on approved medical grounds. The Agency recognises the full cost of benefits (including pensions payable up to the normal retirement age and lump sums) as an expense and liability when it becomes demonstrably committed to providing those benefits.

1.15 Leases

At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the Agency. In making the classification, the Agency does not separate the land and buildings elements of arrangements which cover both elements.

Arrangements, including some PFI contracts that are not service concessions, whose fulfilment is dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease. Transactions involving the legal form of a lease, such as sale and leaseback arrangements, are accounted for according to their economic substance.

Rentals under operating leases are charged to the Operating Cost Statement on a straight line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the value is recognised on a straight-line basis over the lease term. Where the Agency bears substantially the risks and benefits of owning a leased item it is accounted for as a finance lease. The asset is recorded as property, plant and equipment and a liability to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.16 Service Concessions

Under a service concession, a government entity contracts with a private sector entity to develop, finance, operate and maintain infrastructure, to deliver services directly or indirectly to the public, but controls or regulates those services and controls any significant residual interest in the infrastructure. Services indirectly provided to the public include those related to assets held for administrative purposes in the delivery of services to the public.

The Agency recognises the infrastructure associated with service concessions as an asset and recognises the related liability. The asset is accounted for in a manner consistent with other assets of that type. Interest on the liability and expenditure on services provided under the service concession are recognised in the Operating Cost Statement as they accrue. Unitary Charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability.

Where at the end of the concession all or part of the property reverts to the Agency for a specified value, the difference between the expected fair value of the residual asset on reversion at the start of the contract and any agreed payment on reversion is built up over the life of the contract to ensure proper allocation of payments between the cost of services under the contract and acquisition of the residual interest. Capitalisation of residual interest is disclosed within Non-Current Assets under Assets under Construction.

The Agency currently has fourteen PFI properties in service that are recognised as being assets of the Agency. The capital value of the pre 2005-06 PFI schemes was estimated using the public sector comparator. From 2005-06, the capital value has been based upon the PFI contractor's best estimate of capital cost at the time the contract is awarded.

In respect of the M6 toll, the reversionary interest is based on the current net book value (NBV) of the M6 toll road. The NBV is projected forward then discounted back, with the balance being built up and indexed over the life of the assets until they revert back to the Highways Agency in 2054.

1.17 Provisions and financial liabilities

In accordance with IAS 37 the Agency provides for legal and constructive obligations that are of uncertain timing or amount at the statement of financial position date on the basis of management's best estimate of the expenditure required to settle the obligation and, where appropriate, this is supported by independent professional advice. Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of additions to fixed assets.

1.18 Contingent Liabilities

In accordance with IAS 37, the Agency discloses as contingent liabilities potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Agency's control, unless their likelihood is considered to be remote. Guarantees, indemnities and undertakings which are not financial guarantee contracts under IAS 39 are treated as contingent liabilities.

In addition to contingent liabilities disclosed in accordance with IAS 37, the Agency also discloses for Parliamentary reporting and accountability purposes certain contingent liabilities where the likelihood of a transfer of economic benefit is remote.

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts and the amount reported to Parliament is noted separately. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

1.19 Financial Instruments
Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets are typically cash or rights to receive cash or equity instruments in another entity. Financial liabilities are typically obligations to transfer cash. A contractual right to exchange financial assets or financial liabilities with other entities will also be a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

1.19.1 Financial assets and liabilities
The Agency classifies its financial assets and liabilities in the following categories:
Financial assets are loans, receivables and assets available for sale. Financial liabilities are any contractual obligations to deliver cash or financial assets to a third party. Management determines the classification of financial assets and liabilities at initial recognition.

1.19.2 Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available for sale. Loans and receivables are initially recognised at fair value and subsequently held at amortised cost using the effective interest method. Fair value is usually the original invoiced amount.

1.19.3 Assets available for sale
Available for sale financial assets are non-derivative financial assets that are designated as available for sale. They are initially recognised at fair value and subsequently re-measured to fair value at each Statement of Financial Position date. Any increase due to changes in fair value is recognised in reserves.

1.19.4 Financial liabilities
The Agency determines its financial liabilities as contractual obligations to deliver cash or other financial assets to another entity. Financial liabilities are recognised initially at fair value and are subsequently held at amortised cost using the effective interest method. Financial liabilities are derecognised when the right to receive cash flows has expired.

1.19.5 Embedded derivatives
Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and reported at fair value with gains and losses being recognised in the Operating Cost Statement. The Highways Agency has carried out a review of its contracts and has determined that, as at 31 March 2010, it had no arrangements meeting the criteria to require separation.

1.19.6 Determining fair value
Fair value is determined by reference to a quoted market price for that instrument or by using a valuation model that makes use of market inputs wherever possible. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are shown at cost.

1.19.7 Impairment of financial assets
The Agency assesses at each Statement of Financial Position date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the statement of financial position date, and that loss

event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, overdue status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. Future cash flows in a group of loans and receivables that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

1.20 VAT

Most of the activities of the Agency are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Input VAT on certain contracted-out services is recovered through the Department for Transport's VAT registration, under annual Treasury Direction. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.21 Estimation Techniques

Estimation techniques are the methods adopted to arrive at estimated monetary amounts for income and expenditure during the reporting period and the valuation of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. There may be several alternative estimation techniques, which could produce a range of results. The significant estimation techniques for the Agency include the valuation of the trunk road network where the application of indices and standard costs generate a valuation.

1.22 EU grants

EU grants are not recognised in the accounts until it is certain they will be received. Grants that relate to specific capital expenditure are credited to a government grant reserve on the Statement of Financial Position and then credited to the Operating Cost Statement over the asset's useful economic life. Grants for revenue expenditure are credited to the Operating Cost Statement.

1.23 Segmental Reporting

IFRS 8 requires the Agency to disclose information to enable users of the financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Agency's reportable segments are based on the way management has chosen to organise the business activities, manage the organisation and allocate resources for assessment of segment performance.

1.24 Trunkings/Detrunkings

The detrunking of roads as part of the Government's policy announced in the 1998 White Paper to transfer responsibility for non-core network routes to local authorities is treated as a transfer of function. This process is now completed. However, the Agency will continue the more routine detrunking that will occur after construction of a bypass or new road.

Merger accounting principles are applied with opening balances adjusted for the cumulative effect of the detrunking/trunking and comparative figures for the preceding period restated.

2. First-time adoption of IFRS

	General Fund £000	Revaluation Reserve £000
Taxpayers equity at 1 April 2008 under UK GAAP	38,639,016	43,649,067
Adjustments for:		
IAS 19: Employee benefits	(4,373)	-
Taxpayers' equity at 1 April 2008 under IFRS	36,634,643	43,649,067
Taxpayers' equity at 31 March 2009 under UK GAAP	38,832,316	47,389,778
Adjustments for:		
IAS 16: Property, plant and equipment	(282,243)	-
IAS 19: Employee benefits	(4,524)	-
Taxpayers' equity at 31 March 2009 under IFRS	38,545,549	47,389,778

	£000
Net operating costs for 2008-09 under GAAP	5,361,397
Adjustments for:	
IAS 16: Property, plant and equipment	282,243
IAS 19: Employee benefits	151
Cost of capital recalculation	(5,055)
Net operating costs for 2008-09 under IFRS	5,638,736

Adjustments:

- The above adjustments had no effect on the Statement of Cash Flows.
- The employee benefits relate to pay costs for annual leave not taken at year end.
- Property, plant and equipment adjustment reflects the additional depreciation costs for renewal maintenance and the outcome of the annual road surveys that measure the deterioration of the road surface.

3. Segmental Reporting

Total by Segment	Resource Expenditure £000	Resource Income £000	Resource Total £000	Capital Expenditure £000	Capital Income £000	Capital Total £000
Major Improvements	242,786	32,794	209,992	719,836	4,719	715,117
Maintaining the Network	531,129	17,282	513,847	793,411	-	793,411
Technology Improvements	69,535	630	68,905	241,560	-	241,560
Traffic Management	83,558	2,452	81,106	37,882	-	37,882
Smaller Schemes, Research and Development, IT	123,545	812	122,733	105,634	-	105,634
Running Costs - Programme	77,755	-	77,755	-	-	-
Running Costs - Admin	81,517	1,674	79,843	24,228	-	24,228
Other	(9,615)	19,542	(29,157)	9,167	-	9,167
	1,200,210	75,186	1,125,024	1,931,718	4,719	1,926,999
Unallocated Costs						
Depreciation and write downs	1,465,917	-	1,465,917	-	-	-
Cost of capital charge	2,995,413	-	2,995,413	-	-	-
Agency total	**5,661,540**	**75,186**	**5,586,354**	**1,931,718**	**4,719**	**1,926,999**

- The operating segments above are business activities that are regularly reviewed by the Agency's Board and senior management.
- Consolidated expenditure in the financial statements is split between capital and resource expenditure.
- Unallocated costs cannot be reasonably apportioned across segments.

Segmental Income

- Major Improvements income Includes contributions from private developers who make contributions to highways works by entering into an agreement with the Secretary of State under section 278 (s278) of the Highways Act 1980 and also contributions from local authorities.
- Maintaining the Network income is mostly attributable to where the Agency claims compensation from users of the network who damage the network.
- Traffic Management income is generated from the national vehicle recovery programme
- Running Costs - Admin income is the recovery of the Agency's administration costs for delivery of s278 schemes.
- Other income is primarily interest received from Severn River Crossing Ltd and Midland Expressway Ltd (MEL).

4. Staff numbers and related costs

Staff costs comprise:	2009-10			2008-09
	Permanently employed £000	Other £000	Total £000	Total £000
Wages and salaries	107,309	6,605	113,914	106,723
Social Security costs	8,058	-	8,058	7,492
Other pension costs	19,671	-	19,671	19,301
Total gross costs	135,038	6,605	141,643	133,516
Capitalised staff costs	(16,078)	-	(16,078)	(17,812)
Total net costs	**118,960**	**6,605**	**125,565**	**115,704**

Permanent staff are those staff with a permanent employment contract with the Agency. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, London weighting or London allowances, recruitment and retention allowances, private office allowances, ex-gratia payments and any other taxable allowances or payments as well as costs relating to agency, temporary and contract staff engaged by the Agency on a contract to undertake a project or task. The payment of legitimate expenses is not part of salary.

Pension costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the Highways Agency is unable to identify its share of the underlying assets and liabilities. The scheme actuary valued the scheme as at 31 March 2007. You can find details in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2009-10, employers' contributions of £19,127,650 were payable to the PCSPS (2008-09 £19,301,000) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. In addition employers' contributions of £444,152 (2008-09 NIL) were paid in respect of staff who transferred in to the Agency during 2009-10 and remained in their existing pension scheme. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. From 2010-11, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £92,976 (2008-09 £78,549) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £6,702 (2008-09 £6,024) were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Average Number of Persons Employed

	2009-10			2008-09
	Permanent Staff	Others	Total	Total
The average number of whole time equivalent persons employed during the year was as follows:				
Staff funded from administration budgets	1,270	93	1,363	1,273
Staff funded from programme budgets				
Traffic Officer staff	1,706	15	1,721	1,645
Direct support to front line projects and service delivery	330	27	357	275
Staff engaged on capital projects	291	22	313	370
Average FTE persons employed	**3,597**	**157**	**3,754**	**3,563**

During the year, as a result of the new M25 PFI contract, 97 Traffic Officers transferred to the Agency from Le Crossing Company Limited.

5. (a) Other Administration Costs

	Note		2009-10 £000	2008-09 £000
Communication			1,526	1,543
Consultancy			1,197	1,311
Information technology			399	336
Maintenance			1,683	1,291
Professional services			406	240
Recruitment and training			2,671	3,316
Rent, rates and building costs			3,732	5,434
Stationery, postage and printing			592	428
Travel and subsistence			2,669	3,462
Other administration costs			2,421	1,669
			17,296	**19,030**
Rentals under operating leases:				
Hire of plant and machinery		226		209
Other operating leases		4,874		7,520
			5,100	7,729
Non-cash items:				
Depreciation				
property, plant and equipment	7	1,120		2,054
Amortisation				
intangible fixed assets	8	1,224		805
Loss on disposal of property, plant and equipment		-		999
Cost of Capital charges		74		323
Notional Costs				
Auditors' remuneration and expenses				
Annual Audit		275		308
IFRS Trigger point 2		-		12
IFRS Trigger point 4		25		-
Payroll and superannuation services		-		239
Provision for doubtful debt		16		8
Provisions provided for in year	14	2,043		4,761
Total: non-cash items			4,777	9,509
			27,173	**36,268**

5. (b) Programme Costs

	Note	2009-10 £000	2008-09 £000
Research and development expenditure		9,969	11,349
Current maintenance		712,788	680,401
Interest on PFI finance leases		78,822	72,127
PFI service charges		241,613	180,646
Information technology		22,887	24,346
Traffic Management vehicle costs		8,722	8,150
Other programme costs		33,381	24,021
		1,108,182	1,001,040
Non-cash items:			
Depreciation:			
property, plant and equipment	7	817,724	908,059
property, plant and equipment held under PFI leases	7	(949)	16,123
Impairment of fixed assets	7	41,029	11,482
Amortisation			
intangible fixed assets	8	6,325	8,330
Write down of network assets	7	599,695	681,533
Cost of capital charge		2,995,339	2,952,136
Notional costs			
Legal services		-	436
Payroll and superannuation services		-	280
Loss on disposal of property, plant and equipment		3,823	3,981
Provision for doubtful debt		1,543	762
Provision for slow moving stock/write down		3,724	96
Provisions provided for in year	14	(67,633)	5,818
Total: non-cash items		4,400,620	4,589,036
		5,508,802	**5,590,076**

6. Operating Income

Operating income principally arises from:

- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors;
- rental income from offices where the Agency is the main occupier and surplus accommodation is let to other organisations;
- rental income from properties acquired for road schemes which have yet to be disposed of;
- recoveries from third parties in respect of claims for damage to the motorways and trunk roads;
- statutory charges relating to the removal of vehicles from the completed road network;
- interest receivable, including interest on the Severn Bridge subordinated loan (see note 11);
- grants and contributions from the European Union; and
- other income including contributions on schemes.

Operating income analysed by classification and activity is as follows:	2009-10			2008-09
	£000 Appropriated in aid	£000 Not Appropriated in aid	£000 Total	£000 Total
Administration income				
Fees and charges to external customers	1,414	-	1,414	1,115
Cost recoveries/rental income	14	-	14	548
Other income	246	7	253	734
	1,674	7	1,681	2,397
Programme income				
Fees and charges to external customers	18,960	-	18,960	20,073
Rental income from properties	4,060	-	4,060	4,497
Claims for damage to Network	15,204	-	15,204	16,714
Interest receivable	-	16,139	16,139	14,587
European Union income	1,250	452	1,702	1,043
Recovery of costs incurred on M6 toll scheme	6,227	-	6,227	29,657
National Vehicle Recovery	2,168	-	2,168	-
Other	5,716	2,944	8,660	10,690
Profit on sale of assets	385	-	385	3,654
	53,970	19,535	73,505	100,915

Under the Department's Request for Resources 1 subhead L certain income known as Appropriation in Aid (AinA) is available for offset against costs of the Agency in determining its Net Resource Outturn. Other income, not available for offset against the costs of the Agency, is known as Not Appropriated in Aid. Recoveries in excess of AinA for the Agency may be netted against AinA shortfalls elsewhere within the Department's consolidation boundary.

Disclosure under the HM Treasury Fees and Charges Guide

Fees and Charges provided to external and public sector customers can be analysed as follows:

	2009-10			2008-09		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	20,374	20,374	-	21,188	21,188	-
Cost recoveries/rental income administration	14	14	-	548	548	-
Rental income from programme properties	4,060	5,145	(1,085)	4,497	3,796	701
Claims for damage to network	15,204	16,004	(800)	16,714	17,594	(880)
Interest receivable, of which:						
Severn River Crossing Plc loan	8,033	-	8,033	7,564	-	7,564
Midland Expressway Ltd debtor	8,077	-	8,077	6,907	-	6,907
Other	30	-	30	-	-	-
European Union income	1,702	1,250	452	1,043	-	1,043
National vehicle recovery	2,168	5,575	(3,407)	-	-	-
Retail price index on Midland Expressway Ltd (MEL) debt	(1,692)	-	(1,692)	5,265	-	5,265
Recovery of other costs from MEL	8,161	8,161	-	24,392	24,392	-
Recovery of costs incurred on schemes	3,388	3,388	-	10,446	10,446	-
Profit on sale of assets	385	-	385	3,654	-	3,654
Other income	5,282	2,328	2,954	1,094	495	599
	75,186	**62,239**	**12,947**	**103,312**	**78,459**	**24,853**

The financial objective for each of these services is full recovery of the service costs in accordance with the HM Treasury Fees and Charges Guide.

The purpose of the above table is to comply with the disclosure requirements of the HM Treasury Fees and Charges Guide.

7. (a) Property, plant and equipment 2009-10

	Infrastructure Assets	Assets under construction	Land	Buildings	Dwellings	Plant & Machinery	Information Technology	Total
Cost or valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2009 restated	101,490,312	310,998	129,228	95,512	40,805	106,325	50,700	102,223,880
Adjustment to opening position	(498,265)	(4,288)	-	-	-	-	-	(502,553)
Capital additions	732,963	1,175,943	37	118	-	22,657	-	1,931,718
Valuation adjustments	(732,963)	(599,695)	-	-	-	-	-	(1,332,658)
Disposals	-	-	(1,921)	-	-	(105)	-	(2,026)
Revaluation	(261,636)	-	10,846	3,127	1,335	(697)	3,994	(243,031)
Impairments	(90,582)	-	(361)	-	(422)	(148)	-	(91,513)
Transfers	171,965	(171,995)	30	-	-	-	-	-
Reclassifications to AHFS	-	-	(490)	1,060	(3,224)	(13,555)	-	(16,209)
At 31 March 2010	**100,811,794**	**710,963**	**137,369**	**99,817**	**38,494**	**114,477**	**54,694**	**101,967,608**
Depreciation								
At 1 April 2009 restated	14,072,215	-	-	20,693	-	75,003	37,948	14,205,859
Adjustment to opening position	(92,239)	-	-	-	-	-	-	(92,239)
Valuation adjustments	(732,963)	-	-	-	-	-	-	(732,963)
Impairments	(50,484)	-	-	-	-	-	-	(50,484)
Charged in year	798,862	-	-	3,299	-	5,105	10,629	817,895
Disposals	-	-	-	-	-	(105)	-	(105)
Revaluation	(100,072)	-	-	780	-	(1,370)	3,005	(97,657)
Transfer	-	-	-	-	-	-	-	-
Reclassifications to AHFS	-	-	-	-	-	(13,377)	-	(13,377)
At 31 March 2010	**13,895,319**	**-**	**-**	**24,772**	**-**	**65,256**	**51,582**	**14,036,929**
Net book value at 31 March 2010	**86,916,475**	**710,963**	**137,369**	**75,045**	**38,494**	**49,221**	**3,112**	**87,930,679**
Net book value at 31 March 2009	**87,418,097**	**310,998**	**129,228**	**74,819**	**40,805**	**31,322**	**12,752**	**88,018,021**
Asset financing								
Owned	84,695,782	577,613	137,369	73,362	38,494	49,221	25	85,571,866
Finance leased	-	-	-	-	-	-	750	750
On-balance sheet PFI contracts	2,220,693	-	-	1,683	-	-	2,337	2,224,713
M6 reversionary interest	-	133,350	-	-	-	-	-	133,350
Net book value at 31 March 2010	**86,916,475**	**710,963**	**137,369**	**75,045**	**38,494**	**49,221**	**3,112**	**87,930,679**

7. (b) Property, plant and equipment 2008-09

	Infrastructure Assets	Assets under construction	Land	Buildings	Dwellings	Plant & Machinery	Information Technology	Total
Cost or valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2008	95,565,665	505,807	157,337	119,669	31,404	100,722	56,619	96,537,223
Adjustment to opening position	(338,842)	18,746	704	-	131	-	-	(319,261)
Capital additions	385,935	1,114,301	120	-	680	271	1,000	1,502,307
Valuation adjustments	(385,935)	(681,533)	-	-	-	-	-	(1,067,468)
Disposals	-	-	-	-	-	-	-	-
Revaluation	5,646,725	-	(21,242)	(19,757)	852	1,111	(418)	5,607,271
Impairments	-	-	(3,863)	(4,300)	(3,000)	(7)	(312)	(11,482)
Transfers	616,764	(646,323)	2,034	401	1,982	11,428	(452)	(14,166)
Reclassifications to AHFS	-	-	(5,862)	(501)	8,756	(7,200)	(5,737)	(10,544)
At 31 March 2009	**101,490,312**	**310,998**	**129,228**	**95,512**	**40,805**	**106,325**	**50,700**	**102,223,880**
Depreciation								
At 1 April 2008	11,969,880	-	-	22,332	-	76,523	32,959	12,101,694
Adjustment to opening position	(97,489)	-	-	-	-	-	-	(97,489)
Valuation adjustments	(385,935)	-	-	-	-	-	-	(385,935)
Impairments	-	-	-	-	-	-	-	-
Charged in year	908,377	-	-	3,237	-	4,479	10,143	926,236
Disposals	-	-	-	-	-	-	-	-
Revaluation	1,677,382	-	-	(4,876)	-	441	(418)	1,672,529
Transfer	-	-	-	-	-	-	-	-
Reclassifications to AHFS	-	-	-	-	-	(6,440)	(4,736)	(11,176)
At 31 March 2009	**14,072,215**	**-**	**-**	**20,693**	**-**	**75,003**	**37,948**	**14,205,859**
Net book value at 31 March 2009	**87,418,097**	**310,998**	**129,228**	**74,819**	**40,805**	**31,322**	**12,752**	**88,018,021**
Net book value at 1 April 2008	83,595,785	505,807	157,337	97,337	31,404	24,199	23,660	84,435,529
Asset financing								
Owned	85,334,772	173,360	129,228	73,124	40,805	31,322	1,033	85,783,644
Finance leased	-	-	-	-	-	-	-	-
On-balance sheet PFI contracts	2,083,325	-	-	1,695	-	-	11,719	2,096,739
M6 reversionary interest	-	137,638	-	-	-	-	-	137,638
Net book value at 31 March 2009	**87,418,097**	**310,998**	**129,228**	**74,819**	**40,805**	**31,322**	**12,752**	**88,018,021**

2010 Network Valuation

The full valuation of the network infrastructure was completed during 2009-10. The net book value of the network decreased by £162m as a result.

Opening position

The opening position as at 1 April 2009 was restated to show amendments to the HA's Network asset databases. These amendments are not correction of fundamental errors but adjustments to records for operational reasons. These amendments are as follows:

- Dimensional variances – an adjustment of (£384,149,482) was made to reflect better information on the dimensions of individual bridges and other structures
- Re-referencing variance – adjustment of (£21,877,131) was made to reflect changes arising from a number of schemes capitalised in the prior year.

Valuation Adjustments

Derecognised costs - the adjustment of £732,962,847 in the gross valuation of the Agency's Network is the value of materials replaced by in-year capital renewal expenditure and is derecognised from the books of account.

Write-down - the adjustment of £599,695,163 is made to reflect the difference between actual costs incurred and current replacement cost (CRC) for network assets that will be capitalised. The Agency accounts for the difference between the actual build cost of a scheme and its CRC as follows:

- The difference between actual build cost and CRC is treated as a write-down when the scheme is capitalised.
- However, due to the difference between actual build cost and CRC during the year, the Agency reviews all assets under construction additions and makes adjustment on a yearly basis. This adjustment, which is recognised as a write-down or impairment ('impair as you go'), is made as the asset is constructed.

Depreciation

Network depreciation charge for the year was £798,861,388. This includes an improvement credit of £129,696,432 for road surface rutting condition variance. This indicates there was an improvement in the overall condition of the road surface.

Assets under Construction

The balance as at 1 April 2009 has been adjusted to include (£4,287,826) of reversionary interest for the M6 toll road.

Analysis of Land and buildings, excluding dwellings is as follows:

	2009-10 £000	2008 -09 £000	1 Apr 2008 £000
Freehold buildings (95.4%)	202,612	194,236	241,962
Long leashold buildings (50+ years)	-	-	-
Short leashold buildings (less than 50 years)	9,802	9,811	12,712
Total	**212,414**	**204,047**	**254,674**

8. Intangible assets

	Software Licenses £000	Development Costs £000	Total £000
Cost or valuation			
Balance at 1 April 2008	6,391	61,921	68,312
Additions	-	-	-
Disposals	-	-	-
Transfers & reclassifications	-	14,167	14,167
Balance at 1 April 2009	6 ,391	76,088	82,479
Additions	-	-	-
Disposals	-	-	-
Transfers & reclassifications	-	-	-
At 31 March 2010	**6,391**	**76,088**	**82,479**
Amortisation			
Balance at 1 April 2008	4,655	44,698	49,353
Charged in year	805	8,330	9,135
Disposals	-	-	-
Balance at 1 April 2009	5,460	53,028	58,488
Charged in year	643	6,906	7,549
Disposals	-	-	-
At 31 March 2010	**6,103**	**59,934**	**66,037**
Balance at 31 March 2010	**288**	**16,154**	**16,442**
Balance at 31 March 2009	931	23,060	23,991
Balance at 1 April 2008	1,736	17,223	18,959

9. Assets classified as held for sale

	Land and Buildings £000	Dwellings £000	Plant & Machinery £000	IT £000	Total £000
Balance at 1 April 2008	15,784	18,286	434	-	34,504
Disposals	(14,092)	(6,598)	(439)	(1,000)	(22,129)
Revaluation	-	-	-	-	-
In year depreciation	-	-	-	-	-
Reclassifications from PPE	4,545	(6,938)	759	1,000	(634)
Balance at 1 April 2009	6,237	4,750	754	-	11,741
Disposals	(1,565)	(3,740)	(931)	-	(6,236)
Revaluation	(275)	-	-	-	(275)
In year depreciation	-	-	-	-	-
Reclassifications from PPE	(500)	3,155	177	-	2,832
Balance at 31 March 2010	**3,897**	**4,165**	**-**	**-**	**8,062**

10. Inventories

	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Communications/electrical equipment	82,355	21,598	15,197
DART Tags - a facility for regular users of the Dartford-Thurrock Crossing	-	3,612	3,458
Highway damage repair items - barriers and parts for the repair of bridges, tunnels and special structures	1,508	1,788	1,853
Salt	5,694	542	621
Uniforms for Traffic Officers working on the trunk road network	631	577	477
Total	**90,188**	**28,117**	**21,606**

The increase in communications equipment stock is due to the Managed Motorways Programme which incorporates Hard Shoulder Running as announced in January 2009. Schemes are expected to enter construction from 2009-10 to 2015.

The Agency purchased a significant amount of salt during the severe winter weather to ensure there is adequate stock to meet expected demand.

DART Tags stock was transferred in-year to Connect Plus as part of the M25 DBFO contract.

11. Trade and other receivables
11. (a) Analysis by type

Amounts falling due within one year	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Trade receivables	7,727	7,643	5,976
Deposits and advances	9,409	7,683	8,495
VAT	110,296	79,345	84,478
Midland Expressway Limited M6 concession	9,622	-	-
Other receivables	912	10,522	1,878
Prepayments and accrued income	6,092	5,852	5,850
Amounts due from Consolidated Fund in respect of supply	-	-	73,636
	144,058	**111,045**	**180,313**
Amounts falling due after more than one year	**31 Mar 10 £000**	**31 Mar 09 £000**	**1 Apr 2008 £000**
Severn River Crossing Plc subordinated loan	95,481	96,868	92,215
Severn River Crossing Plc deferred interest	46,096	38,063	30,499
Midland Expressway Limited M6 concession	144,338	138,995	100,940
Staff relocation housing loans	58	67	71
	285,973	273,993	223,725
Total	**430,031**	**385,038**	**404,038**

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing.

The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a predetermined cumulative revenue target from tolls. It is predicted the concession period will end in the first half of 2017.

Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

Midland Expressway Ltd (MEL) entered into a contract with the Agency on 28 February 1992 to build and maintain the M6 toll road. The debtor balance represents costs incurred by the Agency in their capacity as agents for land acquisition and compensation payments. These costs will be reimbursed to the Agency from October 2010.

11. (b) Intra-Government Balances

	Amounts falling due within one year			Amounts falling after more than one year		
	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000
Balances with:						
Other central government	111,487	80,318	158,674	-	-	-
Local authorities	3,643	1,116	2,238	-	-	-
Total intra-government	**115,130**	**81,434**	**160,912**	**-**	**-**	**-**
Balances with bodies external to government	28,928	29,611	19,401	285,973	273,993	223,725
Total Debtors	**144,058**	**111,045**	**180,313**	**285,973**	**273,993**	**223,725**

12. Cash and cash equivalents

	2009-10 £000	2008 -09 £000	2007-08 £000
Balance at 1 April 2009	48,983	(58,850)	333
Net change in cash and cash equivalent balances	(18,484)	107,833	(59,183)
Balance at 31 March 2010	30,499	48,983	(58,850)

The following balances at 31 March are held at:			
Office of HM Paymaster General	30,498	48,970	(58,859)
Commercial banks and cash in hand	1	13	9
Balance at 31 March 2010	30,499	48,983	(58,850)

13. Trade and other payables

Amounts falling due within one year	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Other taxation and social security	2,916	-	11
Trade payables	5,653	84,007	21,843
Accruals and deferred income	639,260	466,598	471,390
Current part of finance leases	250	237	-
Current part of imputed finance lease element of on balance sheet PFI contracts	56,135	52,164	49,167
Consolidated fund extra receipts due to be paid to the Consolidated Fund			
received	380	9,245	8,523
receivable	74	-	455
Amounts due to DfT in respect of Dartford River Crossing road user charges	6,963	6,551	6,908
Amounts due to the Consolidated Fund in respect of supply	16,280	25,069	-
Other payables	37	25	288
	727,948	643,896	558,585

Amounts falling after more than one year:	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Imputed finance lease element of on balance sheet PFI contracts	1,162,369	1,107,591	1,159,830
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:			
Severn River Crossing Plc subordinated loan	95,481	96,868	92,215
Severn River Crossing Plc subordinated loan interest	46,096	38,063	30,499
Midland Expressway Ltd concession	52,195	44,119	37,211
Other payables, accruals and deferred income:			
Payable as agents in respect of the Midland Expressway Ltd concession	8,169	7,749	6,780
Other	3,329	5,351	5,401
	1,367,639	**1,299,741**	**1,331,936**

The Severn River Crossing Plc (SRC) subordinated loan relates to the £60 million index-linked loan advanced on 26 April 1992 (Note 11). The loan carries an interest rate of 6% per annum and is indexed by reference to the Retail Price Index. The indexed loan and deferred interest is repayable by SRC at the end of the concession period, currently estimated to be in the first half of 2017. Upon repayment by SRC, the monies are payable to HM Treasury Consolidated Fund.

The Midland Expressway Ltd (MEL) creditor relates to the recovery of costs from MEL (Note 11) which, upon repayment is payable to HM Treasury Consolidated Fund. Costs will be reimbursed to the Agency from October 2010.

Accruals and deferred income comprise:

	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000
Amounts payable relating to road schemes	578,783	401,440	415,660
PFI Shadow Tolls	22,011	22,025	23,437
Administration accruals	10,562	10,812	7,493
Other	27,904	32,321	24,800
	639,260	**466,598**	**471,390**

13. (b) Intra-Government Balances

	Amounts falling due within one year			Amounts falling after more than one year		
	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000
Balances with:						
Other central government bodies	20,299	36,852	9,515	193,772	179,171	159,925
Local authorities	519	84	385	-	-	-
Total Intra - government balances	20,818	36,936	9,900	193,772	179,171	159,925
Balances with bodies external to government	707,130	606,960	548,685	1,173,867	1,120,570	1,172,011
Total Creditors	**727,948**	**643,896**	**558,585**	**1,367,639**	**1,299,741**	**1,331,936**

14. Provisions for liabilities and charges

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Migration pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2008	242,764	58,671	125,897	241,484	2,251	10,488	681,555
Provided in the year	79,828	87,748	-	-	148	6,840	174,564
Provisions not required written back	(36,143)	(16,190)	(44)	-	-	-	(52,377)
Provisions utilised in the year	(78,315)	(40,045)	(14,459)	(27,980)	(612)	(5,491)	(166,902)
Reclassifications	-	-	-	-	87	-	87
Balance at 1 April 2009	208,134	90,184	111,394	213,504	1,874	11,837	636,927
Provided in the year	37,509	15,640	-	-	476	7,358	60,983
Provisions not required written back	(20,617)	(11,555)	(9,202)	(75,600)	-	(472)	(117,446)
Provisions utilised in the year	(53,407)	(48,842)	(14,695)	(50,219)	(531)	(3,064)	(170,758)
Balance at 31 March 2010	**171,619**	**45,427**	**87,497**	**87,685**	**1,819**	**15,659**	**409,706**

Analysis of expected timing of discounted flows:

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Migration pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
In the remainder of the Spending Review period to 2011	41,071	31,475	39,249	23,678	370	3,713	139,556
Between 2012 and 2016	118,274	13,952	48,248	64,007	1,438	10,066	255,985
Between 2017 and 2021	12,274	-	-	-	11	1,880	14,165
Thereafter	-	-	-	-	-	-	-
Balance at 31 March 2010	**171,619**	**45,427**	**87,497**	**87,685**	**1,819**	**15,659**	**409,706**

Land and Property Acquisition

Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities.

Engineering and Construction Services

The provision for engineering and construction services is required to meet the estimated cost of work to meet generally accepted highways standards after a road has been opened for traffic, and disputed contractual claims.

Bridge Strengthening

The provision is required to strengthen bridges and other structures to comply with legal minimum requirements, as established by European Community legislation and authoritative statements by Ministers in Parliament.

Tunnels

The Secretary of State is required to bring long tunnels on the Trans-European Roads Network up to new safety standards. The tunnels related works are scheduled to be completed before the deadline of 2014 set in the Directive.

Migration, Pensions and Other Liabilities

During 2008-09, the Agency committed to an office move in Birmingham, to be completed in 2010. This has resulted in the creation of a provision relating to dilapidations, parallel running and associated costs.

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Agency for compensation.

A provision has been made which estimates the number and value of the claims received as at 31 March 2010 that will require settlement by the Agency.

The pension liability relates to former staff who left the Agency's employment before the formal retirement age of 60. The Agency is responsible for making payments to the pension plan until their retirement age.

In year increases and decreases in provisions

These can impact on both the Capital Expenditure and Operating Cost Statement. Capital Expenditure provisions increased by £9,127,000 (2008-09 £111,608,000) during the year. The following provisions were charged to the Operating Cost Statement:

	2009-10 £000	2008-09 £000	2007-08 £000
Programme:			
Land and property acquisition	3,423	264	5,020
Engineering and construction services	(774)	3,389	5,594
Bridge strengthening	-	(44)	(7,332)
Tunnels	(75,600)	-	123,600
Pensions and other liabilities	5,318	2,209	(3,010)
	(67,633)	5,818	123,872
Administration:			
Early retirement	476	148	1,093
Other	1,567	4,613	1,774
	(65,590)	10,579	126,739

15. Transfer of Functions to/from Local Authorities

The policy to transfer non-core network routes to local authorities, as outlined in the Government's policy announced in the 1998 White Paper is now complete. There were no detrunked routes in 2009-10. However, from time to time, in delivering major schemes programmes, when a new section of road has been built to improve the road network the old section is detrunked to the relevant local authority. There was no major scheme detrunking programme in 2009-10.

16. Capital Commitments

These relate to the Agency's commitment to make future capital payments on major road network and IT schemes, where the main works contract has been awarded, to the extent that this commitment has not been provided for in the accounts.

	31 Mar 10 £000	31 Mar 09 £000	1 April 2008 £000
Contracted capital commitments at 31 March 2010 not otherwise included in these accounts:			
Property, plant and equipment	1,068,628	1,137,176	1,116,211

17. Commitments under Leases

The Agency has the following future lease commitments under non cancellable operating leases.

	31 Mar 10		31 Mar 09		1 Apr 2008	
Obligations under operating leases comprise:	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	8,029	2,079	9,447	570	7,133	733
Later than one year and no later than five years	31,586	574	41,168	1,481	28,103	2,924
Later than five years	68,439	-	77,269	-	51,180	-
	108,054	**2,653**	**127,884**	**2,051**	**86,416**	**3,657**

Total future minimum lease payments under finance leases are given in the table below for each of the following periods:

	31 Mar 10		31 Mar 09		1 Apr 2008	
Obligations under finance leases comprise:	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	-	250	-	237	-	-
Later than one year and no later than five years	-	500	-	871	-	-
Later than five years	-	-	-	-	-	-
	-	**750**	**-**	**1,108**	**-**	**-**

18. Commitments under Private Finance Initiatives

The Agency has entered into the following on balance sheet PFI contracts for the design, build, finance and operation of sections of the network:

- M1-A1 Yorkshire link
- A1 (M) Alconbury to Peterborough
- A419/A417 Swindon to Gloucester
- A50/A564 Stoke - Derby link
- M40 Junctions 1-15
- A19 Dishforth to Tyne Tunnel
- A30/A35 Exeter to Bere Regis
- A69 Carlisle to Newcastle
- A1(M) Darrington to Dishforth
- A249 Iwade to Queenborough
- - National Traffic Control Centre
- - National Roads Telecommunications Services
- M25 London Orbital Motorway contract

The substance of the PFI contract is that the Agency has a finance lease, with the asset being recognised as a non-current asset of the Agency. Payments under PFI contracts comprise two elements – imputed finance lease charges and services charges.

Imputed finance lease obligations under on balance sheets PFI contracts comprise: -

	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Not later than one year	131,792	121,369	121,246
Later than one year and no later than five years	480,819	450,688	456,540
Later than five years	1,502,107	1,364,167	1,552,885
	2,114,718	1,936,224	2,130,671
Less interest element	(896,214)	(776,469)	(921,674)
	1,218,504	**1,159,755**	**1,208,997**

Charge to the Operating Cost Statement and Future Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on balance sheet PFI transactions was £241,613,000 (2008-09 £180,646,000).

The future total service element payments which the Agency is committed to for each of the following periods are given in the table below, analysed according to the period in which the commitment expires.

Charge to the operating cost statement and future commitments

	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Not later than one year	387,920	280,847	274,725
Later than one year and no later than five years	1,828,448	1,053,546	1,108,415
Later than five years	9,967,084	2,561,245	2,787,222
	12,183,452	**3,895,638**	**4,170,362**

19. Financial Instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the 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.

Exchange Rate Risk

This is the risk that the Agency will suffer financial loss due to changes in exchange rates. The Agency undertook a small number of foreign currency transactions only to cover overseas travel and conference costs and is not exposed to significant exchange risk.

Fair Values

For PFI obligations not carried at fair value, there is no active market for them, and it is not possible to make a reliable estimate of fair value. The Agency has no intention of disposing of these obligations. Accordingly, it has not disclosed a fair value for these obligations. For other financial assets and liabilities, the carrying value is a reasonable approximation of fair value.

20. Contingent liabilities disclosed under IAS 37
20. (a) Contingent liabilities

	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Land & property acquisition	285,559	362,059	390,744
Engineering & construction services	900	4,900	8,447
Other	6,959	8,517	8,366
Gross balance	293,418	375,476	407,557

Land and Property Acquisition
Contingent liabilities from land and property acquisition arise from the following sources: -

Acquisition and Blight
The construction of any major road construction scheme invariably requires the acquisition of property. The Acquisition and Land Act 1973 gives the Secretary of State the power to make compulsory purchases. Possible purchases for schemes in the Secretary of State's major projects programme are included as contingent liabilities until the point when Compulsory Purchase Orders are made and a reliable estimate is available.

In addition, road schemes, when announced, can adversely impact surrounding property values and The Town and Country Planning Act 1990 provides for individuals to claim compensation for the blight of their properties. Possible blight costs for schemes in the major projects programme are included as contingent liabilities until the point when Blight Notices are issued and a reliable estimate is available.

Compensation for Loss After Construction
Home owners can apply for compensation for lost value ('injurious affection') under Part 1 of The Acquisition and Land Act 1973, where property, which was not acquired for a road scheme, has lost value because of physical factors, including noise, light, dirt, smell and vibration, associated with the new or improved roads.

Claims become inevitable once the construction phase is started and the Agency accounts for the constructive obligation as a provision. A legal obligation crystallises one year after the road has opened for traffic when homeowners are entitled to lodge claims that are normally settled in less than a year. Such obligations are treated as contingent liabilities until the start of construction work.

Claims in Dispute
As at the statement of financial position date, the Agency is involved in a number of property cases that have been referred to the Lands Tribunal for resolution or are otherwise in dispute. The Agency has provided for, in its accounts, management's best estimate of the outcome of these cases although this may be exceeded by the actual outcome.

Engineering and Construction Services
The Agency is involved in a number of arbitration cases in respect of contractual claims for engineering and construction services and has provided for the best estimates of the outcome of these cases, although this may be exceeded by the actual outcome.

Other Contingent Liabilities
Other claims relate to management estimates for damages to the road network for which no claim has been received at the year-end and are based on prior years' experience.

20. (b) Contingent Assets

The Highways Agency seeks to dispose of property surplus to requirement promptly at the best price reasonably obtainable in the market. Sometimes there is uncertainty over potential use of the property and planning permissions, and in these cases the Agency may decide to sell the property at the underlying land value.

In these circumstances, the Agency will incorporate a "clawback" clause into the terms of the sale, under which it is able to reclaim a percentage of any increase in value arising from a grant of planning permission, for a given term after the sale has been agreed.

As it is not known for some years after the initial disposal whether any further income will arise the Agency has a contingent asset relating to future values. In 2009-10 amounts totalling £0 (2008-09 £47,000) were received under these arrangements.

21. Related Party Transactions

As stated on page 22 the Highways Agency is an Executive Agency of the Department for Transport. The Department is regarded as a controlling related party. During the year the Agency had a significant number of transactions with the Department. In addition the Agency had transactions with other Government departments and agencies, principally Treasury Solicitors, Department for Communities and Local Government, Central Office of Information, Valuation Office Agency, National Assembly for Wales and a number of local authorities.

In addition the Agency had transactions with QinetiQ, a public limited company in which the Ministry of Defence holds shares, and Yorkshire Forward, an organisation sponsored by BERR.

The Agency has a contract with Lex Autolease Ltd whose ultimate parent company is Lloyds Banking Group in which the Government holds an interest.

Any interest in third party transactions of Board members is disclosed on page 26.

All other interests declared by members of the Highways Agency Board and other Agency senior civil servants are of a minor and insignificant nature and would have no influence in the awarding of contracts or commissions.

22. Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £250,000 in total and those that, individually, exceed £250,000.

There have been no losses in excess of £250,000 during the year.

Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

The amounts involved are as follows:

	2009-10 £000	2008-09 £000
Losses:-		
Bookkeeping/cash losses: 15 cases (2008-09 97 cases)	110	788
Fruitless payments: 2 cases (2008-09 1 case)	116	-
Claims abandoned/store losses: 1,958 cases (2008-09 2,885 cases)*	6,302	6,610
Special Payments:- Ex-gratia compensation: 1 case (2008-09 4 cases)	40	114

*Includes 1,920 cases valued at £5,763,000 (2008-09 2,815 cases valued at £6,345,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

23. Third Party Assets

The Agency, under Section 278 of the Highways Act 1980, receives payments in advance of works. These are paid into interest bearing Escrow accounts at Lloyds TSB Bank. Monies are drawn down from the Escrow accounts by the Highways Agency as work progresses.

The Agency was appointed as the co-ordinator for a Coordination Action under the EU Sixth Framework Programme. It holds a Lloyds TSB Euro bank account where funding from the EU is deposited and subsequently distributed to the eleven partners across Europe. Funding provided by Brussels will be up to 2.5 million euros. The final action of this project is to reimburse partners, including the Agency, for the remaining costs incurred in this collaboration action.

These are not Agency assets and therefore are not included in the accounts.

The amounts held are set out in the table below:

	31 Mar 10 £000	31 Mar 09 £000	1 Apr 2008 £000
Lloyds TSB Escrow Bank Accounts	4,163	8,405	14,446
Lloyds TSB Euro Bank Account	151	35	275
	4,314	**8,440**	**14,721**

24. Events after the reporting period

There have been no significant events between the Financial Reporting date and the date of these Financial Statements. These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. International Accounting Standard (IAS) 10 requires the Highways Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Highways Agency's management to the Secretary of State of the Department for Transport. The authorised date for issue is 22 July 2010.

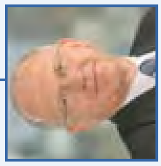
ANNEX A: The Board Structure

Graham Dalton
Chief Executive

- Chief Executive's Office

Ginny Clarke
Network Services
- Network Planning & Performance
- Technical Services
- Lean
- Research & Operational Guidance
- Procurement
- National Health & Safety
- Board Secretariat
- Directorate Planning & Performance Management

Steve Williams
Business Services
- HR Operations
- Organisational Development
- Property & Facilities Management
- Communications
- Customer Relations
- ICT Solutions
- Strategy & Planning



Derek Turner
Network Delivery & Development
- Network Delivery & Development
  - West Midlands
  - South West
  - South East
  - North West
  - Yorkshire & North East
  - East
  - East Midlands
- Traffic Technology
- Network Delivery & Development Central
- Olympics & Planning Related Projects

Nirmal Kotecha
Major Projects
- Major Projects
  - Midlands & South West
  - South
  - North
- Managed Motorways
- Commercial Division
- Programme Services Group
- Organisational Development
- Strategy Implementation
- Property & Lands Compensation

Stephen Dauncey
Finance
- Group Financial Controller
- Network Delivery & Development Financial Director
- Major Projects Financial Director
- Strategic Directorates Financial Director
- Audit, Inspection & Consultancy

Simon Sheldon-Wilson
Traffic Management
- RCC's
  - Yorkshire & North East
  - North West
  - East
  - East Midlands
  - South West
  - West Midlands
  - South East
- Traffic Management Information & Training
- Traffic Management Development & Support

David Hughes
Non Executive Director

Andrea Gregory
Non Executive Director

Tracey Barlow
Non Executive Director

ANNEX B: How we performed against Business Plan Targets

Key performance measure	2009-10 performance			Prior years' performance	
	Requirements	Targets	Result	2008-2009	2007-2008
1 **Reliability:** Implement a programme of delivery actions that tackle unreliable journeys on the strategic road network.	The Highways Agency will deliver the 2009-10 components and impacts of the Reliability Delivery Plan as agreed by the Secretary of State.	31 interventions	**Met** 31 interventions (see note 1)	**Met**	Not Met
2 **Major Projects:** Deliver to time and budget the programme of major schemes on the strategic road network.	For the programme of national schemes in the Construction Phase, maintain a programme level of 1.0 against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 2)	CPI 1.0 SPI 1.0	**Met** 1.07 1.13	1.09 1.07	
	For the programme of regional schemes in the Construction Phase, maintain a programme level of 1.0 against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 2)	CPI 1.0 SPI 1.0	**Met** 1.04 1.06	0.96 1.13	
	For the programme of national schemes in the Development Phase, progress these projects by an average of at least 37 percentage points through this phase.	37% (See note 3)	**Met** 36%	19.2%	
	For the programme of regional schemes in the Development Phase, progress these projects by an average of at least 15 percentage points through this phase.	15%	**Met** 19%	17.8%	
3 **Safety:** Deliver the Highways Agency's agreed proportion of the national target. By 2010 reduce by a third (ie to 2,244) the number of people killed or seriously injured on trunk roads compared with the 1994-98 average of 3,366.	Reduce by at least 1,028 to 2,338.	2,338	**Met** 1,939 (See note 4)	2,053	2,360

Key performance measure	2009-10 performance			Prior years' performance	
	Requirements	Targets	Result	2008-2009	2007-2008
4 **Maintenance:** Maintain the strategic road network in a safe and reliable condition, and deliver value for money.	**Condition index:** Maintain a road surface condition index of 100 ± 1 within the renewals of road budget (see note 5).	99-101	**Met** 100.0	100.0	100.8
	Cost & Efficiency: Maintain benchmark unit costs* for maintenance renewals** at a level at or below inflation. (see note 6). ** Each benchmark will be based on the average for the target contract areas* ***Excluding technology maintenance*		**Met** (See note 6)		
5 **Carbon:** Contribute to national and international goals for a reduction in carbon dioxide emissions by lowering the Highways Agency's emissions.	**Administrative operations:** Reduce by 5% the carbon dioxide* emissions from the main HA offices and administrative business travel, compared to the 2008-09 carbon footprint for administrative operations. **Carbon dioxide (CO2) equivalent*	5%	**Met** 5.59%		
	Network Consumption: Reduce by at least 600 tonnes the carbon dioxide* emissions resulting from the energy supply for network lighting, compared with the equivalent figure in the 2008-09 carbon footprint. **Carbon dioxide (CO2) equivalent*	600 tonnes	**Met** 649 tonnes		
6 **Customer satisfaction (RUSS):** Deliver a high level of road user satisfaction.	Improve road user satisfaction by at least 0.25 percentage points compared with the level achieved in 2008-09.	71.8	**Met** 71.9	71.63	Met (see note 7)
7 **Efficiency:** Deliver the Highways Agency's contribution to the Department for Transport's efficiency target	**Programme:** Deliver cumulative efficiency improvements of £127m by the end of 2009-10, contributing to an efficiency savings target of £144m by the end of 2010-11.	£127m	**Met** £199.3m	£106m	£238.3m (see note 8)
	Administration: Deliver our programme within the allocated administration budget over the CSR07 period, which requires cumulative efficiency savings of 12.6% in real terms by the end of 2009-10. (see note 10)	12.6%	**Met** 15.6%	5%	£1m (see note 9)

Notes to the Business Plan Performance Table

For the areas shaded in grey no comparable year target exists

(1) Target reduction in vehicle delay of 4.13 seconds exceeded (actual reduction: 4.22 seconds).

(2) A programme level variance of +0.10 or -0.05 against the CPI/SPI would mean that the target would be deemed to be met; exceeding the upper limit of the acceptable range represents over-delivery against target.

(3) Target was revised to 35.7 in-year with ministerial approval.

(4) Due to the compilation method these figures – by necessity – reflect the calendar, and not the financial year. Also, the size of the Agency's network, on which the figures have been calculated, has reduced over the period in which comparative statistics are presented.

(5) The measure of road surface condition is based on surveys covering rutting, unevenness, and skid resistance. The target takes account of the fact that it is not practical or sustainable to maintain the whole road network in as-new condition. The condition at which the road network is to be maintained each year is equated to a road surface condition index score of 100 and is the target level at which the road network will be maintained. To allow for variability or uncertainty in annual condition scores, a tolerance is allowed in the target.

(6) The 'cost and efficiency' indicator, which measures the relative cost of maintenance renewals taking one year with the next, was introduced for the first time in 2009-10. Due to the limited amount of detailed activity unit costs available for the comparator year, 2008-09, it became apparent that the initial measurement methodology would not be appropriate. A revised methodology was therefore developed which has been used to assess performance. Even with the revised methodology, the small amount of 2008-09 comparator data is a limiting factor on the overall result derived from this KPI.

(7) The basis of this target changed in 2008-09. The previous requirement was a 5% increase in road user satisfaction across core objectives compared to the prior year, and was reported separately against trunk roads and motorways.

(8) The comparable target in the three prior years required efficiency improvements of £200m cumulative by the end of 2007-08.

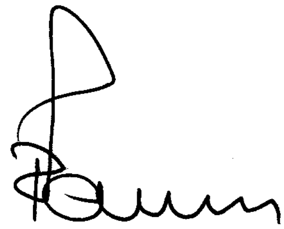
(9) The comparable target in the prior year required efficiency improvements to be expressed in monetary terms.

(10) The last Comprehensive Spending Review, CSR07, allocated budgets for the years 2008-09 to 2010-11.

Internal Audit Certificate of Audit Assurance

Agency performance against key performance indicators and targets shown in the 2009-10 Business Plan has been subject to independent audit by the Agency's Audit, Inspection and Consultancy Division (AICD).

From our testing I am satisfied that reported achievement against these targets is a true and fair view of the Agency performance in these areas.



Bob Parsons

Head of Audit, Inspection and Consultancy Division

Highways Agency

12 July 2010

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