Dartford-Thurrock river crossing charging scheme
Accounts 2015 - 2016
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Presented to Parliament pursuant to Section 3 (1) (d) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.
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Background information

The Dartford River Crossing between Dartford and Thurrock consists of two tunnels and the Queen Elizabeth II Bridge. The first tunnel was built in 1963, the second in 1980 and the bridge was opened in 1991.

An early Private Finance Initiative (PFI) concession, enacted by the Dartford-Thurrock Crossing Act 1988, transferred the existing debt from the tunnels to the private sector who retained toll revenue to pay off the existing debt and the debt incurred by building the new bridge. Tolls were set by the Department for Transport (DfT) in conjunction with the Concessionaire. The concession was for a period of 20 years from 31 July 1988, but could be ended as soon as the debt was repaid. The Secretary of State determined that all financial commitments had been met by 31 March 2002.

The Dartford-Thurrock Act 1988, Schedule 6, Section 16, (4) (1) contained the provision for a toll extension period for the collection of tolls to provide a fund for future maintenance of the crossing. An extension agreement between the Concessionaire and the Secretary of State for Transport was in place from 4 March 1999 and allowed the toll extension period to run from 1 April 2002 to 31 March 2003. All toll revenue during this period was passed over gross to the DfT.

A charging scheme was introduced at the crossing from 1 April 2003. The powers to introduce a charging scheme on a trunk road bridge and tunnel of at least 600m are set out in Part III Chapter I of the Transport Act 2000 (Road User Charging). Sections 163 (Preliminary) and 167 (Trunk Road Charging Schemes) and Schedule 12 (Road User Charging and Workplace Parking Levy: Financial Provisions) apply to charging schemes introduced on trunk roads:

- Schedule 12 paragraph 13 to the Act requires that the net proceeds of such a charging scheme should be applied for the purposes of directly or indirectly facilitating the achievement of any policies or proposals relating to transport but makes no prescription for how that will be achieved;
- Schedule 12 paragraph 2(2) allows the Secretary of State for Transport to make regulations determining how the net proceeds are to be calculated; and
- Schedule 12 paragraph 5 allows regulations to be made for the keeping of accounts and the preparation and publication of statements of such accounts.

The effect of the regulations made under these provisions is to require an account to be produced to demonstrate the amount of the net proceeds.

The charging scheme at the Dartford-Thurrock Crossing is enabled by the following secondary legislation:

- procedural regulations for the making of an order;
- regulations covering accounting arrangements; and
- the making of a Dartford-Thurrock River Crossing charging scheme order.

Cumulatively these enable the requirements of the Act to be translated into a charging scheme at the Dartford-Thurrock Crossing.
The following regulations allow effective enforcement of the road user charge, with the introduction of free-flow charging (known as Dart Charge) on 30 November 2014:

- the Road User Charging Enforcement Regulations\(^4\) provide a national legislative framework for the enforcement of road user charging through the imposition of penalty charges; and
- the Dartford-Thurrock River Crossing Charging Scheme Order\(^5\) sets out the level of penalty charge and enforcement measures that are being used at Dartford.

### Operation of the crossing

Until 31 March 2015 the Highways Agency (the Agency) was the road authority and was responsible for the operation of the Crossing. Under the Government road reform programme, Highways England Company Limited (Highways England) became the road authority from 1 April 2015, taking on the role previously performed by the Agency. Highways England, which is a government owned company, now operates the Crossing on behalf of the Secretary of State.

From 1 April 2003, the Agency had a contract with Le Crossing Company Limited to manage the crossing and collect charges on behalf of the Secretary of State for Transport. The contract ended on 12 September 2009.

In May 2009, the Agency signed a 30-year design, build, finance and operate (DBFO) contract with Connect Plus (M25) Limited. Connect Plus is responsible for operating and maintaining the M25, including the Dartford-Thurrock Crossing, plus 125 miles of connecting roads around the junctions. As part of this contract, the function of managing the crossing and collecting charges transferred to Connect Plus (M25) Limited from 13 September 2009.

In November 2014, the Agency introduced Dart Charge at the Dartford-Thurrock Crossing (see below) and awarded a seven year contract to Sanef Operations Ltd. The contract requirements include the detection and recording of vehicles and registrations, as well as providing a variety of remote payment methods for road users to access and pay the crossing charge. The responsibility of collecting and enforcing the payment of road user charges transferred to Sanef Operations Ltd on 30 November 2014. From 20 May 2016, Sanef Operations Ltd changed their name to Emovis Operations Leeds Ltd.

### Dart Charge

The Dartford-Thurrock Crossing traditionally suffered from significant levels of congestion, with over 50 million vehicle crossings being made each year. Prior to December 2014 the existing barrier and road layout arrangement to collect and pay the road user charge interrupted the flow of traffic. As a result, severe congestion existed, with poor traffic flow and delays for large period of each day.

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1 Statutory Instrument 2001 No. 2303 The Trunk Road Charging Schemes (Bridges and Tunnels) (England) Procedure Regulations 2001
2 Statutory Instrument 2003 No. 298 The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Procedure Regulations 2003
3 Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013
4 Statutory Instrument 2013 No. 1783 The Road User Charging Schemes (Penalty Charges, Adjudication and Enforcement) (England) Regulations 2013
5 Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013
DfT made clear that providing improvements to the performance of the Dartford-Thurrock Crossing was a priority in view of its role in the movement of goods and people, and its contribution to the economy. In the Spending Review announcement of October 2010, the Government stated its commitment to introduce a ‘free-flow’ charging arrangement at the Dartford-Thurrock Crossing as part of a strategic objective to manage congestion in the short, medium and longer term.

Dart Charge removes the need for drivers to stop and pay the road user charge within a plaza environment controlled by barriers. This scheme formed a key deliverable within the Department’s Business Plan 2012-15, and the (then) Highways Agency led on its delivery and it was introduced from November 2014.

Dart Charge requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after crossing. Road users have access to a variety of methods to pay the charge. These methods include payments online (web), via phone, retail outlets, or by registered customer accounts. If a payment is not made then a penalty charge notice (PCN) is issued. Penalty and recovery processes are employed to enforce the charging scheme and collection of charges. These ‘charging and enforcement management’ services are delivered and administered through a contact centre and back office operation.

To build road user understanding and acceptance of the Dart Charge and encourage compliance, first time users of the crossing are issued with a warning letter with the PCN. This warning letter allows the user to avoid the penalty charge as long as they pay the road user charge within 14 days of the letter. Further details of the effect of this policy is provided in Note 11 of the accounts.

Dart Charge delivers benefits to the UK economy and these are primarily delivered through a reduction in congestion and easing traffic flow at this vital crossing link and the wider South East road network. The introduction of this scheme is expected to deliver approximately £1.6 billion of economic benefit over 25 years.

During 2015-16 traffic volumes increased by 8% compared with 2014-15. Whilst the increase during charging hours was 7.3% the increase outside of charging hours was 13.5%, suggesting that the charging scheme is successfully encouraging people to make journeys at less busy times. Road user compliance averaged 92% during 2015-16 and this figure has continued to improve since, and is consistently over 93%. Despite this growth in traffic volumes, since Dart Charge was introduced journey times at the Crossing have improved.

Free-flow charging is considered to be a medium term measure enabling the Department to develop further the existing options for additional crossing capacity on the Lower Thames. In July 2014 the Secretary of State for Transport announced the Government’s response to consultation on options for a new Lower Thames Crossing, the long term solution to congestion at the Crossing. The response:

- included confirmation that there was a need for a new crossing;
- advised that, as there was as yet no clear preference, the Government would develop and appraise route options, for both location options A and C before choosing where to site a new crossing. (Option A is at the existing crossing and Option C is a new link connecting the A2-M2 with the A13 and M25); and
- advised that Government expected to consult on a proposed solution in late 2015 or early 2016.
Highways England undertook the consultation between 26 January and 24 March 2016 in line with Government expectations. Analysis is ongoing and a Preferred Route Announcement is anticipated in 2017.

Accounts of the Secretary of State for Transport

Section 3(1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulation 2003 requires the production of accounts for the year to 31 March 2016.

These accounts have been prepared in accordance with a Direction given by HM Treasury in pursuance of the above regulation. The Direction is reproduced as an appendix to the accounts.

Completion of these accounts has been delayed by three months due to issues in the first half of the year with the systems operated by the service provider which support the charging regime. This resulted in specific reporting challenges made more complicated by the change to the income recognition policy for PCNs. Whilst reporting issues have now been resolved, the compilation and audit of the accounts has taken longer than anticipated.

The accounts have been audited by the Comptroller and Auditor General (C&AG). His Independent Auditors Opinion and accompanying Report are on pages 16 to 19.

Income

Cash receipts collected by Emovis Operations Ltd for paid crossings are passed over gross to the Department for Transport (DfT). Total revenue recognised for the year ended 31 March 2016 amounted to £161.6m (2014-15: £99.8m). The £61.8m increase on the previous year is due to the increased use of enforcement management measures introduced through the Dart Charge scheme (£53.1m) and an increase in the number of crossings over the period.

The utilisation of the income for transport purposes is fulfilled through the parliamentary supply procedures. This ensures that the whole of the income is received and appropriated in aid and set against the Department’s total transport expenditure. The net proceeds from the charging scheme are used to offset the generality of transport expenditure and not hypothecated to particular programmes or projects.

Expenditure

There is no separation of crossing related costs in the service payments paid by Highways England to Connect Plus. The costs to the Secretary of State for Transport, for the maintenance and operation of the crossing, have therefore been estimated and included based on the most appropriate allocation method detailed within Note 1 to the accounts and a detailed analysis of the expenditure is given in Note 3. Expenditure has increased by £16.7m compared to the previous year. The increase in expenditure is due to the impairment of receivables. Excluding the increase in impairment, expenditure has fallen by £7.8m due to the reduction of capital work required within the scope of the crossing. Further information is provided within Note 3.

Net proceeds

The net proceeds for the year ended 31 March 2016 were £57.2m compared to £12.2m in 2014-15. This increase is due to the introduction of an enforcement revenue stream to the operation in December 2014, as well as an increase in the number of crossings.

Statement regarding disclosure of information to the Auditors

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

Date of issue

The accounts have been authorised for issue on 24 March 2017 by the Accounting Officer

Jim O’Sullivan
Accounting Officer
20 March 2017

Vanessa Howlison
Chief Finance Director
20 March 2017
**Statement of Secretary of State and Accounting Officer responsibilities**

Under Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003, the Secretary of State for Transport 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.

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 Secretary of State including the 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 Treasury has appointed the Chief Executive of Highways England as the Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in HM Treasury’s ‘Managing Public Money’.
Governance statement

HM Treasury’s Managing Public Money and Financial Reporting Manual require that I, as Accounting Officer for the Agency, provide a statement on how I have discharged my responsibility to manage and control the resources for which I am responsible during the year.

HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011 focusing on the role of the board in providing leadership. I have provided details below of how the system of corporate governance has operated during 2015-16, including any areas where the system has not operated in line with the code.

Scope of responsibility

The permanent Secretary of the Department for Transport has appointed me, as Chief Executive, as Accounting Officer for Highways England. As Accounting Officer, I have responsibility for maintaining a sound system of governance that supports the achievement of Highways England policies, aims and objectives, whilst safeguarding the public funds and Department for Transport assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury’s Managing Public Money.

Governance framework

Corporate Governance is the system by which an organisation is directed and controlled. I have ensured that Highways England has corporate governance arrangements designed to comply with the Code of Good Practice on Corporate Governance in central government departments.

The Dartford River Crossing governance framework is largely reliant on Highways England governance arrangement. Both Dartford River Crossing and Highways England governance arrangements are set out below.

Dart Charge governance

The period up to March 2016 was the first full operational year for Dart Charge which represented a key milestone and enabled the project phase to be concluded within this year as Dart Charge began to operate in business as usual.

Dart Charge implemented the following governance activities in order to monitor a scheme of this complexity and size:

- A monthly end to end operational strategic review;
- Monthly finance reviews and quarterly strategic finance reviews;
- Implementation and tracking of the risk and issues register which is reviewed quarterly in the strategic review meeting;
- Incident and issue tracking;
- Monthly invoice reviews; and
- Annual Highways England internal audit

Through the governance and audit activities Highways England identified a number of issues with the systems and processes operated by Emovis and the related reporting. This has been referred to in the report of the Comptroller and Auditor General (page 18). Highways England commissioned an operations review from an
external consultant to address areas of potential improvement, mainly within the contractor’s systems and processes, covering information technology and management information, finance operations and controls, governance mechanisms and the interface between itself and its contractor. Highways England and Emovis are working closely together to deliver the remedial plan developed from this review with the aim of making a number of service improvements.

Corporate assurance review

The Highways England Corporate Assurance (CA) team review the collection and subsequent paying over of Crossing revenue on an annual basis to provide the Accounting Officer with independent assurance on the adequacy of risk management, control and governance processes established by the service provider, Emovis (formerly Sanef).

The most recent audit completed by the CA team took place in April 2016, covering the period 1 April 2015 to 31 March 2016. The review concluded that, while the daily collection of crossing charge revenue (by Emovis) and its onward transfer to Highways England has operated effectively since the start of the contract, there remain a number of issues that need to be addressed. Weaknesses were identified within the IT systems and collection of enforcement revenue; management information and finance reporting; and the governance mechanisms employed. The overall opinion rating was ‘moderate’.

CA will undertake further assurance work in 2016-17 to assess governance and internal control mechanisms undertaken by Emovis and Highways England in order to manage the risks to both the public and Secretary of State (the shareholder).

Highways England’s governance framework

A Framework Document sets out the respective roles and accountabilities of the Secretary of State, the Department for Transport, and Highways England as we work to achieve the common objective of delivering a network that meets the country’s needs efficiently and provides the best possible service for road users and other stakeholders. The framework also:

- recognises the functional and day-to-day operational independence of Highways England;
- sets out how financial control and accountability is achieved, including through a finance and reporting letter;
- recognises the governance and decision making arrangements that are appropriate to Highways England as a corporate, legal entity with its Board, and with executives reporting to those Board. The key elements of Highways England governance framework are;
  - the Board, Executive Committee and Sub-Committees;
  - Highways England Audit and Risk Committee and its Counter-Fraud Committee; and
  - A sound system of internal control, including audit and assurance activity and formal risk management processes.

Board and executive committee

Highways England is managed by a formal Board and an Executive Committee, supported by a Board Safety Committee, an Audit and Risk Committee, a Nominations Committee, Remuneration Committee and eight sub-groups.
of the Executive Committee. The Boards and Committees review their own effectiveness annually and identify and take action to improve performance where appropriate. A number of strategic, financial or other significant matters are reserved to the Board for decision.

The Board

The Board is accountable to the Secretary of State for Transport as shareholder for all aspects of Highways England’s activities and performance, including the fulfilment of our role and responsibilities as a strategic highways company. The Board is the primary governance arm of Highways England in line with its fiduciary and other duties under company law. The governance activities include setting strategy, overseeing performance, reviewing risks and appointing senior leaders. The Board delegates responsibility for the day-to-day running of Highways England’s operations to the Chief Executive Officer (CEO).

Risk management

The Board has overall responsibility for determining the nature and extent of the significant risks it is willing to take in achieving Highways England’s strategic objectives. The Chief Executive is responsible to Parliament for the stewardship of public money and delegations are exercised in line with the Finance and Reporting letter issued to Highways England and the Chief Executive by the Shareholder.

The Highways England Audit and Risk Committee review the Dartford & Thurrock River Crossing accounts and audit recommendations on an annual basis.

Each year the Executive team uses the strategic objectives supporting the current investment period to identify potential risk and uncertainty. Similar exercises are carried out across all key business areas.

Internal control framework

Highways England risk management process is aimed at early identification and mitigation. Highways England framework gives us the structure, through which the company continually identify, prioritise, manage, monitor and report risks.

The Board has overall responsibility for the company’s internal control framework and for reviewing its effectiveness. Internal control systems are recognised by the Board as being designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material misstatements, losses or the breach of laws or regulation.

Financial management

Highways England ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability is in place through a variety of control systems including:

- a mandatory Investment Control Framework to test whether proposed a project or expenditure offers value for money. The arrangements complement larger value approvals required from DfT or Ministers;
- financial propriety and other requirements from HM Treasury’s Managing Public Money;
- an Oracle financial accounting system with embedded controls;
- asset management procedures to record and account for all assets;
- a Counter-Fraud Committee to oversee the handling of any significant issues or allegations; and
- Investors in People accreditation; a proven business improvement framework that significantly improves financial performance.
Management assurance reporting

Stewardship reporting is undertaken twice yearly in Highways England, after nine months and year-end, in line with the DfT timetable. The report covers the full range of delegations, policies and procedures laid down by Highways England. The evidence collated forms part of a management assurance process which enables the Accounting Officer to sign off the Governance Statement in the Annual Report and Accounts.

Jim O’Sullivan  Vanessa Howlison
Accounting Officer  Chief Finance Director
20 March 2017  20 March 2017
Independent Auditor’s report to the Houses of Parliament

I have audited the financial statements of the Dartford-Thurrock River Crossing Charging Scheme for the year ended 31 March 2016 which comprise: the Statement of Income and Expenditure; the Statement of Capital Expenditure; the Statement of Assets and Liabilities; and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 (‘The Regulations’).

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

As explained more fully in the Statement of Secretary of State and Accounting Officer responsibilities, the Secretary of State and Accounting Officer are 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 and express an opinion on 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 Dartford-Thurrock River Crossing Charging Scheme’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made in respect of the Scheme; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Foreword and Management Commentary to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

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

Opinion on regularity

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

In my opinion:

- the financial statements give a true and fair view of the state of the Dartford-Thurrock River Crossing Charging Scheme’s affairs as at 31 March 2016 and of the net proceeds for the year then ended; and

- the financial statements have been properly prepared in accordance with The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 and HM Treasury directions issued thereunder.

Opinion on other matters

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

Matters on which I report by exception

I am required to report if, in my opinion, adequate accounting records have not been kept. During the year, the systems supporting Dart Charge were, as implemented, not capable of providing complete and accurate information in support of statutory enforcement activity. As a result of this, in the first half of 2015-16, a significant volume of Penalty Charge Notices which should have been issued, were not. Sufficient progress was made during the year to enable both the resumption of enforcement activity, and the provision to my audit team of adequate records in support of my opinions on regularity and the truth and fairness of the accounts, which are unqualified. Further information is provided in note 11 to the accounts and in my Report, below.

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

- the financial statements to be audited are not in agreement with the accounting records and returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Governance statement does not reflect compliance with HM Treasury’s guidance.

Sir Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

24 March 2017
The Dart Charge road user charging scheme is administered by Highways England on behalf of the Secretary of State for Transport. For the first six months of the year, issues with the new systems supporting Dart Charge, as implemented, meant that the data held to support statutory enforcement activity was not complete and accurate. As a result, Highways England decided to freeze or abandon the issue of Penalty Charge Notices (‘PCNs’) to certain customers during this period.

This decision was taken, in large part, to mitigate the potential for compliant road users to be charged incorrectly. It was also within the relevant statutory framework, which allows PCNs to be cancelled where ‘compelling reasons’ exist. I have therefore not qualified my opinion on regularity.

Nevertheless, the statutory enforcement regime for the crossing did not operate fully during those first six months. The issues have now been substantially resolved; however, the temporary measures to limit enforcement activity has led to a loss for taxpayers. Finally, the same issues mean that – for part of the year – inadequate accounting records were in place to support the enforcement element of the charging scheme. I have reflected this in my audit report through an exception report.

For these reasons, I am making this separate report. The following paragraphs briefly explain the scheme’s context; the nature of the underlying problems; the amounts involved; and actions taken by Highways England, with its contractor, Emovis, to address the issues described.

### Context

Before November 2014, the Dartford Crossing charging scheme operated using a traditional gated toll booth system. At that point, the booths were removed and a new ‘free flow’ system – Dart Charge – was implemented. This system includes an online facility for the payment of Road User Charges, automatic number plate recognition cameras recording crossings, and a back office element; this determines whether a crossing can be matched to a payment of road user charge for the relevant vehicle. If not, then a contravention is recorded and with a few exceptions, statutory enforcement action will be required.

The link between contraventions and enforcement includes a significant amount of automation. However, filters can be placed on this link to ensure that contraventions with certain characteristics – those that management define as markers of the PCN potentially being invalid – are held for review, rather than proceeding immediately to enforcement.

### Issues with the newly implemented system

In the first six months of 2015-16, there were significant issues with the quality of data available to support the validity of contraventions recorded on the system. A number of contraventions present on the system were identified as invalid or doubtful, as a result of issues with the accuracy of data on both crossings and the payment information used to generate a match. As a result, management made extensive use of filters, so holding a large number of detected contraventions back from enforcement action while system issues were resolved.

This resulted in many contraventions becoming significantly aged, as a result of which no enforcement action was taken on them. Enforcement was further hampered by:

- difficulties in dealing with the reissue of PCNs to owners of vehicles where ownership had recently transferred; and
delays in securing an effective process for the receipt of registered keeper details with the Driver and Vehicle Licensing Agency (DVLA).

Highways England’s decision to instruct its contractor to limit enforcement activity, and to tolerate the resulting financial loss, reflected its priority to protect road users from incorrect billing, and to preserve the benefits – principally on congestion – achieved through the operation of the new free flow system. Nevertheless, it does mean that a number of valid PCNs should have been issued but were not. This created a loss for taxpayers which might have been avoided.

**Extent of taxpayer loss**

Note 11 includes an overall summary of losses relating to the crossing during the year. The gross value of the PCNs cancelled, or never charged, following these issues is £33.6 million. However, not all of this would have been recovered if the charges were made, as a result of the following factors.

1. Highways England maintains a deliberate policy of leniency towards first time offenders, whereby a ‘warning letter’ accompanies the first PCN. This contains an offer for the PCN to be cancelled if the Road User Charge was paid within 14 days. 42% of gross enforcement revenue in 2015-16 was derecognised due to the operation of this policy.

2. A number of apparent contraventions will be overturned on review or appeal - this accounts for the derecognition of a further 14% of gross revenue.

3. For the residual balance of apparently valid PCNs, some of the amount due will not prove recoverable, as is typical for enforcement businesses. Highways England’s best estimate, reflected in these accounts, is that this will be the case for around 60% of debt.

Any estimate of the enforcement cash flow actually lost from the system issues described above is subject to uncertainty. However, based on the factors above, my analysis suggests a plausible range of £4.6 million to £8.8 million.

**Actions required to address remaining issues**

As described in the Management Commentary, Highways England have throughout 2015-16 worked with their contractor, Emovis, to resolve problems with the new system. The account management and enforcement issues described above have been resolved to the extent where, during 2016, Highways England were able to remove most filters and resume enforcement activity. Highways England expect these actions to have resolved the material issues underlying the impact on taxpayers, although the company will need to ensure that as the scheme continues, processes are properly embedded with the aim of both protecting road user experience and maximising the effectiveness of enforcement activity for those who persistently contravene the rules. Highways England should also seek to apply the lessons of this experience to only new free flow operations entered into in the future.

Sir Amyas C E Morse  
Comptroller and Auditor General

National Audit Office  
157-197 Buckingham Palace Road  
Victoria, London, SW1W 9SP  
24 March 2017

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7 In addition to the losses described here, Note 11 also describes a number of instances where Highways England have intentionally exercised discretion in how crossing charges are enforced, as permitted in statute. The ‘warning letter’ system exercised in respect of road users new to Dart Charge, as described in the Management Commentary and Note 11, is an example of the exercise of this statutory discretion.

8 Derecognisations represent reductions of income. Income in the main financial statements and Note 2 are net amounts, after derecognisations. Further disclosure on derecognised income is provided in Note 11.
**Statement of income and expenditure account for the year ended 31 March 2016**

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<th>2014-15 Restated £000</th>
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<td>Dart Charge operation</td>
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<td><strong>161,556</strong></td>
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**Expenditure**

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<th>2014-15 Restated £000</th>
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</thead>
<tbody>
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<td>Managing agent contractor’s costs</td>
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<td>Impairment to income</td>
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<td>Other expenditure*</td>
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<td><strong>87,626</strong></td>
</tr>
</tbody>
</table>

**Net proceeds for the year**

| Net proceeds for the year       | 4    | 57,247       | 12,189                |

**Statement of capital expenditure for the year ended 31 March 2016**

<table>
<thead>
<tr>
<th>Capital expenditure</th>
<th>Note</th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dart Charge</td>
<td></td>
<td>28,935</td>
<td>53,137</td>
</tr>
<tr>
<td>EU Directive - Tunnel Safety</td>
<td></td>
<td>1,140</td>
<td>420</td>
</tr>
<tr>
<td>Other ***</td>
<td></td>
<td>90</td>
<td>452</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>30,165</strong></td>
<td><strong>54,009</strong></td>
</tr>
</tbody>
</table>

* Other expenditure mainly relates to spend for the implementation of Dart Charge and renewal of road, structures, and technology schemes.

** Amounts are included in the income and expenditure statement. See note 1.3 for further disclosure.

*** Amounts exclude any capital expenditure incurred under the DBFO contract.

The Notes on pages 22 to 33 form part of these accounts.
## Statement of assets and liabilities as at 31 March 2016

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>Note</th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>5</td>
<td>24,184</td>
<td>14,537</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>5</td>
<td>17,905</td>
<td>4,459</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>42,089</strong></td>
<td><strong>18,996</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and other payables</td>
<td>6</td>
<td>(54,864)</td>
<td>(36,856)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Assets less (Liabilities)</th>
<th></th>
<th>(12,775)</th>
<th>(17,860)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance due from the Highways England</td>
<td>8</td>
<td>12,775</td>
<td>17,860</td>
</tr>
</tbody>
</table>

The Notes on pages 22 to 33 form part of these accounts

Jim O’Sullivan  
Accounting Officer  
20 March 2017

Vanessa Howlison  
Chief Finance Officer  
20 March 2017
Notes to the account

1. Statement of accounting policies

1.1 Accounting convention

The accounts have been prepared in accordance with the 2015-16 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.

An Accounts Direction has been given by HM Treasury and is reproduced in Appendix A. The Accounts are prepared under the historical cost convention on an accruals basis.

The accounts are prepared from the point of view of the charging scheme itself. The scheme, managed by the Highways England pays the charging receipts to the Department for Transport (DfT) on a gross basis. Its expenses are ultimately settled by the Highways England itself funded by Parliament.

The scheme assets comprise cash arising from charging receipts and accruals-based balances receivables from road users (Note 5). Any prepayments from road users are reflected as a scheme liability. The net amount of these assets and liabilities relating to road user charging will be payable to the DfT and is reflected in the scheme liabilities (Note 6). Residual equity therefore comprises balances which the scheme expect Highways England to settle on its behalf. Note 8 provides a breakdown of these amounts which reflect the scheme’s financing from Highways England.

1.2 Adjustment to last year’s published results

The accounting policy for income recognition has been reviewed due to the distorting size of the impairment of income in the 2014-15 accounts and to ensure compliance with 2015-16 Financial Reporting Manual. Therefore, the comparative figures have been restated. The change impacts on the income recognition and the level of impairment of debt.

Previously Penalty Charge Notice (PCN) income was recognised at the point of the contravention e.g. from the midnight after the crossing, the policy has now been amended to state that PCN income is only recognised when a PCN is issued and where on appeal or for any other legal reason the PCN is cancelled then the income is derecognised.

The following table summarises the adjustments that have been made to specific items in financial statement.

### Statement of income and expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>As previously reported 2014-15</th>
<th>Restatement adjustment</th>
<th>2014-15 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dart Charge operation</td>
<td>81,456</td>
<td>(46,097)</td>
<td>35,359</td>
</tr>
<tr>
<td>Impairment to income</td>
<td>39,788</td>
<td>(37,861)</td>
<td>1,927</td>
</tr>
<tr>
<td>Net proceeds for the year</td>
<td>20,424</td>
<td>(8,235)</td>
<td>12,189</td>
</tr>
</tbody>
</table>

### Statement of assets and liabilities

<table>
<thead>
<tr>
<th>Description</th>
<th>As previously reported 2014-15</th>
<th>Restatement adjustment</th>
<th>2014-15 Restated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade and trade receivables</td>
<td>12,694</td>
<td>(8,235)</td>
<td>4,459</td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>(45,092)</td>
<td>8,236</td>
<td>(36,856)</td>
</tr>
</tbody>
</table>
1.3 **Capital expenditure**

Capital expenditure is expensed as it is incurred and included in the overall expenditure figures in these accounts; therefore capital expenditure will form part of the statement of income and expenditure account and is also included within note 3 below. In addition, as the scheme itself derives no future economic benefit from the expenditure, net proceeds are payable in full to HM Government. The assets are capitalised and depreciated in the Highways England financial statements.

1.4 **Revenue recognition and impairment of debt balances**

The road user charge is recognised as income on the day the road user has crossed the crossing during the chargeable period. Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay. Fines and penalties are recognised as revenue as follows;

a. For non-first offenders, the PCN is recognised when issued.

b. For first time offenders the PCN is issued with the warning letter and is recognised as revenue at this time. However, if the road user subsequently pays the crossing charge within the set time limit then the PCN is effectively cancelled and the PCN revenue is derecognised.

c. Where on appeal the penalty is not enforced, the amount receivable is derecognised.

Road user charge and enforcement income is shown net of derecognition within note 2.

Rental income received from communication network providers is recognised on a straight line basis over the term of the lease.

1.5 **Managing agent expenditure**

Estimation techniques are adopted to arrive at an estimated monetary amount for the expenditure incurred under the Design, Build, Finance and Operate (DBFO) contract with Connect Plus (M25) Limited during the period 1 April 2015 to 31 March 2016.

The service charge in the DBFO contract payable by Highways England encompasses the whole of the M25, including the Dartford Crossing. Therefore an estimate has been made as to the proportion of this charge that relates to the maintenance and operation of the Crossing.

The estimated costs have been included based on the most appropriate allocation method determined for each expenditure type (see below) within the financial model of the DBFO contract.

<table>
<thead>
<tr>
<th>Expenditure type</th>
<th>Total costs specific to DRC per the financial model ((\text{\£m}))</th>
<th>Total costs not specific to DRC per the financial model ((\text{\£m}))</th>
<th>Total ((\text{\£m}))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational and management</td>
<td>4.3</td>
<td>7.0</td>
<td>11.3</td>
</tr>
<tr>
<td>Lifecycle schemes</td>
<td>0.3</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Overhead and management</td>
<td>1.1</td>
<td>-</td>
<td>1.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5.7</strong></td>
<td><strong>7.9</strong></td>
<td><strong>13.6</strong></td>
</tr>
</tbody>
</table>
1.5.1 Operational and management

The types of cost associated to this category are:

- **Routine structures**: Inspections and routine maintenance. The amount allocated has been derived based on the elements specific to Dartford River Crossing (DRC) rather than the entire M25 contract.

- **Routine service**: Incident Response. This is based on the number of incidents as a percentage of the M25 as a whole.

- **Other routine**: Such as roads, winter service and inspection surveys are allocated as a percentage based on the length of the DRC as per the legislation compared to the total length of the M25 per the DBFO contract.

- **Charge collection and crossing**: The whole amount is DRC specific.

- **Management activities facilities**: Is based on the staff capacity of the DRC depot as a percentage of the capacity of all depots.

- **Lifecycle tunnels**: Is based on the number of DRC tunnels compared to the total amount of tunnels across the M25.

- **Vehicle recovery**: The whole amount is DRC specific.

- **Others**: Such as vehicle recovery, lifecycle ancillaries and indeterminate costs are allocated as a percentage based on the length of the DRC as per the legislation against the total length of the M25 per the DBFO contract.

1.5.2 Lifecycle schemes

- **Pavements**: Costs under this category are allocated as a percentage based on the length of the DRC as per the legislation against the total length of the M25 per the DBFO contract.

- **Tunnels**: The whole amount is DRC.

1.5.3 Overhead and management

Cost under this category relate to the head office costs incurred by the contractor.

- **Management**: Project management, advisors and board fees are based on the contractors’ best estimate of the time spent by management on an annual basis.

- **Energy**: Is based on the actual metered and unmetered supplies that are specific to DRC as a percentage against the total energy cost incurred through the DBFO.

- **Insurance and risk**: The percentage as per that applied to the financial model in the DBFO contract.

Further information is included in Note 3.

1.6 Contingent liabilities

Contingent liabilities in relation to the DRC are the responsibility of Highways England. In accordance with IAS 37, Highways England 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 the control of Highways England, unless their likelihood is considered to be remote.
## 2. Income

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Toll Operation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tolls</td>
<td>-</td>
<td>42,221</td>
</tr>
<tr>
<td>Dart Tag</td>
<td>-</td>
<td>22,077</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>64,298</td>
</tr>
<tr>
<td><strong>Dart Charge Operation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dart Charge accounts</td>
<td>76,665</td>
<td>22,910</td>
</tr>
<tr>
<td>Dart Charge non accounts</td>
<td>31,318</td>
<td>9,376</td>
</tr>
<tr>
<td>Enforcement</td>
<td>53,103</td>
<td>2,980</td>
</tr>
<tr>
<td>Abnormal load</td>
<td>358</td>
<td>93</td>
</tr>
<tr>
<td></td>
<td>161,444</td>
<td>35,359</td>
</tr>
<tr>
<td><strong>Other Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rental</td>
<td>112</td>
<td>158</td>
</tr>
<tr>
<td></td>
<td>161,556</td>
<td>99,815</td>
</tr>
</tbody>
</table>

The 2015-16 financial year was the first complete accounting year the Dart Charge scheme has been in operation. 2014-15 Dart Charge income figures relate to the 4 months of the financial year the scheme was in operation, subsequently 2015-16 Dart Charge income figures are higher than 2014-15 and are not a direct comparison.

Total income has increased by £61.7m primarily due to the application of enforcement management measures across the whole financial year and increases to traffic flow.

The Dart Charge scheme incentivises road users to create Dart Charge accounts by offering discounted charges to use the crossing. During the financial year £76.7m was recognised in respect of these accounts. Account revenue made up 71% of the road user charge revenue, which is similar to the previous financial year.

During the financial year £31.3m has been recognised as Dart Charge non account road user charge income. The majority of this income is collected through less frequent users of the crossing.

Enforcement income relates to road users who have used the Dartford Crossing but have failed to make a road user charge payment within the required timescale, with a resultant penalty charge notice liability materialising. Enforcement income has been valued and recognised at £53.1m.

Abnormal load income has historically been included as toll revenue under the toll operation. Under the Dart Charge scheme abnormal load is considered a separate revenue type. £0.4m has been received from vehicles which require an escort to travel across the Crossing, this is in-line with the monthly spend incurred in the previous year.

Dart Charge income is reported net of refunds made.

Rent received from communication network providers amounted to £0.1m during the financial year.
### 3. Expenditure

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Managing Agent Contractor’s costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Connect Plus (M25) Limited</td>
<td>13,578</td>
<td>16,847</td>
</tr>
<tr>
<td>Emovis Operations (Leeds) Limited</td>
<td>25,399</td>
<td>4,910</td>
</tr>
<tr>
<td></td>
<td><strong>38,977</strong></td>
<td><strong>21,757</strong></td>
</tr>
<tr>
<td><strong>Impairment to Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road user charge</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>80</td>
<td>-</td>
</tr>
<tr>
<td>Allowance for doubtful debt</td>
<td>4,217</td>
<td>1,026</td>
</tr>
<tr>
<td>Enforcement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>1,076</td>
<td>20</td>
</tr>
<tr>
<td>Allowance for doubtful debt</td>
<td>21,037</td>
<td>881</td>
</tr>
<tr>
<td></td>
<td><strong>26,410</strong></td>
<td><strong>1,927</strong></td>
</tr>
<tr>
<td><strong>Other Expenditure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dart Charge</td>
<td>32,432</td>
<td>59,498</td>
</tr>
<tr>
<td>Highways England Staff</td>
<td>4,334</td>
<td>3,231</td>
</tr>
<tr>
<td>Safety scheme</td>
<td>45</td>
<td>443</td>
</tr>
<tr>
<td>EU tunnel directive on safety</td>
<td>1,140</td>
<td>420</td>
</tr>
<tr>
<td>Technology projects safety</td>
<td>236</td>
<td>233</td>
</tr>
<tr>
<td>Bank charges</td>
<td>-</td>
<td>191</td>
</tr>
<tr>
<td>Network resilience</td>
<td>8</td>
<td>49</td>
</tr>
<tr>
<td>Routine maintenance</td>
<td>15</td>
<td>6</td>
</tr>
<tr>
<td>Audit Fee</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td>Charging order implementation</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>Pension costs</td>
<td>682</td>
<td>(162)</td>
</tr>
<tr>
<td></td>
<td><strong>38,922</strong></td>
<td><strong>63,942</strong></td>
</tr>
<tr>
<td></td>
<td><strong>104,309</strong></td>
<td><strong>87,626</strong></td>
</tr>
</tbody>
</table>

DRC costs relating to the Connect Plus contract is an apportionment of the total costs payable by Highways England to Connect Plus for the M25 DBFO contract. The estimated costs included are based on the most appropriate allocation method determined for the three expenditure types within the financial model of the DBFO contract. The expenditure of £13.6m (2014-15: £16.8m), includes:

- Operational & management £11.3m (2014-15: £14.8m)
- Life cycle schemes £1.2m (2014-15: £0.9m)
- Overhead and management £1.1m (2014-15: £1.1m)
Estimated Connect Plus expenditure has fallen by £3.3m, this is due to the removal of the Dartford Toll operation from the DBFO contract.

A monthly payment is made to Emovis as the service provider for the Dart Charge scheme. The service payment and maintenance charge are fixed, while a variable payment is made based on the activities performed by the company during the month. The 7 month difference in active charging timeframes, implementation of additional transactional charges, traffic increase, and instigation of the full enforcement processes, led to higher expenditure (£20.5m) in the financial year 2015-16 compared to its predecessor.

Investment of £32.4m has been made to ensure the appropriate infrastructure is in place for the successful running of the Dart Charge scheme:

- Traffic Management Cells (TMCs) were introduced on the northbound approach to each tunnel. These include traffic light signals, barriers and variable message signs to stop and redirect errant vehicles from the carriageway. The TMCs are also utilised to regulate the traffic prior to entering the tunnels during incidents and periods of congestion or Dangerous Goods Vehicle convoy crossings.

- Online work included upgrading existing gantries and directional signing and providing facilities for TOS (Highways England Traffic Officer Service).

- Offline work included Junction 1a improvements, including traffic signal control for tunnel management and local road widening to Dartford depot. Within the Crossing depot area improvements were made to the Kent marshalling area, DVSA facilities, internal service roads, vehicle extraction routes, holding bays and car parks.

Road user charge and enforcement receivables have been impaired by £26.4m.

- £0.1m of the road user charge receivable and £1.1m of the enforcement receivable has been impaired due to the failure to collect the outstanding debt. Impairment has materialised for a variety of reasons, notably, penalty charges not issued on a timely basis, service provider error, irrecoverable debts and drivers’ vehicle keeper’s details not being available (including an element for overseas drivers who cannot be traced).

- An allowance of £25.2m has been expensed within the accounts for doubtful debts, and is based on the age of the debt and the current rate of recovery.

Highways England staff costs have increased by £1.1m following the creation of a Dart Charge team within Highways England to manage the Dart Charge contract with Emovis.

Bank charges have not been payable since the commencement of the Dart Charge scheme as the service provider is contractually obliged to pay the liability.

Highways England made monthly contribution payments to the Dartford Crossing pension schemes amounting to £0.68m over the financial year (2014-15: £0.94m).
4. Net proceeds

The income collected on behalf of Highways England by the managing agent is payable to the Department for Transport (DfT) and is appropriated in aid within its resource accounts.

The gross expenditure of £104.3m (2014-15: £87.6m) has been financed through the parliamentary supply to DfT.

5. Current assets

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash</strong></td>
<td>24,184</td>
<td>14,537</td>
</tr>
<tr>
<td><strong>Accrued Income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road user charge (accounts)</td>
<td>608</td>
<td>609</td>
</tr>
<tr>
<td>Road user charge (non accounts)</td>
<td>63</td>
<td>183</td>
</tr>
<tr>
<td>Enforcement</td>
<td>96</td>
<td>30</td>
</tr>
<tr>
<td><strong>Receivables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Road user charge</td>
<td>5,717</td>
<td>3,270</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>(4,217)</td>
<td>(1,026)</td>
</tr>
<tr>
<td>Enforcement</td>
<td>36,674</td>
<td>2,274</td>
</tr>
<tr>
<td>Allowance for doubtful debts</td>
<td>(21,036)</td>
<td>(881)</td>
</tr>
<tr>
<td></td>
<td>42,089</td>
<td>18,996</td>
</tr>
</tbody>
</table>

Cash represents amounts received by Highways England in respect of road user charges, enforcement and Dart Charge prepayments not yet paid over to DfT. These are payable to DfT once a road user has made both a payment and completed a crossing. The cash balance has increased over the year due to the change in nature of the operation; Dart Charge actively encourages road users to prepay the charge.

Accrued income road user charge represents crossings undertaken on 31 March for which payments of the road user charge have not yet been received by Highways England.

Accrued enforcement payments are penalty charge payments acknowledged by the service provider which have not yet been received by Highways England.

Receivables relate to the crossings which have not been paid for as at the end of the financial year. Due to the inherent risk of evasion related to a scheme of this nature, an allowance for doubtful debts has been recognised as an expense to the accounts. This has subsequently reduced the receivable balance from £42.4m to £17.1m, and represents the amount estimated as recoverable.
6. Trade and other payables

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £000</th>
<th>2014-15 Restated £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>70</td>
<td>1,338</td>
</tr>
<tr>
<td>Amounts to be paid over to DfT</td>
<td>20,598</td>
<td>6,065</td>
</tr>
<tr>
<td>Accrued expenditure</td>
<td>9,504</td>
<td>13,322</td>
</tr>
<tr>
<td>Deferred Income- Prepaid road user charge</td>
<td>21,428</td>
<td>12,878</td>
</tr>
<tr>
<td>Advanced rental income</td>
<td>64</td>
<td>53</td>
</tr>
<tr>
<td>Other payables: pension deficit</td>
<td>3,200</td>
<td>3,200</td>
</tr>
<tr>
<td></td>
<td><strong>54,864</strong></td>
<td><strong>36,856</strong></td>
</tr>
</tbody>
</table>

The February DBFO service payment was paid in March 2016, therefore unlike previous years no trade payable is recognised for work completed in February under the DBFO contract. The £0.1m trade payable relates to employee NIC and pension contributions.

The £20.6m payable to DfT consists of:

- road user charges collected for the period 26 to 31 March 2016 and to be paid over to the DfT once they have cleared the Highway England’s bank account (post 31 March 2016); and
- outstanding road user and penalty charge revenue, which has not been paid over to the DfT by 31 March 2016.

Accrued expenditure represents work carried out but not invoiced at 31 March 2016 of £9.5m (2014-15: £13.3m). £4m of which relates to Dart Charge infrastructure work, £3.2m relates to the Dart Charge operation, £1.1m relates to an estimate of the amount payable for work completed in March under the DBFO contract and £1.2m relates to other accrued expenditure within the scope of the crossing.

Deferred income is the prepaid road user charge of £21.4m. These are payments received from road users in advance of a crossing. The increase in deferred income is due to the change in nature of the operation, which actively encourages road users to prepay in an attempt to negate non-compliance and revenue loss. Existing prepayments on Dart Tag accounts migrated across as Dart Charge accounts on the date of go-live (November 2014).
7. Capital commitments

These relate to the commitment of Highways England to make future capital payments for works at the Crossing to the extent that this commitment has not been provided for in the accounts.

<table>
<thead>
<tr>
<th>Contracted capital commitments not otherwise included in these accounts:</th>
<th>2015-16 £000</th>
<th>2014-15 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dart Charge</td>
<td>-</td>
<td>18,974</td>
</tr>
<tr>
<td>DRC EU Directive - tunnel commitments</td>
<td>-</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>19,020</td>
</tr>
</tbody>
</table>

8. Financing due from the Highways England

<table>
<thead>
<tr>
<th></th>
<th>2015-16 £000</th>
<th>2014-15 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade payables</td>
<td>70</td>
<td>1,338</td>
</tr>
<tr>
<td>Accrued expenditure</td>
<td>12,705</td>
<td>16,522</td>
</tr>
<tr>
<td>Rental income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>12,775</td>
<td>17,860</td>
</tr>
</tbody>
</table>

9. Contingent liability: Unquantified

When the DRC concession was enacted, employees moved across to the private sector company (Egis) from Kent County Council. As part of the transfer arrangements, the Secretary of State for Transport made an agreement to accept the liability for any future deficit associated with the Dartford Crossing pension scheme fund. The existing deficit known as at 31 March 2016 has been included in these accounts. The value of the pension fund may increase or decrease in the future based on actuarial assumptions. To the extent that any future deficit arises, this represents a contingent liability to the Secretary of State for Transport. Given the liability cannot be accurately measured the contingent liability is disclosed as unquantified.
10. Financial instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that an entity faces in undertaking its activities. For these disclosures the DRC Charging Scheme Account is an integral part of Highways England. Due to the largely non-trading nature of its activities and the way in which government agencies are financed, Highways England 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. Highways England 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 Highways England in undertaking its activities.

Liquidity risk

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

Credit risk

The scheme’s principal credit risk relates to the enforcement of late-paid Road User Charges and outstanding Penalty Charge Notices. Further details are included in Notes 5 and 11a.

11. 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 £300,000 in total and those that, individually, exceed £300,000. 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.

11.1. Losses statement:

11.1.1 Road user charge revenue and enforcement revenue impaired in year

During 2015-16 an impairment loss of £26.4m has been reported in note 3. This represents the amount by which the carrying amount of the enforcement (penalty charge notice - PCN) and road user charge income exceeds its recoverable amount. A significant portion of the impairment relates to an allowance for aged PCN cases in which it has recoverability has been considered as improbable, and reflect the inherent credit risks common to all enforcement businesses.

£4.3m of the impairment relates to road user charge revenue. The majority of the impairment relates to circumstances where the PCNs were not issued to non-compliant road users and so the road user charge could also not be recovered.

£22.1m of the impairment relates to enforcement revenue. A significant portion of the impairment relates to an allowance for aged PCN cases in which it has recoverability has been considered as improbable.
11.1.2 PCNs not issued that should have been
If a PCN has not been issued, it is deemed outside the scope of the revenue recognition policy adopted by this set of accounts. During the 2015-16 financial year, £33.6m was not recognised as PCN revenue due to road users not receiving PCNs despite having contraventions recorded (i.e. crossings without matching payments).

PCNs may have not been issued to road users for a number of reasons, including; road user vehicles keeper details (UK and Non-UK) not being available, illegal activity/evasion (e.g. cloned vehicles), poor vehicle images, misread number plates, issues with the system, errors made by the service provider, and discretionary action undertaken by Highways England. System issues and errors are being addressed by Highways England on an ongoing basis.

This figure is unusually high for this year as a result of system issues encountered during the first half of 2015-16. It should be noted, that a high percentage of the £33.6m not recognised will in likelihood relate to first time offenders who would have been offered to chance to pay the road user charge within 14 days, resulting in no fine being levied. Therefore, actual PCN revenue loss is significantly lower than £33.6m as a result of this policy. Taking all material factors into account, our central estimate of the actual cash flow loss in respect of valid PCNs not issued in-year is £8.8m.

The objective from the outset in line with agreed policy has been to encourage compliance (which averaged over 90% at year-end) and public acceptance to support a credible free-flow charging scheme.

11.2 Special payments
No special payments have been made.

11.3 Derecognised enforcement revenue
In the 2015-16 financial year £68.2m has been de-recognised as PCN revenue. There are two main reasons for derecognition: the road user charge was paid within the 14 day warning letter period (£51.0m); and successful representations and appeals and invalid PCNs (£17.2m). In both cases these are not classified as losses under Managing Public Money, but are included here to provide proper context.

11.3.1 Road user charge paid within 14 day warning letter period (first time offenders only)
Dart Charge has been a significant change for drivers. To build road user confidence and acceptance of the new arrangements a fair and balanced approach to enforcement was adopted where compliance was encouraged, giving first time users of the crossing additional opportunity to pay the charge and avoid a penalty. This included an offer to pay any outstanding charges within 14 days to avoid a first PCN. This means not all potential income from PCNs will be recovered. In these cases the user paid the correct charge but outside the 24 hour prescribed payment period. Any penalty charge revenue initially recognised in respect of compliance with the offer of payment within 14 days has subsequently been derecognised from the accounts.

11.3.2 Successful representations, successful appeals and the cancellation of invalid PCNs
A representation is the initial process the road user can use to dispute their PCN. Representations are considered by Highways England and results in either a notice of rejection (the PCN is upheld) or a notice of acceptance (the PCN is cancelled). An appeal occurs if a road user challenges a notice of rejection. Appeal decisions are heard and decided upon by an independent adjudicator. Invalid PCNs include PCNs which were issued for exempt vehicles or are duplicate PCNs.
12. 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 for Transport. International Accounting Standard (IAS) 10 requires the Agency to disclose the date on which the accounts are authorised for issue. The authorised date for issue is 24 March 2017.
Appendix A

Dartford-Thurrock river crossing road charging scheme

Accounts direction given by the Treasury in accordance with Section 3 of the trunk road charging schemes (bridges and tunnels) (keeping of accounts) (England) Regulations 2003.

The Treasury in pursuance of Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 hereby gives the following direction:

1. The statement of accounts which is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 of March 2004 and in any subsequent 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 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003;

(ii) an explanatory introduction;

(iii) information on significant events during the period;

(iv) a statement providing information on how the Secretary of State has or intends to disburse the net proceeds arising from the scheme on other transport initiatives;

(b) a statement of the responsibilities of the person signing the accounts

(c) a statement of the system of internal control

(d) a statement of income and expenditure

(e) a statement of capital expenditure

(f) a statement of assets and liabilities

(g) notes to the accounts, including an explanation of the accounting policies adopted, that may be necessary to present fairly the income and expenditure for the period, transfers of funds to or from Central Government, and the assets and liabilities at the end of the period in relation to functions under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

2. The statement of accounts shall disclose the net proceeds of the scheme for the year ended 31 of March 2004 and for each subsequent year.

3. 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. Except for the statement of accounts for the year ended 31 March 2004, comparative figures shall be shown.
4. The statement of account prepared under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 shall observe all relevant accounting and disclosure requirements as given in Government Accounting and other guidance as issued by the Treasury from time to time.

5. The statement of accounts shall be transmitted to the Comptroller and Auditor General no later than the 30 of November following the end of the financial year to which the statement relates, for the purpose of audit, examination and report.

6. The statement of accounts, once audited, shall be laid before each House of Parliament not later than the 31 of January in the calendar year following the end of the financial year to which the statement relates.

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

David A. Cruden FCA
Head of the Central Accountancy Team,
Her Majesty’s Treasury
2 February 2005