

Presented pursuant to Severn Bridge Act 1992, c.3, s. 28(4)

Severn Bridges Act 1992 Account 2006-2007

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Foreword and Management Commentary

Background information

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

The 1965 Act was repealed by the Severn Bridges Act 1992 (the 1992 Act) which provided for the Secretary of State to procure, using private funds, the construction of a second tolled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

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

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

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

Until 1992, finance for the project was provided by a number of banks and by debenture stockholders. Under the concession agreement, SRC assumed responsibility for £122 million of the £126 million outstanding debt on the existing bridge. Of that debt, £62 million was paid by SRC on 26 April 1992, and the balance of £60 million was subordinated (meaning that the loan ranks below other loans with regard to claims on assets or earnings) to lending banks and to stockholders under the terms of an Inter-creditor Agreement¹ until the end of the concession period. The amount of the subordinated debt due to the Consolidated Fund is increased in line with the Retail Prices Index. Interest at a rate of 2.956% per half annum on the indexed amount was originally payable by SRC by equal half yearly instalments. Under the 2003 refinancing package, described below, interest payable is now rolled up and added to the subordinated debt to be paid by SRC to the Consolidated Fund at the end of the concession period. The remaining £4 million balance due to the consolidated fund is the responsibility of the Secretary of State.

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

The Government gave a commitment to offset the cost of VAT and protect the motorist from the impact of the ruling, and agreed to re-finance the SRC concession. The concessionaire has been given the right to collect tolls for a longer period, to the first six months in 2016, to fully compensate them for the loss of VAT-related revenue. As part of the re-financing deal, the required cumulative real revenue target rose from £976,837,740 to £995,830,000, expressed in July 1989 prices.

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

If SRC went into administration or if the contract was terminated for any other reason, the Secretary of State would assume full responsibility of the assets and liabilities of SRC. On the basis of SRC's audited accounts as at 31 December 2006 and the cash flow forecast provided in January 2007, the Agency's own review confirms that SRC will have sufficient funds to be able to meet its liabilities as they fall due. The Highways Agency's considered view is that there is no significant risk of this circumstance happening.

Financial implications of cable corrosions

Significant corrosion of the main suspension cables of the M48 Severn Bridge was identified during an intrusive inspection programme that started in April 2006. The inspections were carried out, using guidelines published in December 2004, after corrosion was found in similar bridges in other parts of the world. Following completion of the investigations, and the subsequent laboratory wire testing, the Agency expects to have completed the cable strength assessment by the end December 2007.

As part of work to monitor and address the corrosion problem, the Agency is implementing measures to slow down further corrosion by providing a system of dehumidification to dry out the cables at the most severe location. Full acoustic monitoring equipment, that will help inform on the ongoing rate of cable deterioration, should be commissioned by the end December 2007.

A second phase of work to install the dehumidification system to the entire length of the cables is planned for 2008. By the summer of 2008 the Agency will have considered a long term strategy for the bridge, including traffic management measures and repair options with cost ranges.

The costs of dealing with this corrosion, defined as a latent defect, are borne by the Secretary of State and therefore shown in these accounts. These costs form part of the accumulated deficit and will be recovered from tolls to be levied by the Secretary of State during the period between the end of the concession period and the date on which the power to levy tolls will cease, being 25 April 2027 or such earlier date as may be determined under section 7 of the Severn Bridges Act 1992. To the end of the financial year 2006-2007, the work associated with the corrosion had cost £4.2 million which is included under both the Operations and Administration expenditure. This includes the costs of the inspections, design, contract preparation and supervision, traffic management, wire testing and initial assessment work. The costs for 2007-2008 are forecast as £3.5 million and up to £11 million for 2008-2009.

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

The M48 Severn Crossing provides a key transportation link supporting the surrounding local economies in England and Wales and the Agency recognises the importance of keeping this route safe and open to traffic.

Accounts of the Secretary of State

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

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

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

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

The accounts have been audited by the Comptroller and Auditor General (C&AG) under the Severn Bridges Act 1992. His opinion is expressed on pages 10 and 11.

Assurances over the Concession Agreement

I am content that the cumulative revenue target will be reached within the concession period.

Archie Robertson
The Highways Agency
Accounting Officer

13 November 2007

Statement of Secretary of State and Accounting Officer responsibilities

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

The Treasury have appointed an Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Government Accounting' (TSO), superseded in October 2007 by 'Managing Public Money'.

Statement on the System of Internal Control

The Statement on Internal Control describes the overall control environment and the management of risk within the Highways Agency. Management and preparation of this account, and the underlying accounting transactions, are subject to the control environment of the Highways Agency to which the following statement refers. There are no risks identified specifically for the Severn Bridges Act 1992 Account and transactions.

The scope and purpose of the system of internal control

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 Government Accounting. This includes responsibility for transactions in respect of the Severn Bridges.

The Highways Agency's system of internal control was in place for the year ended 31 March 2007 and up to the date of approval of the Agency's annual report and accounts. It accords with Treasury guidance.

The system of internal controlⁱ is designed to manage risk of failure to achieve policies, aims and objectives to a reasonable level rather than to eliminate all risk; it can therefore only provide reasonable and not absolute assurance of effectiveness.

Risk management informs a number of internal control processes designed to fulfil the Agency's control objectives.ⁱⁱ

The risk and control framework

I have established a framework of responsibility for risk management, with appropriate support, guidance and proceduresⁱⁱⁱ in all parts of the Agency's business.^{iv}

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^v in line with that of the DfT Board. The Board formally reviewed the Agency's risk appetite during the year and reaffirmed their commitment to well-managed risk-taking in the interest of approved delivery.

The Board identifies strategic risks^{vi} to the Agency's business. 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, the outcome of key Gateway Reviews and other key risk areas. They receive 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.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review consists of discussions with my Head of Internal Audit and the chair of the Audit Committee. It is informed by the work of my internal auditors, stewardship reports from 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. This year my review was also informed by a review of the Agency's project and programme management and cost control by the Nichols Group^{vii}.

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^{viii} and the Audit Committee^{ix}. Measures to address weaknesses and ensure continuous improvement of the system are in place, and as a result of my review and the advice received I have commissioned

Improvement in cost control, programme and project management, and other areas as a result of the Nichols Review; and

Further improvements in process/guidance as part of a three-year programme.

The Agency's corporate governance arrangements are designed to comply with the Code of Good Practice on Corporate Governance in Central Government Departments^x.

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 Head of Internal Audit's opinion for the year 2006-2007 is that: on the basis of evidence obtained during 2006-2007 he can provide substantial assurance on the adequacy and effectiveness of the Highways Agency's arrangements for corporate governance, risk management and internal control. 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. I have also set an objective for the top managers in the Agency to improve control and assurance (as measured by internal audit opinions relating to their commands) during the year and commissioned the program of work to improve assurance outlined above.

In my Statement on Internal Control for 2005-2006 I reported that I had commissioned action to

Document and publish an agreed new corporate governance framework for the Agency (incorporating risk, stewardship and balance scorecard reporting);

Make further improvements in the electronic guidance on processes and controls; and

Provide support and guidance to managers to help them improve record-keeping, control and accountability in their commands.

As a follow-up I can report that

The corporate governance framework has been reviewed and updated;

A programme of reviews is under way to deliver continuous improvements of our internal guidance, processes and controls, starting with financial management areas; and

Improved anti-fraud policies and procedures have been put in place.

Notes

i **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.

ii **Control objectives**

- to ensure that the Agency has established (agreed) clear strategic direction, objectives and key targets in support of government policies;
- to ensure regularity and propriety in the Agency's stewardship of public funds and other assets with due regard to accountability, probity and integrity;
- to ensure that the Agency delivers its services to time/cost/quality;
- to ensure Information and advice is timely and TRUE (Trusted – Reliable – Useful – Effective); and
- to ensure that HA people and procedures comply with relevant legal, government, departmental and technical standards and requirements.

iii **Capacity to handle risk**

The Agency's Directors and other senior managers lead risk management in their commands, supported by a team of risk management co-ordinators led by a risk management adviser. 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.

iv Risk management is an integral part of the Agency's management and project planning procedures.

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 risk treatments 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 allocate the management of strategic risks to nominated directors who report back as appropriate through the year.

v 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 focussed, cost-justified management attention; and
- Where appropriate, action is escalated through the line management chain to DfT and Ministers.

vi The key **strategic risks managed by the Board** are shown in the Management Commentary section of the Agency's annual report.

Disclosures about how the Board and its sub-committees operate, the independence of non-executive directors, and the Audit Committee's terms of reference elsewhere in this annual report.

vii <http://www.dft.gov.uk/pgr/roads/nicholsreport/>

viii **The Highways Agency Board** (which comprises the senior members of the Agency 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;

ix **The Audit Committee** is made up of two of the non-executive directors, one of whom chairs it, and three Highways Agency Board members. I, together with my Head of Internal Audit, Finance Director and representatives from the DfT and National Audit Office attend but have no vote. The independent Chairman of the Audit Committee advises as appropriate on key risk and control issues.

x **<http://www.hm-treasury.gov.uk/media/71D/48/daocorpgovernancecode.pdf>**.

Disclosures about how the Board and its sub-committees operate, the independence of non-executive directors, and the Audit Committee's terms of reference appear elsewhere in this annual report.

Archie Robertson
The Highways Agency
Accounting Officer

13 November 2007

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

I certify that I have audited the financial statements of the Severn Bridges Act 1992 Account for the year ended 31 March 2007 under the Severn Bridges Act 1992. These comprise the Income and Expenditure Account, the Statement of Assets and Liabilities and the related notes. These financial statements have been prepared under the accounting policies set out within them

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

The Secretary of State and Accounting Officer are responsible for preparing the Foreword and Management Commentary and the financial statements in accordance with the Severn Bridges Act 1992 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Secretary of State and Accounting Officer Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements present fairly the assets and liabilities in relations to functions exercised under the Severn Bridges Act 1992 and whether the financial statements have been properly prepared in accordance with the Severn Bridges Act 1992 and HM Treasury directions made thereunder. I also report whether in all material respects the assets and liabilities in relations to functions exercised under the Severn Bridges Act 1992 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if the Highways Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury is not disclosed.

I review whether the Statement on Internal control reflects the Highways Agency's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of the Highways Agency's corporate governance procedures or its risk and control procedures.

I read the information contained in the Foreword and Management Commentary and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error, and that in all material respects the receipts and payments have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinions

Audit opinion

In my opinion

- the financial statements present fairly the assets and liabilities in relation to functions exercised under the Severn Bridges Act 1992, in accordance with the Severn Bridges Act 1992 and directions made thereunder by HM Treasury, for the year ended 31 March 2007; and
- the financial statements have been properly prepared in accordance with the Severn Bridges Act 1992 and HM Treasury directions made thereunder.

Audit opinion on regularity

In my opinion, in all material respects the assets and liabilities in relation to functions exercised under the Severn Bridges Act 1992 have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General

15 November 2007

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Income and Expenditure Account for the year ended 31 March 2007

	Note	2006-2007 £'000	2005-2006 £'000
Income and gain arising from subordinated debt due to the Consolidated fund			
Interest receivable	3	6,082	5,905
Indexation gain	4	<u>2,819</u>	<u>2,416</u>
Total income and gain		8,901	8,321
Expenditure			
Capital	1C & 5	22	357
Operations	6	3,749	682
Administration	7	327	643
Notional interest	8	<u>10,822</u>	<u>10,212</u>
Total expenditure		14,920	11,894
Deficit for the year		6,019	3,573
Deficit brought forward		<u>90,161</u>	<u>86,588</u>
Accumulated deficit to be recovered through tolling		<u>96,180</u>	<u>90,161</u>

The notes on pages 14 to 20 form part of these accounts.

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

Statement of Assets and Liabilities as at 31 March 2007

	Note	2006-2007 £'000	2005-2006 £'000
Long term assets			
Subordinated debt	4	88,814	85,995
Accumulated interest receivable	3	23,582	17,500
Accumulated deficit recoverable through tolling	I&e	96,180	90,161
		208,576	193,656
Current liabilities			
Creditors: amounts falling due within one year	9	(926)	(729)
Net assets			
		207,650	192,927
Total due to the Consolidated fund	10	(207,650)	(192,927)

Archie Robertson
The Highways Agency
Accounting Officer

13 November 2007

The notes on pages 14 to 20 form part of these accounts.

Notes to the Accounts

1 Statement of accounting policies

a Accounting convention

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

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

b Notional interest

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

- i The Subordinated Debt and the amount owed to the Consolidated Fund at the commencement of the concession;
- ii Balances derived from the receipt and payment transactions undertaken in the financial year; and
- iii The annual deficits brought forward from previous years, as if each were financed by a term loan.

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

c Capital expenditure

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

2 Claims

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

3 Accumulated interest receivable

	2006-2007	2005-2006
	£'000	£'000
Opening balance	17,500	11,595
In year interest accrued	<u>6,082</u>	<u>5,905</u>
Closing balance	<u>23,582</u>	<u>17,500</u>

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

4 Subordinated debt

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

	2006-2007	2005-2006
	£'000	£'000
Opening balance	85,995	83,579
In year indexation	2,819	2,416
Closing balance	88,814	85,995

5 Capital expenditure

	Freehold land £'000	Structures £'000	Plant and machinery £'000	Total £'000
Cumulative acquisitions written off as at 31 March 2006	11,042	4,799	122	15,963
Acquisitions in year	22	0	0	22
Cumulative acquisitions written off as at 31 March 2007	<u>11,064</u>	<u>4,799</u>	<u>122</u>	<u>15,985</u>

6 Operations

	2006-2007	2005-2006
	£'000	£'000
Operations expenditure comprises		
Ancillary works; repairs and strengthening; and structural maintenance*.	3,749	682
	3,749	682

* Large increase is due to the cost of investigating and monitoring the M48 Severn Bridge Main Cables Latent Defect.

7 Administration

	2006-07	2005-06
	£'000	£'000
Administration expenditure comprises		
Legal and professional costs	25	35
Consulting Engineers	290	595
Audit Fee	12	13
	<u>327</u>	<u>643</u>

8 Notional interest

	2006-2007	2005-2006
	£'000	£'000
Notional Interest on		
Amount owed to Consolidated Fund at 26 April 1992	734	734
Subordinated debt	5,625	5,625
Receipt and payment transactions	3	1
Accumulated annual deficits *	4,460	3,852
	<u>10,822</u>	<u>10,212</u>

* Interest is calculated based on the appropriate National Loans Fund maturity rate. For 2006-2007 the rate applied was 4.95% (2005-2006 4.45%).

9 Creditors

	2006-2007	2005-2006
	£'000	£'000
Operations	855	306
Administration	71	419
Capital	0	4
	<u>926</u>	<u>729</u>

10 Consolidated fund

	£'000
Debt due to the Consolidated Fund at 1 April 2006	192,927
Notional Interest	10,822
Notional Audit Fee	12
Net cash advances*	3,889
Debt due to the Consolidated Fund at 31 March 2007	<u>207,650</u>

	£'000
* Net cash advances	
Trade creditors outstanding as at March 2006	320
In-year expenditure	3,588
Recoveries from Gloucester Harbour Trustees	(19)
	<u>3,889</u>

11 Contingent liabilities

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

12 Financial instruments

FRS13 'Derivatives and Other Financial Instruments' requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which government departments and agencies are financed, the Highways Agency is not exposed to the degree of financial risk faced by 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 FRS13 mainly applies. The Highways Agency has limited powers to borrow or invest surplus funds and except for relatively insignificantly forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Highways Agency in undertaking its activities. There are no specific risks which have been identified as relating to the Severn Bridges Act 1992 account that would require disclosure under FRS13.

As permitted by FRS13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the risk profile.

Liquidity risk

The capital, operation and administration costs of the Highways Agency are financed by resources voted annually by Parliament to the Department for Transport.

The Highways Agency is not therefore exposed to significant liquidity risks.

Interest-rate risk

The financial asset carries a fixed rate of interest, therefore there is no exposure to interest rate risk.

Exchange-rate risk

The Highways Agency is not exposed to any significant exchange rate risk with regards to the Severn Bridges Act 1992 account.

Appendix A

Accounts Direction given by the Treasury

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

- 1 The statement of accounts which it is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 March 1994 and in any subsequent financial year shall comprise
 - a a foreword which shall include;
 - i a statement that the accounts have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 28 (2) (a) of the Severn Bridges Act 1992; and
 - ii information on significant events during the period;
 - b an Income and Expenditure Account;
 - c a Statement of Assets and Liabilities; andincluding in each case such notes as may be necessary to present fairly the income and expenditure for the period and the assets and liabilities at the end of the period in relation to functions under the Severn Bridges Act 1992. The statement of accounts shall disclose the total sum due to the Consolidated Fund as at 31 March 1994 and for any subsequent financial year.
- 2 The statement of accounts shall be prepared under the historical cost convention on an accruals basis and shall follow the format attached to this Direction although minor drafting changes may be made without seeking the approval of the Treasury.
- 3 Details of movements within the Consolidated Fund shall be disclosed by way of notes to the accounts.
- 4 The accounts prepared under the Severn Bridges Act 1992 shall observe all relevant accounting and disclosure requirements as given in 'Government Accounting' and in any disclosure and accounting requirements which the Treasury may issue from time to time.
- 5 This Accounts Direction (excluding the proforma accounts) shall be reproduced as an Appendix to the accounts.

F Martin
Treasury Officer of Accounts

27 July 1994

Appendix B

Rates of interest Direction given by the Treasury

- 1 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are applicable to the accounts for the period 26 April 1992 to 31 March 1993 which were prepared in accordance with Section 28 of the Severn Bridges Act 1992
 - a for subordinated debt and the opening balance due to the Consolidated Fund the average National Loans Fund ER 10 to 15 year interest rate; and
 - b the average National Loans Fund one year Maturity rate in respect of receipts and payments.
- 2 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are to be applied to the accounts from 1 April 1993 onwards are to be prepared in accordance with Section 28 of the Severn Bridges Act 1992:
 - a for the subordinated debt and the amount owed to the Consolidated Fund at the commencement of the concession the National Loans Fund 25 year Maturity rate as at 26 April 1992. This rate is deemed to be fixed and unless altered by the Treasury is to remain as such for the duration of the concession;
 - b for receipt and payment transactions undertaken within a financial year the prevailing National Loans Fund one year maturity rate which is to be applied to each transaction when it takes place; and
 - c for the interest on the annual deficit carried forward the National Loans Fund Maturity rate as shown in the table below

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

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

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