highways england

Highways England
Annual Report and Accounts
2017-2018

HC 1186

Front cover photography: Traffic officer near the Second Severn Crossing, M4

Highways England
Annual Report and Accounts 2017-2018

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Acts 2000

Ordered by the House of Commons to be printed 16 July 2018

HC 1186

Highways England Company Limited registered in England and Wales number 09346363

This publication is available at www.gov.uk/government/publications

Any enquiries regarding this publication should be sent to us at: info@highwaysengland.co.uk

ISBN 978-1-5286-0520-5

CCS0618833468 07/18

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the APS Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Highways England Annual Report and Accounts 2017-2018

Strategic report

Statutory accounts

Traffic England:
http://www.trafficengland.com

Customer Contact Centre:
0300 123 5000
info@highwaysengland.co.uk

Contact centre details published at:
https://www.gov.uk/government/organisations/highways-england

Twitter:
https://twitter.com/highwaysengland
or **@highwaysengland**

App:
Live Traffic Info: get it from Google Play, iTunes or BlackBerry World;
links and information about the App published at:
http://www.highways.gov.uk/mobile-services

We believe that connecting people builds communities, creates opportunities, and helps our nation thrive.

Connecting the country.

We aim to provide all our customers with safe and reliable journeys through the way we operate, maintain and enhance one of the most advanced road networks in the world.

We care about your journey.

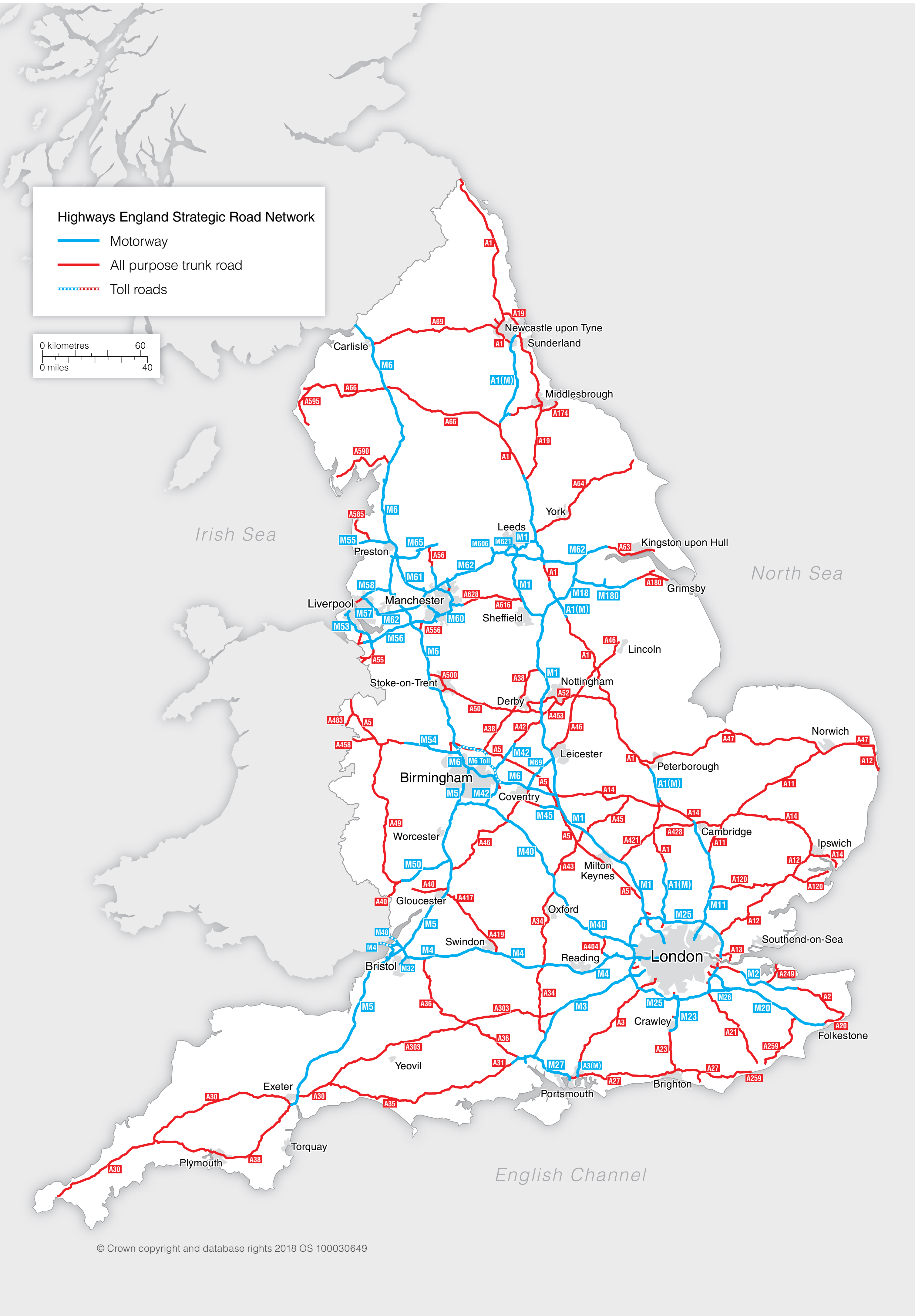
Our imperatives guide all our activity and remain our focus – keeping people moving today, and moving better tomorrow.

Safety.
Customer service.
Delivery.

We are Highways England

Our values drive our behaviours.

Safety.
Teamwork.
Ownership.
Integrity.
Passion.


Highways England Strategic Road Network
Motorway
All purpose trunk road
Toll roads
0 kilometres 60
0 miles 40
Irish Sea
North Sea
English Channel
Carlisle
Newcastle upon Tyne
Sunderland
Middlesbrough
York
Leeds
Kingston upon Hull
Grimsby
Preston
Manchester
Liverpool
Sheffield
Lincoln
Stoke-on-Trent
Nottingham
Derby
Leicester
Norwich
Peterborough
Birmingham
Coventry
Cambridge
Ipswich
Worcester
Milton Keynes
Gloucester
Oxford
Southend-on-Sea
Swindon
Reading
London
Bristol
Crawley
Folkestone
Yeovil
Portsmouth
Brighton
Exeter
Torquay
Plymouth

Highways England at a glance

4,300

miles of **motorways** and major **A-roads,** carrying

4 million

vehicles every day

Our roads carry over **2/3**

of all road freight

Our major schemes **deliver** **£3** **benefit** to the economy for every **£1** **invested**

Sectors heavily reliant on our roads **employ**

7.4 million

people and **contribute**

£314 billion

to the UK economy

Our network is made up of a huge and varied range of physical assets, including over:

10,000 miles of carriageways

20,000 bridges and other structures

25,000 miles of ditches and drainage assets

8,000 miles of cuttings and embankments

8,000 miles of fences and barriers

100,000 street lights

150,000 signs

3,500 electronic messaging signs

70,000 sensors, including traffic sensors, cameras and weather stations

Colin Matthews CBE, Chairman

Chairman's statement

Highways England has an important role in connecting the country. We connect people with their families and jobs, and businesses with their markets. Our Strategic Road Network (SRN) is made up of over 4,300 miles of the country's motorways and major A-roads. Every day some 4 million vehicles, a third of all road passenger traffic, drive on our network. The SRN also carries over two-thirds of all road freight and over 90% of all UK businesses are located within 9 miles of the SRN. Sectors heavily dependent on our roads contribute £314 billion to the UK economy.

Recognising the importance of the SRN to society and the economy, we are focused on delivering government's first five-year Road Investment Strategy (RIS). Our strategic aspirations are to:

- provide a safe and free-flowing network
- support economic growth
- improve the environment
- improve the accessibility of our network and how we integrate with other transport modes

Central to the achievement of these aspirations, our three key imperatives have remained constant since we were established in 2015: safety; customer service; and delivery of the RIS.

Safety

We are resolute in our commitment to improve the safety of everyone who uses or works on our roads, as well as to improve the wellbeing of the communities and environment that surround our network. While England's SRN is one of the safest in the world, we are still determined to improve. In 2014, government set us the target of reducing the number of people who are killed or seriously injured on our network by 40% by the end of 2020. Aiming higher, we want to bring this number as close as possible to zero by 2040. We cannot eliminate all the hazards associated with building, maintaining and operating the SRN but we can recognise them and aim to protect people from them.

Our Health and Safety Five Year Plan and our National Incident and Casualty Reduction Plan turn our aspirations into action. We are working closely with our partners and stakeholders, investing in our network, responding to our customers and undertaking in-depth research and innovation.

Customer service

Since Highways England was established, we have stressed the importance of improving our service to our diverse range of customers, and we are committed to meeting government's targets. As part of this, we have created new roles focused on making customer service central to our work as we deliver our current and future road investment programmes.

Customer expectations are influenced by their experiences with other service providers, particularly regarding the accessibility of timely and reliable information. Using innovative technology, we are working to improve the information routinely available for customers to plan and manage their journeys safely and effectively. We have achieved some success and we know that there is more we can do.

We are improving the way we use data from Transport Focus, the independent road users' watchdog, and the evidence gathered through our customer insight programme to better understand our customers' needs. Improving the experience of using roads while construction work is underway has been a focus, again with some successes and with more to do.

Delivering the RIS

Government's £15 billion investment is the biggest upgrade to our network in a generation. Through the delivery of our programmes, we are making our network safer, while increasing its capacity and reliability.

As set out in our Strategic Economic Growth Plan, The Road to Growth, we are playing our part in boosting economic growth through:

- supporting business productivity and competitiveness and enabling the performance of sectors that rely on the SRN
- providing efficient routes to global markets through international gateways
- stimulating and supporting the sustainable development of homes and employment spaces
- providing employment, skills and business opportunities within our sector

As we plan and design our schemes, we are committed to providing safe, accessible routes for all users on, and across, our network. We also aim to minimise the impact of our network on the environment and improve it where we can.

Looking towards our future

More than half way through the first road period (2015-20), we are now looking ahead to the next road period (2020-25) and beyond. We are developing our organisation and engaging with our stakeholders and our suppliers, building capability and capacity to meet our customers' future needs.

I would like to thank all Highways England staff for living our values of safety, ownership, passion, integrity and teamwork as we deliver our plans. I also thank our colleagues across our partner organisations for their skills, energy and dedication to their huge role in delivering our challenging commitments.

This year, I was pleased to welcome Alan Cumming to our Board and thank the Board members and the Executive team for their many contributions to our results.

Colin Matthews

Jim O'Sullivan, Chief Executive

Chief Executive's review

Since Highways England was established three years ago, we have made progress in delivering government's five-year Road Investment Strategy (RIS), underpinned by our three imperatives of safety, customer service and delivery.

At the same time, we have been developing our plans for the future.

Making our roads safer

Safety is our first imperative and also one of our values.

Throughout the year, we have implemented a range of initiatives to reduce casualties, including public information campaigns and enhancements to our on-road operations. Overall road user casualty rates have gone down, along with the number of people killed or seriously injured on our roads. We are determined to do more to reduce these numbers.

Through our public campaigns, we raise awareness of road safety with an emphasis on changing avoidable driver behaviours which can cause collisions. We promoted our vehicle checks campaign to encourage drivers to perform vital checks to reduce the risk of breakdowns, particularly prior to long journeys. We also launched the refreshed Driving for Better Business campaign within the business community, raising awareness of the importance of work-related road safety to encourage companies to improve compliance of both vehicles and drivers.

We have increased the presence of traffic officer patrols on the SRN, which enhances our ability to dispatch the right resources to safely clear incidents and keep customers moving. This year, many of our traffic officers received Driver First Assist training to ensure they have the first aid skills that may be critical in helping casualties in need of urgent medical attention. We have rolled out CCTV units to our traffic officer vehicle fleet, helping to influence driver behaviour and enable us to share footage with our partners, such as the Police.

We are equally committed to the safety of road workers and of our own workforce. Our updated Health and Safety Five Year Plan is aimed at driving further improvements in safety performance throughout our Company and our suppliers. We continue to see reductions in the accident frequency rates of our staff and our contractors, and we are still working hard to embed a stronger safety culture across the sector.

Our recently launched Health, Safety and Wellbeing Awards for our staff and suppliers enabled us to share learning and to recognise and celebrate our exemplars of good practice. Given the link between safety and mental health, this year, we have embedded and expanded our mental health first aider programme to provide better mental health support to our employees.

Improving customer service

Customer service is our next imperative. We now do even more to engage with, and respond to, our customers and communities affected by the SRN.

The delivery of our road investment programme means more roadworks and we know that this affects our customers' experiences. We have involved our customers in carrying out roadwork audits and have used the feedback to inform how we plan and deliver our work.

During key holiday periods, such as Christmas, we reduced roadworks to improve our customers' journeys and to ensure that freight companies could make their deliveries. We also extended our trial of raising speed limits through roadworks from 50 mph to 55 or 60 mph on several of our major schemes, where we considered it safe to do so. As part of this, we used heart rate monitors and GPS trackers to better understand our customers' experiences as they travelled through the roadworks.

We have continued to provide better and more timely information at the roadside to our customers, enabling them to make informed decisions as they plan their journeys. Likewise, we have made further enhancements to the information on our variable message signs – providing more travel time information as well as introducing new messages to inform customers of any incidents.

At the same time, we have introduced new technology to better plan and manage our roadworks to reduce the impact on our customers. We have enhanced our mobile app to give customers more useful, real-time information. Our traffic officers now have mobile technology devices, which they use to provide information to customers at the roadside, as well as to access safety-critical work instructions when dealing with incidents.

Asset Delivery, our new approach to asset management, maintenance and investment, provides us with more flexibility to improve our customer service and to deliver better value. This year, we continued the roll out of this approach to the South West, Cumbria and Lancashire and the North East.

In 2018, we became responsible for the operation and management of the M4 and M48 Severn River crossings. We now manage the vehicle toll charge, overseeing the exemption of VAT and reducing the charge to our customers until the end of 2018, when the charge ceases completely.

Delivering the RIS

Delivering government's £15 billion RIS is our final imperative.

This year, we opened 10 schemes to traffic and entered the construction phase on eight more. This included the A21 Tonbridge to Pembury, where we delivered a dual carriageway, benefitting 35,000 drivers a day.

On the A5/M1 junction 11a, we delivered a bypass for Dunstable, creating better and safer journeys for our customers.

The Secretary of State for Transport announced the preferred route for the Lower Thames Crossing, which will entail a new 13-mile, 70 mph route to increase capacity while reducing the impact on communities and the environment. He also announced the preferred route for the £1.6 billion A303 Stonehenge upgrade. This includes the construction of a tunnel past one of the world's most famous prehistoric monuments, a free-flowing dual carriageway and a much-needed bypass north of Winterbourne Stoke.

We committed funding for improvement schemes from the Growth and Housing Fund, committing £77 million towards 21 schemes to support the development of over 38,000 homes and 44,000 jobs. We also made a direct contribution to the economy through committing over 25% of our expenditure with small and medium-sized enterprises, and increasing the numbers of graduates and apprentices in our workforce.

Building collaborative relationships

Collaboration with our diverse range of stakeholders is vital to our ability to deliver our strategic objectives. This includes liaison with the Office of Rail and Road (our Monitor) and Transport Focus (our Watchdog).

Meanwhile, we continue to strengthen our engagement with stakeholders at government, sub-national and local levels. This helps us to better understand their needs, particularly as we plan for the future.

We have established firm, productive relationships with sub-national transport bodies, including Transport for the North and Midlands Connect, and we are working with all of the new regional mayors to recognise their priorities for transport in their regions.

Investing in our network

The certainty of our longer-term funding enables us to plan more effectively and work more strategically with our suppliers to deliver the government's investment programme. This year, we invested £776 million on network renewals schemes and £1,360 million on improvements on the SRN. We are committed to continuously improving our delivery and we have identified £485.6 million of efficiency savings against our cumulative target of £377 million for 2017-18.

Developing our organisation

In 2017, we launched our Highways England 2020 Organisational Plan, which sets out the key changes we are making across the Company.

Building our capability and capacity are important aspects of this. We are focusing on developing our technical competencies in key areas, such as project and programme management, asset management and commercial acumen. We are strengthening our leadership training programmes and safety and customer service training for our staff in front line roles.

We are making changes to help us attract and retain the right people to deliver our challenging commitments. Throughout the year, we continued to recruit staff into key areas, including commercial and asset management, increasing our headcount by over 1,000 people to address our growing work programme. We expanded our apprenticeship programme and introduced initiatives aimed at broadening inclusion and progression opportunities for all of our people.

Looking towards our future

This year, we published our first Strategic Road Network Initial Report – outlining the areas that we believe government should focus funding on for the next road period (2020-25).

We produced the report based on customer feedback, in-depth research and extensive consultation with our stakeholders, as well as the information contained within our 18 Route Strategies and our Strategic Economic Growth Plan: The Road to Growth, both published last year.

The Initial Report supported the Department for Transport's (DfT) public consultation, providing a chance for wider public input before they develop the next road investment strategy. We will begin to develop our draft Strategic Business Plan to enable us to deliver against government's requirements for the next investment period.

This annual report describes our performance for 2017-18. Our record shows that we take our commitments seriously. We recognise that we have more to do to improve our performance, and we will continue to deliver against the objectives of the Infrastructure Act 2015, the expectations of our stakeholders and for the benefit of those we serve.

Jim O'Sullivan

Overview of our performance

This section provides a snapshot of our performance over the last three years. Our key performance indicators (KPIs), set and agreed by the DfT in 2015, provide a framework against which we assess our performance internally with our staff and discuss externally with the DfT (our Shareholder) and the Office of Rail and Road (our Monitor). Our results show that we are meeting the majority of our performance commitments, and we recognise that we have more to do to improve.

Objective	KPI	2017-18	2016-17	2015-16
Making the network safer	We must achieve a 40% reduction in the number of people killed and seriously injured on our network by the end of 2020 (based on provisional data from January to September)	13.4% decrease	6.1% increase	3.6% decrease
Improving user satisfaction	We must achieve a score of 90% road user satisfaction by March 2017 and then maintain or improve	88.73%	89.11%	89.32%
Supporting the smooth flow of traffic	We must make sure there is 97% lane availability in any one year to support the smooth flow of traffic	98.26%	98.41%	98.4%
	We must clear at least 85% of incidents on the motorways within the hour	87.90%	85.93%	85.96%

Objective	KPI	2017-18	2016-17	2015-16
Supporting economic growth	We must report the average delay (time lost per vehicle mile)	9.19 seconds	8.95 seconds	8.93 seconds
Delivering better environmental outcomes	We must mitigate at least 1,150 Noise Important Areas by 2020	448	141*	62*
	We must publish a Biodiversity Action Plan by 30 June 2015 and report annually on how we have delivered against the plan	Plan published and we report annually	Plan published	Plan published
Helping cyclists, walkers and other vulnerable users of the network	We must report on the number of new and upgraded crossings	28 new and 72 upgraded	20 new and 7 upgraded	39 new and 172 upgraded
Achieving real efficiency	We need to make capital expenditure savings of at least £1.212 billion by 2019-20	£485.6m	£169m	£54.5m
Keeping the network in good condition	We must ensure that 95% of pavement (the road surface) requires no further investigation for possible maintenance	95.2%	94.3%	92.3%

These results have been assured by our RIS Performance Compliance team, validated by our Internal Audit team, and approved by the Board.

* Due to agreed changes to metric calculation methodology, the figures for previous years have been restated (agreed through DfT and Office of Rail and Road change control). The cumulative figure is 651.

Making our roads safer

Safety is our first imperative. We are passionate about making our roads as safe as possible for the people who are travelling or working on them. Collaboration is essential to achieve this. We continue to work closely with our suppliers, partners and stakeholders to deliver vital safety improvements and initiatives.

Key performance indicator (KPI)

Making the network safer

KPI: The number of Killed or Seriously Injured (KSI) on the SRN

TARGET: A reduction in the number of KSIs from the baseline figure of 2,321 to 1,393 by 31 December 2020

2017-18	2016-17	2015-16
13.4%* decrease	**6.1%* increase**	**3.6% decrease**

*based on unvalidated data from January to September

Performance against our KPI

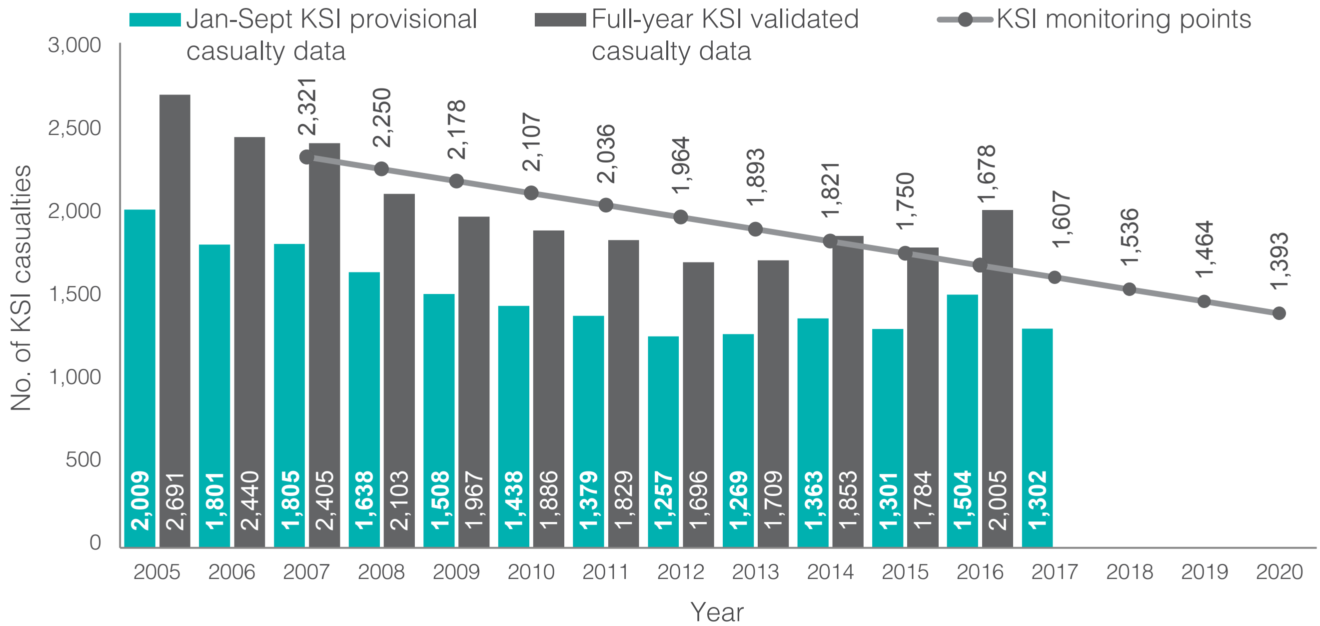
We monitor our road safety performance through the figures provided in the Road Safety Results for the Strategic Road Network and Great Britain. The Office for National Statistics validates these figures on an annual (calendar) basis and the DfT publishes them.

Last year, publication of the 2016 figures was postponed until September 2017. This was due to the introduction of a new Collision Recording and Sharing system (known as CRASH) adopted by some police forces and the late availability of data from the Metropolitan Police Service. Early analysis indicates that switching to the new way of recording has added between 5 and 15% to the Great Britain total for serious injuries and this is reflected in the overall increase in the number of people killed or seriously injured on our network.

We are working with the DfT, Office of Rail and Road and Office for National Statistics to undertake research into this outcome, in order to understand how the data for 2017 will be affected and we will provide more detail on this in next year's Annual Report and Accounts.

We expect the DfT to publish the validated figures for 2017 later in September 2018. We have therefore agreed with the DfT that we can report our performance based on provisional data for the first nine months of 2017 compared to the same period in 2016. Based on this data, we see a reduction in the overall collision and casualty rates, even against a backdrop of increased traffic growth. This data also indicates a reduction in the numbers of people killed or seriously injured, from 1,504 to 1,302, a 13.4% decrease.

Jan-Sep and full-year KSI casualties against monitoring points by year



Red X public awareness campaign on our smart motorways

Our delivery over the year

Delivering our Health and Safety Five Year Plan

Our Health and Safety Five Year Plan, published in 2015, supports our ambition to ensure that no one is harmed while travelling or working on the SRN. In May 2017, we published our refreshed plan, which contained eight new actions. We now have 130 actions in total and, to date, we have delivered 107. Many of the activities described in this section are linked to our plan.

Improving safety for road users

In our National Incident and Casualty Reduction Plan, published in 2016, we set out how we will continuously improve our road safety performance. This plan aligns with our Five Year Plan, which contains a number of actions aimed at improving road user safety. All our activities are based on our Safe System Approach: safer roads, safer vehicles and safer people.

During 2017-18, we invested £14 million to deliver 45 safety schemes on our network. For instance, we completed the A34 Firgo gap closure scheme in Hampshire to reduce drivers' ability to undertake right turns and u-turns, crossing the flow of traffic and encountering oncoming vehicles travelling at 70 mph. The casualty rate was high, including four fatalities between 2010 and 2015. We anticipate that our improvements will reduce the numbers of people killed or seriously injured on this section of the SRN. Next year, we plan to design 86 schemes and construct a further 61 schemes.

Many of our construction schemes include major safety enhancements and we carry out targeted smaller safety schemes. In 2017, we completed a £3 million safety improvement to a key section of the A50 through Stoke-on-Trent, widening the westbound carriageway to three lanes between Blurton Road and Trentham Lakes junctions. Removing the merge between the junctions reduced the need for drivers to change lanes, improving safety on a route which, historically, has had a high number of collisions. These changes have also improved access to Stoke City football ground and the Trentham Lakes industrial estate. This scheme was funded through the £100 million Minor Safety Improvement Fund, which provides targeted road safety interventions on our network.

Dartford crossing campaign

We also invest in road safety infrastructure improvements through the Cycling, Safety and Integration Designated Fund, delivering schemes that enable people to travel across and alongside our network safely. The £175 million funding is available during this road period and we are targeting the safety element towards single carriageways as they have higher casualty rates.

We deliver a programme of public information campaigns to encourage better driver behaviour, improve safety and reduce collisions. Our recent driver campaigns have focused on compliance with Red X signs on smart motorways, driving through the Dartford Crossing and roadworthiness.

Collaboration is vital to the success of many of our safety initiatives. In 2017, following the announcement that learner drivers will be allowed on motorways from June 2018, we established the New Drivers programme. This is a joint initiative with the DfT, Driver Vehicle Standards Agency (DVSA), Driving Instructors' Association and Motoring Schools' Association of Great Britain. The programme aims to increase learner and novice drivers' knowledge of driving on motorways or high-speed roads, and will provide resources through a driving hub website, e-learning materials and a telematics app.

Operation Tramline vehicles

We also worked with the Police and the DVSA to improve the compliance of commercial vehicles with tyre safety checks, driver hour checks and load security. Operation Tramline, which started in 2015 in collaboration with the Police, is a good example of how we are working to reduce the number of incidents caused by dangerously-driven commercial vehicles on our network. We funded and co-ordinated the use of an unmarked heavy goods vehicle (HGV) tractor unit. Police forces use this to patrol the network to capture evidence of distracted HGV drivers using mobile phones, laptops, reading and even cooking whilst driving. Due to the success of Tramline, we increased the number of vehicles in December 2017, and they now operate in the North, the Midlands and the South. Up until March 2018, police forces have stopped over 5,000 vehicles and detected over 6,000 offences.

When there is a fatal collision on our network, we work closely with the Police and Coroner's Office. We provide information to enable the coroner to reach a conclusion on how the incident occurred, and we also take account of the coroner's opinion as we develop and implement actions to protect road users and improve the safety of our network.

Driving for better business

Driving for work is one of the most dangerous activities that most employees ever do. Around of a third of collisions on our network involve drivers who were making a work-related journey. Almost all are avoidable.

In May 2017, we launched the refreshed Driving for Better Business campaign to 80 stakeholders to improve work-related road safety in the business community and public sector. A new website provides businesses with easy access to the information they need to improve how they manage their driving workforce and remain compliant with health and safety legislation. We also held engagement events with key stakeholders, including the Institute of Directors, Fleet News Live and the Association for Public Service Excellence.

As a result of the campaign, we have over 3,400 organisations on our campaign mailing list and 3,000 monthly visitors to the website. We have reached over 226,000 people through the media and our partners, and we have made good progress in bringing our message to the business community. We now also have business champions who promote better road safety within their own organisations.

We have extended the campaign, incorporating appropriate messages and tools, to other areas such as motorcycling and towing. In the next year, we will further increase awareness and work closely with fleet service providers and business networks to convert this awareness into tangible improvements in fleet management practices – ultimately increasing road safety for all our customers.

Increasing vital vehicle checks

The second highest cause of serious collisions on our network can be attributed to drivers not carrying out basic vehicle checks in advance of their journeys. Vehicle defects, such as under-inflated or illegal tyres and running out of fuel, contribute to the number of breakdowns on the SRN. These breakdowns impact on traffic flow and leave motorists in a vulnerable position by the side of the road.

This year, to address the problem, we launched our vehicle checks campaign. We used humour, rather than traditional shock tactics, to bring this important topic to life for parents, focusing on the period prior to school summer holidays and Easter holidays – when breakdowns are most common. To help us reach our customers, we used television, video on demand and digital platforms. We targeted petrol forecourts and motorway service stations to encourage drivers to check their vehicles whilst it was possible to take corrective action. We also sponsored the driving school at CarFest – a popular motoring event for families. This allowed us to demonstrate our interactive app that families could use to perform vehicle checks using a Highways England vehicle.

Our post-campaign survey showed a 15% increase in consumers performing vital vehicle checks. External data indicates a 1,700 reduction in the number of breakdowns in August 2017 compared with the same time last year.

Working to prevent suicides on our roads

We recognise the devastating impact that suicides have on all involved. Our vision is that no one will take their life on our roads.

To support government's National Suicide Prevention Strategy, which aims to reduce the national suicide rate by 10%, we launched our own Suicide Prevention Strategy in 2017. As this is not something we can address alone, we developed our strategy in partnership with the Samaritans, Network Rail and Public Health England.

We have identified four areas of focus:

- providing better support and information to those affected – including our customers, staff and suppliers
- improving crisis interventions – including implementing changes to our network to restrict access and providing suicide awareness training for staff
- increasing collaborative working with stakeholders to address suicide nationally and locally
- developing capability across the Company and our supplier base to ensure that future work reflects our vision

To date, we have:

- installed Samaritans signs at specific locations across the SRN
- become a member of the National Suicide Prevention Alliance
- developed a national action plan, and embedded suicide prevention into our existing incident and casualty reduction plans
- created a toolkit to support the planning and delivery of suicide interventions at a local level

We will report annually against our strategy and continue to identify further prevention activity.

Traffic officers from the East and West Midlands

Supporting staff and our suppliers

The health, safety and wellbeing of our staff and road workers is our first imperative. We continue to see some reductions in the accident frequency rates of our front-line staff and our suppliers, but we know that we need to do more. We have strengthened our engagement with our staff and suppliers, and continued to embed initiatives introduced as part of our Health and Safety Five Year Plan.

For example, we have improved our incident reporting system so that both our staff and suppliers record incidents on one system. The increased quality of this data will help inform further safety initiatives. We delivered training on our updated health and safety management system, allowing our staff to access all health and safety policies, procedures and tools in one place.

We are doing more work to reduce the risk of harm to roadworkers caused by road users driving into roadworks. In conjunction with our suppliers, we have raised public awareness, reminding drivers of their responsibility to obey speed restrictions and signs when driving near roadworks, even when road workers are not visible. We are also raising awareness within the industry on how to design and implement measures to reduce the risk of vehicle incursions into roadworks. On the A14 Cambridge to Huntingdon construction scheme, we successfully trialled an incursion warning system that uses smart alarms to warn road workers to move to a safe location in the event of a vehicle incursion. Due to its success, we are looking at adopting this on other schemes on the SRN.

Staff in our Brunel House office, Bristol

Building on the roll-out of our health and safety leadership and behavioural training last year, we have also introduced two health and safety training levels for all our managers. This training explains the health and safety behaviours we expect from our staff and will enhance the maturity of our safety culture.

This year we held our first Health, Safety and Wellbeing Awards event. This recognised, celebrated and shared achievements and excellence in health and safety performance across the industry. We awarded individuals, teams, projects and companies across the Company and our supplier base who have made a significant contribution to enhancing safety.

Equipping our traffic officers with life-saving skills

Our traffic officers, who patrol our network 24 hours a day, are sometimes first on the scene to help when drivers are in trouble. They make the scene safe for everyone, which may mean controlling traffic, moving vehicles, helping customers find a place of safety and possibly providing direct medical assistance.

We have supported over 950 traffic officers this year through Driver First Assist training to enable them to help people in need of urgent medical attention. Nationally recognised, this training is specific to the environment our traffic officers work in, and signals a change in how our staff can provide vital assistance to save lives in the crucial few minutes before the emergency services arrive.

Improving customer service

Customer service plays an important role in supporting the work we do to plan, build, operate and maintain the SRN. We engage, listen and use insight to improve our customers' and communities' experience on, and off, our network. We care about our customers' journeys and want to understand and exceed their expectations through providing a good condition, free-flowing network and supporting their end-to-end journeys.

1. Customer satisfaction

Key performance indicator (KPI)

Improving user satisfaction

KPI: The percentage of National Road Users' Satisfaction Survey respondents who are very or fairly satisfied

TARGET: Achieve a score of 90% by 31 March 2017 and then maintain or improve

2017-18	2016-17	2015-16
88.73%	89.11%	89.32%

Dartford Crossing

Performance against our KPI

Transport Focus measures our customer satisfaction through the National Road User Satisfaction Survey. They are responsible for managing the survey and for providing us with the data each month.

Our satisfaction score of 88.7% this year is below our target, and 0.4% lower than our score last year. We are disappointed not to have met our target, and we will continue to focus on improving the end-to-end experience for our customers and communities over the coming year, making our decisions based on customer insight and need.

Our major investment programme will deliver significant improvements to customers' journeys. We know that the increase in roadworks that occur in the short term as a result of our investment has a negative impact on customer satisfaction. We are improving customer experience through designing shorter lengths of roadworks, and improving on-road and digital information.

This year, we worked with Transport Focus as they developed the Strategic Road User Survey, a more accurate customer satisfaction measurement tool, which will run in parallel with the National Road User Satisfaction Survey from April 2018. A key change in our approach will be to conduct a door-step survey that will increase the number of respondents to 8,000, which is four times the number of people reached in our current survey.

Our delivery over the year

Responding to our customers and communities

We have an active customer research and innovation programme. Equality, diversity and inclusion (EDI) are central to how we engage with our customers and communities, and we have implemented several initiatives to allow us to understand and respond to feedback.

Lifting roadworks

We reduced roadworks during high demand travel periods to make sure businesses could make their deliveries and people could travel to friends, family and work. During the Christmas 2017 period, we lifted approximately 400 miles of roadworks across England, allowing 99% of our network to be free from roadworks.

Clearing litter

Litter is not just an annoyance for our customers, it is a concern for us too as litter clearance puts our road workers in unnecessary danger. This year, we focused on clearing the top 25 litter hotspots across our network. We co-ordinated our activity with local authorities to improve coverage and minimise disruption to our customers. To support our litter picking programme in the North West, we ran a public awareness campaign using social media, posters and road signage. We installed innovative truck window-height bins at Motorway Service Areas to make it easier for HGV drivers to dispose of litter before joining the SRN. These actions resulted in a reduction in litter and we will be applying this approach nationally.

Improving customer communications

To improve the quality of our customer service, we launched mystery shopping in our Customer Contact Centre and Dartford Crossing Call Centre, and rolled out customer correspondence training to our staff. This is improving the quality and consistency of our communications with our customers.

Managing demand

We completed a successful demand management trial in partnership with Transport for Greater Manchester. This was focused on managing traffic on our network and reducing congestion by providing commuters with information on different travel options. As a result, we saw a 30% increase in park and ride usage at Hollinwood Metrolink in Greater Manchester over the first three months of the pilot.

Improving Emergency Areas (EAs) on our smart motorways

Smart motorways are essential to the modernisation of England’s road network, adding much-needed capacity to some of the most congested parts of the SRN by allowing the hard shoulder to be converted into a running lane. Evidence also indicates that all lane running delivers improved levels of safety, when compared to all other types of road.

In response to our customers concerns about all lane running, we are enhancing our approach to the emergency areas on our smart motorways. Our improvements include:

- using new signs and orange surfacing on some schemes, including the M3 junctions 2 to 4a, to increase the visibility of where drivers can stop in an emergency
- acting on feedback from the recovery industry to improve the design of emergency areas, enabling safer and more efficient recovery of broken down vehicles
- installing stopped vehicle detection technology on the M25 junctions 5 to 6 and 23 to 27 to more quickly alert us to broken down vehicles in any lane
- investing significantly in our information campaigns to increase customer awareness of smart motorways
- expanding the use of warning letters to drivers who stop unnecessarily in emergency areas, as around 40% of all stops are for non-emergency reasons
- engaging with the emergency services, recovery operators and other operational stakeholders to agree safe, effective procedures and ensuring a consistent approach to incident management
- working in partnership with the Freight Transport Association to launch the smart motorways commercial vehicle driver training programme
- planning to install additional emergency areas in locations with highest level of live lane breakdowns

This year, for the first time, we used an online tool which gave communities the opportunity to provide comments and feedback on our road schemes. Using this data, we created heat maps that help us to better plan interventions to address community concerns. We used this tool on our M42 junction 6 scheme in the West Midlands. The information enabled us to understand the community's concerns on the proposed scheme and alter some of the early design prior to the statutory consultation process. On the A52 Dunkirk to Queens Medical Centre scheme, the project team reviewed the community feedback as they developed the scheme proposals. We plan to implement this approach on more schemes next year.

We also launched a community satisfaction survey, which had 11,000 respondents, to better understand the needs of the communities surrounding our network. We will use the survey results to improve how we plan, undertake schemes and engage with communities.

Increasing speed limits through roadworks

The speed at which vehicles can travel through our roadworks – most often 50 mph on motorways – is a highly sensitive issue for our customers, especially in relation to journey delays. In particular, our customers tell us that they want to see fewer speed restrictions during roadworks if no road workers are present.

Last year, we piloted increasing speed limits through our roadworks to 55 or 60 mph on several schemes, where it was safe to do so. We surveyed over 400 road users to understand more about their experience of driving through roadworks and their appetite for an increase in the speed limit.

Building on this, we ran live trials on the A1 Leeming to Barton, M1 junctions 32 to 35a, M5 junctions 4a to 6 and M3 junctions 2 to 4a schemes. The trials took place when the lanes were at full width, and during periods when there were no road workers nearby. During each trial, we monitored incidents, breakdowns, journey times and speed compliance, and subsequently conducted surveys with customers who used the roadworks during the trials.

We expanded our trials by using biometrics to understand our customers' experiences and provided participants with dash cams and watches with heart rate monitors and GPS trackers, allowing us to monitor their reaction to driving at 60 mph (M5 junctions 4a to 6) and 55 mph (M3 junctions 33 to 4a).

Data from completed trials showed us that 60 mph is a speed that can be safely implemented in the right scenarios, with no worsening of breakdowns and incidents, and with significant customer experience benefits. Participants from the biometric trials showed a decrease in average heart rate: 60% in the 60 mph trial zone; 56% in the 55 mph trial zone. Across both trials, the majority of participants indicated that they preferred the higher of the speed limits, mainly due to the ability to pass HGVs safely.

This year we launched a trial of a 'chatty van', which is a mobile communication and exhibition unit designed to help us improve how we engage with local communities. Between June and August 2017, we deployed the van to 29 locations across England and we had over 1,400 visitors. We visited retail parks, town centres, small villages and even an indoor play area, helping us to communicate with diverse groups of people. The van gave us an environment to listen to customers and communities, enabling us to engage with hard to reach groups and individuals. It was so effective that we plan to roll it out to other areas next year.

Complaints

Our target is to respond to customer complaints within 15 working days.

The number of complaints we have handled has increased since July 2016, when we enhanced our process and changed the way we capture complaints.

These tables set out the number of complaints that have been handled by Highways England. We have also included a breakdown of those escalated to the Independent Complaints Assessor or investigated by the Parliamentary and Health Service Ombudsman.

	2017-18	2016-17	2015-16	2014-15
Highways England	5,031	4,880	2,259	1,250
Independent Complaints Assessor	32	24	6	11

	Complaints accepted for investigation		Investigations upheld or partly upheld		Investigations not upheld	
	2017-18	2016-17	2017-18	2016-17	2017-18	2016-17
Parliamentary & Health Service Ombudsman	0	1	0	0	1	1

Road workers on our network

Working with our suppliers

Our supplier contracts now include customer metrics to ensure that customer service is a core part of all delivery. To support this, we have provided our suppliers with customer service induction training.

We work with our suppliers to improve customer satisfaction. We invited some of our customers to attend these workshops to give their perceptions on roadworks and the reliability of their journeys. Through our suppliers we have delivered a number of initiatives that came from these sessions, such as reducing roadwork clashes through better communication with other schemes on the SRN and with local highways authorities.

With our suppliers, we launched a pilot to introduce the development and delivery of customer service plans on two schemes on the M1. On the M1 junctions 23a to 25 scheme in the East Midlands, we held additional public information events in community settings and reduced our customer correspondence time from 15 to 5 days.

We asked our customers, and also our own traffic officers, to complete quality audits of several major schemes using criteria developed from customers' feedback. These audits involved customers travelling through roadworks as passengers and providing feedback on their experience, including their perception of safety. We fed this information to our project teams and suppliers to improve the way that we were delivering the schemes in question, as well as to inform our approach to similar schemes in the future.

On the A14 Cambridge to Huntingdon scheme, we used the results of the customer audits to make improvements to the roadworks. Specifically, we improved quality of the white lining on the roads and trialled the use of white studs to improve visibility for our customers. In response to customer concerns about our signage, we reduced the number of signs and improved the accuracy of travel time messaging on the variable messaging signs (VMS). As a result, we have seen an increase in the monthly customer satisfaction scores on this scheme. We will be carrying out customer audits on other major schemes next year.

Improving customer service

2. A better maintained network

Key performance indicator (KPI)

Keeping the network in good condition

KPI: The percentage of pavement/road surface asset that does not require further investigation for possible maintenance

TARGET: The percentage of the network requiring no further investigation to be maintained at 95% or above

2017-18	2016-17	2015-16
95.2%	94.3%	92.3%

Performance against our KPI

We achieved 95.2%, an indication of the proportion of our network that is in good condition. This is 0.2% above target and it reflects steady improvements since 2015-16, when we achieved 92.3%. Our performance reflects the positive impact of our maintenance and renewal programme delivered during the year. For the first time, in 2017-18 we used specialist data analytical tools to predict the KPI outcome at the end of the year, helping to shape our planning and in-year changes to meet the target. We are now building on this successful approach to help us develop more effective and targeted renewal programmes in the future.

Our delivery over the year

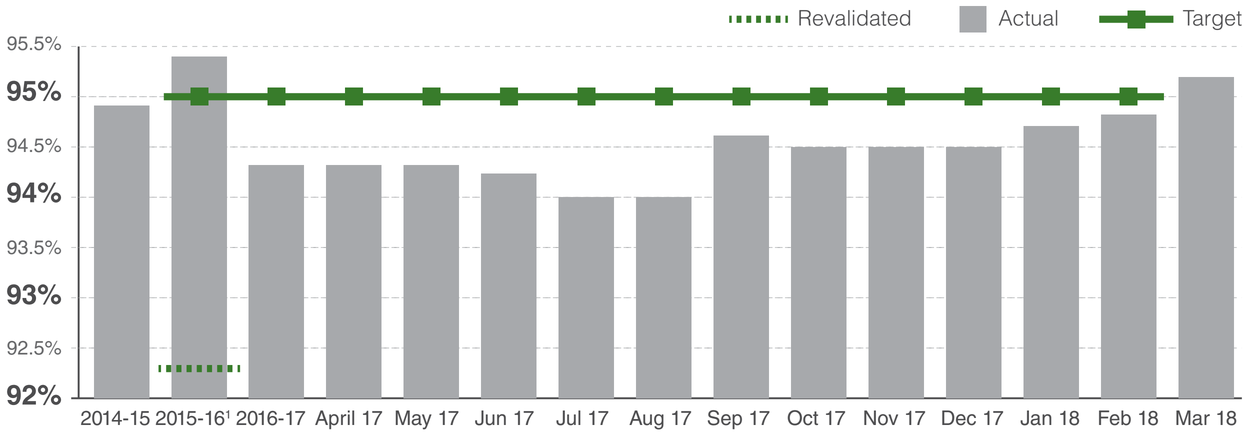
Maintaining and renewing our network

We monitor the condition of our roads throughout the year and carry out investigations of any potential defects. Our maintenance and renewals programme is based on the needs of our assets in each region. We schedule our renewal activity across the year to minimise the overall impact of roadworks on our customers.

During 2017-18, we invested £776 million on renewing road surfaces, structures and technology on our network. This represents 21% of our total planned investment within the first road period and we exceeded all of our targets.

In February 2018, the country experienced severe weather conditions, with almost unprecedented levels of snow, ice, freezing rain and high winds. We responded by putting our winter response plans into action and continued with remedial works on the network to repair the damage.

Percentage of pavement asset that does not require further investigation



[1]Additional data was received after the year end and subsequently validated in June 2016. This resulted in a reduction in the published year-end performance figure (of 95.4%) to 92.3%

2017-18 renewal activity against our plans

Asset	Planned renewals	Actual renewals
Road surface	994 lane miles	1,563 lane miles
Vehicular barriers	57 linear miles	86 linear miles
Drainage	87 linear miles	199 linear miles
Technology renewals and upgrades	160	370

Improving the efficiency of road repairs

In May 2017, we introduced innovative vehicles to repair the road surface in the East region. These vehicles increased the safety and efficiency of repairs as well as reducing costs and disruption to our customers.

These vehicles are safer to operate than standard vehicles as the hot-rolled asphalt for repairs is discharged from a chute at the rear, avoiding potential incidents caused by tipping vehicles coming into contact with overhead cables. They also reduce road workers' exposure to live carriageway crossings as fewer trips to site are required.

The asphalt is kept at a constant temperature, allowing a number of sites to be visited in one shift. More robust repairs to larger areas are completed quickly as the vehicles reduce the need for repeat visits. We plan to use this approach in other regions in the future.

Managing our assets

An effective asset management approach, built on a foundation of information to drive the right investment decisions, is essential to ensuring that our network provides a good service for our customers.

In 2017, we established our Information Asset Management Plan to bring our asset management activities together and improve our investment decision making. We have delivered key elements of the plan, including:

- developing information systems and tools for roads and structures, enabling us to predict more effectively where we will need to carry out maintenance work
- identifying the funding needs to support the delivery of our current target and maintain the SRN in the next road period
- improving the quality of our asset data by updating our Asset Data Management Manual and improving our data capture
- continuing to develop new technical and unit cost indicators for our assets to prepare for the next road period

Road workers on a bridge on the A556 Knutsford to Bowdon scheme, North West

Our aim is to establish a long-term maintenance regime, using good quality data and information to identify and deliver the right interventions at the right time.

Rolling out our Asset Delivery programme

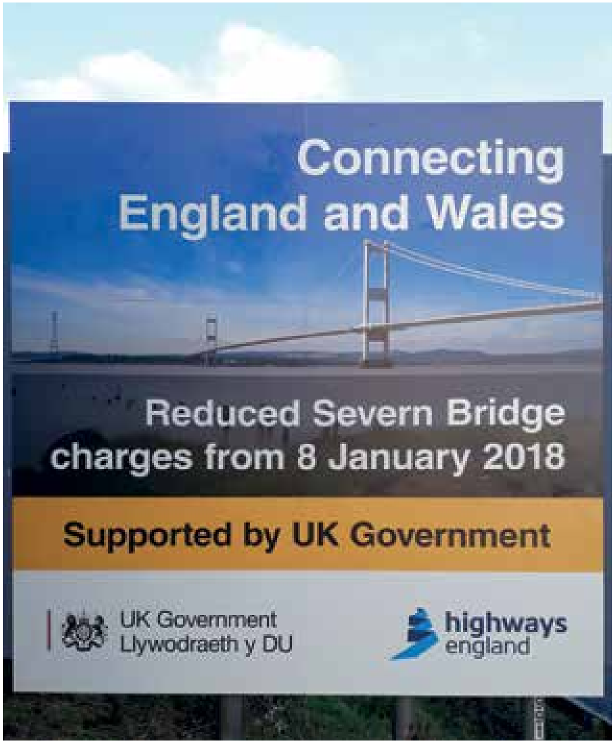
Asset Delivery, which we started in in 2016, is intended to directly manage contracts for both routine maintenance and scheme delivery. It allows us to take control of key maintenance decisions, own our asset data and work more closely with our suppliers who undertake our renewal and maintenance activities. We are able to collaborate more effectively with them and identify innovations in planning, scheduling and the methods employed to improve quality and value for money.

In 2017-18, we implemented Asset Delivery in the North East and the South West, Cumbria and Lancashire. 276 people were transferred into Highways England from the contractors.

We have taken on many roles previously organised by our suppliers, including:

- co-ordinating access to our network and associated traffic management during maintenance, ensuring that we keep delays and congestion to a minimum
- identifying critical schemes and ensuring we are investing in those which will have the most positive impact
- decision-making around incidents, ensuring we are making the best decisions for our customers, for example, in times of severe weather

Highways England signage near the Severn Bridge



Managing the Severn River crossings

In January 2018, we successfully transferred the M4 and M48 Severn River crossings into Highways England. 174 people joined us from Severn Crossing PLC, bringing with them their extensive knowledge and experience. We are now responsible for the operation, maintenance and toll charge collection for these national iconic assets, which link England and Wales. At the same time, all vehicle toll charges became exempt from VAT, reducing the toll charges for our customers using the crossings until the end of 2018, when the charge ceases completely.

Improving customer service

3. A free-flowing network

Key performance indicator (KPI)

Supporting the smooth flow of traffic

KPI: The percentage of the SRN available to traffic

TARGET: Maximise lane availability so that it does not fall below 97% in any one rolling year

2017-18	2016-17	2015-16
98.26%	98.41%	98.4%

Performance against our KPI

We achieved 98.26%, which is the proportion of the network that is not closed to traffic due to roadworks. While this is slightly lower than our performance last year, we have exceed our target. We have increased the volume and proportion of roadworks carried out at night, when there are lower traffic volumes, reducing the impact on our customers.

Key performance indicator (KPI)

Supporting the smooth flow of traffic

KPI: The percentage of motorway incidents cleared within 1 hour

TARGET: At least 85% of all motorway lane impact closures between 06:00 and 22:00 are cleared within 1 hour

2017-18	2016-17	2015-16
87.90%	85.93%	85.96%

Performance against our KPI

We achieved 87.90%, indicating the proportion of lane closures following an incident where we have reopened the carriageway to traffic in less than an hour. This performance is nearly 2% higher than last year. We have achieved this against a backdrop of increasing traffic volumes and incidents. We responded to over 56,136 incidents, a 14.26% increase compared with 2016-17. This performance demonstrates the positive impact of some of our initiatives, such as intelligence-led patrolling strategies and targeting of resources on our network.

Our delivery over the year

Improving traffic information

Improving the information we give to our customers is a key element of our Customer Service Strategy. Our National Traffic Information Service is now in its second year of operation. We collate data on traffic and events, and communicate this information through our VMS and on the Traffic England website. The service also provides us with greater visibility of the SRN, enabling us to respond more quickly to incidents.

We have developed the capabilities of the service to enhance how we use existing data and technologies, including:

- launching an improved Traffic England website, making it easier for our customers to find planned works
- developing Twitter conversations with our followers to ensure that we are providing them with the information they need, when they need it
- implementing a real-time system link with the Network Occupancy Management System, allowing us to provide to-the-minute roadworks information through our information channels
- conducting research into the use of crowd-sourced traffic information to improve the speed at which incidents are detected
- rolling out a new tool to enable real-time interrogation of incident and event information to identify incidents of interest on the SRN
- launching an interface to our traffic flow data website, providing customers and stakeholders with better access
- completing research into using CCTV to detect hazards on the SRN, and developing a solution which we will test in 2018

Enhancing VMS

VMS are our electronic traffic signs used to provide information to customers at the roadside. Following feedback from our customers, we changed the information that we display on these signs. This year, we expanded the use of travel time VMS across our network, including providing information on the same sign for different routes to a single destination and to multiple destinations. We rolled out these enhancements to over 400 VMS across England.

We also introduced new messages, developed through working with our customers, on incidents, animals, pedestrians and debris in the road. For example, customers now see signs, such as ‘report of animals’, to indicate the type of incident and to enable informed travel decisions.

Any device that connects to our network has to have its design, commonly termed ‘code-of-connection’, approved by Highways England. This design is specific to us and we share our standards openly. Our National Road Telecommunications Service (NRTS) supports all our operational roadside technology, with technical support for our VMS provided by one of our contractors. In January 2018, we experienced an outage of some of our VMS and, given the time taken to restore the services, we investigated the root cause of this outage.

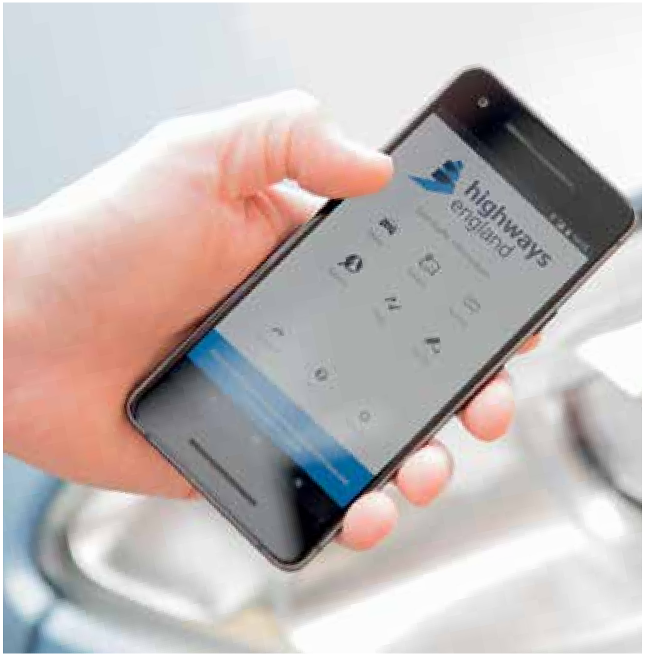
VMS on our network

We discovered that our supplier had been sharing our network with other customers in an unauthorised way. Their sub-contractor reported that they had incurred a cyber-attack on one of those customers and switched off the services that were being targeted, affecting our VMS signs too, resulting in us being unable to set them remotely.

The sub-contractor was instructed to implement the approved design and remove Highways England from all shared services. Service was incrementally restored over a two week period.

We have now implemented a post-live audit of all code-of-connections to ensure that the approved designs are implemented correctly. Where the service provided is of a critical nature, additional penetration tests are now conducted.

Upgraded Highways England mobile application



Upgrading our mobile app

We launched the updated Highways England mobile app across iOS, Android and Windows platforms in May 2017. With over 400,000 users, it provides traffic information services to mobile devices and smart phones.

We have upgraded the app over the year, based on customer feedback, enhancing the following features:

- end-to-end journey data, combining traffic information from Google with our own traffic data
- a route planner, allowing customers to select the roads they will be travelling on and receive specific traffic updates while on their journey
- push notifications, giving users warnings if a particular route is congested or an incident has occurred on their route
- voice mode, enabling verbal commentary to allow users access while driving
- details of incidents and roadworks, giving traffic information for any A-road or motorway on our network
- CCTV/VMS and traffic flow, allowing users to search and view CCTV images of our network, including details of messages on VMS and traffic flow along chosen routes

Oldbury Viaduct – the repairs required are so extensive we have closed one side of the motorway and we have had to use contraflow on the other side

- breaking news and headlines, including major traffic incidents and the latest traffic headlines
- a connect page, providing users with the ability to reach the Customer Contact Centre directly via the 'call Highways England' button

Planning and managing roadworks

This year, we developed Transforming Roadworks – Our Approach, which was informed by feedback from our customers as well as research from Transport Focus. It sets out our approach to ensuring that our roadworks are safe and efficient, and that customers are aware of the benefits that will be delivered, once the work is completed.

For example, on the M5 Oldbury viaduct major repair scheme, we introduced new signs informing customers of the work we are doing and the number of road workers under the carriageway, as they are often out of sight. Our signs provide details of the scheme's Facebook page, allowing customers to interact with the project team.

In response to customer feedback on our M621 scheme near Leeds, we installed signs explaining that the reduced speed limit is to ensure customer safety and communicating the benefits of the roadworks.

Our customers told us that they want better information on diversion routes when they encounter roadworks on the SRN.

Traffic officer attending an incident in one of our specially-equipped vehicles

In response, we devised a standard for diversion routes for unplanned events. We worked with key stakeholders, including local highways authorities and the Police, to develop consistent signage so that customers will know what to expect and feel safer as they use the diversion routes. We trialled this approach across four sites this year and will roll out the standard across our network from next year.

We worked with our suppliers to pilot practices that will help us to reduce the need for extensive roadworks. This includes training traffic officers in areas such as early assessment, detection of asset or barrier damage and dealing with spillages on the road.

In 2017, we rolled out the new Network Occupancy Management System, replacing our Schedule of Roadworks system. This allows us to manage roadspace bookings and network occupancy while ensuring that all works on the SRN, including utility companies' works, have a minimal impact on our customers. The key benefits include:

- improved accessibility, as it is a secure, web-based system which makes it easier for us and our suppliers to use and update information
- electronic noticing, with notices and permits relating to utility road works delivered electronically rather than manually

Our control room, where the network is monitored 24 hours, 7 days a week.

- increased usability, with the system designed in collaboration with users to maximise the information available on each screen and make frequent transactions faster

Developing our officers

Our traffic officers play a key role in delivering good customer service, and we have implemented a range of initiatives to drive continuous improvement in this area. Traffic officers now carry out network inspections as part of their duties. They are deployed from our regional control centres, where our control room operators and service providers are co-located, enabling us to dispatch the right resources to the right places.

This year, we rolled out mobile technology devices for our traffic officers. The devices provide immediate access to safety-critical work instructions. The traffic officers can use them to take photographs and record details at incidents, speeding up the recovery process. We are also conducting trials to automate the transfer of this information into incident logs.

We continued to roll out front and rear dash-cam CCTV units across the traffic officer vehicle fleet. This enabled us to share footage with operational partners and it has become an effective tool for improving customer safety. In cases where driver behaviour has seriously endangered the safety of our officers, we provide the information to the Police and encourage prosecution.

Road worker in the West Midlands

Our control room staff are integral to ensuring we provide the service expected by our customers. This year, to support our operational staff, we have provided further customer service training. We are also testing how we could use our existing technology to improve our knowledge about parts of the network that our traffic officers do not routinely patrol.

Dealing with severe weather conditions

During this year's severe weather period, we kept the vast majority of our network moving, deploying on-road teams and winter treatment vehicles to deal with the effects of heavy snow and freezing rain. At its peak, over 200 traffic officer vehicles were active every day and we used over 50,000 tonnes of salt with the highest weekly use in six years. We maintained running lanes on most roads throughout the period.

We saw an increase in incident numbers – from a weekly average of around 900 incidents to over 1,200 during this period. Despite this increase, and in challenging conditions, we cleared most incidents within our one-hour target. Some parts of our network were severely impacted and we had to close some roads for long periods, particularly in the North West, North East and South West regions.

There were a number of vehicles stranded overnight in the heaviest-hit locations and we worked closely with our emergency service partners, including assisting multi-agency operations, to rescue stranded motorists and provide welfare arrangements. We also supported local authorities, providing supplies of salt, ploughing and treating some of their routes to keep them clear.

Throughout this snowy period, we kept our customers updated through national, regional and social media, providing advice on driving in the snow and the status of the network. We:

- received 11,000 calls and 2,000 emails – almost double the usual volume
- issued 1,877 tweets on regional feeds – compared to 622 in the previous week
- supported over 35,000 users per day on our mobile website – a 10-fold increase compared to the daily average

To help restore smooth journeys in the aftermath of this extreme weather, we started a programme of urgent repairs on the SRN. This avoided melting ice causing damage that could lead to potholes and add delays to people's journeys.

Improving customer service

4. An accessible and integrated network

Key performance indicator (KPI)

Helping cyclists, walkers and other vulnerable users of the network

KPI: The number of new and upgraded crossings

TARGET: N/A – Measure of success is the increase in the number of completed:

- New crossings
- Upgraded crossings

2017-18	2016-17	2015-16
28 new and 72 upgraded	20 new and 7 upgraded	39 new and 172 upgraded

Performance against our KPI

We have built 28 new crossings and improved 72 crossings. This brings our cumulative total to 331 schemes delivered to date. Our performance represents a significant increase compared to last year and demonstrates that we have put provision for vulnerable users at the core of scheme delivery, with a number of these crossings having been delivered as part of major road schemes.

Cycling and pedestrian bridge on the A27

Our delivery over the year

Delivering our cycling and accessibility strategies

Last year, we published two strategies for suppliers and service providers which set out our vision and intent in this area, and this year we have begun to implement them. Our Cycling Strategy presented our vision for an integrated, safe, comprehensive and high-quality cycle network. Our Accessibility Strategy articulated our vision for an accessible, inclusive and integrated network which provides flexibility for users and communities.

Our strategies underpin our Cycling, Safety and Integration Designated Fund programme, scheme feasibility work, future work programmes and improvement projects. It includes the provision of segregated walking and cycling routes and new and improved crossing facilities.

This year, as well as increasing the number of new and improved crossings, we have taken forward these strategies in a variety of other ways, including:

Improved planning

We developed new planning tools, including a map-based application and supporting guidance. We are working with local highways authorities to ensure our programme supports the development of their local cycling and walking infrastructure plans, improving end-to-end journeys and network integration.

Improved design

We updated the Design Manual for Roads and Bridges (DMRB), including an improved tool to research and record design decisions for vulnerable users. The update made it mandatory for design teams to provide an evidence-based approach to making provisions for vulnerable road users within schemes. We have placed increased emphasis on investigating and designing for impacted user groups based on their individual needs, as opposed to collective measures that only provide for the few.

New cycling facilities

Our new cycling facilities, include cycle lanes, crossings and signs, intended to be safe, separate from traffic and can be used by cyclists of all abilities. These measures support our Delivery Plan commitment to deliver 200 cycling facilities and crossing points on, or around, our network by 2021. This year, we have completed 22 cycling schemes, bringing the cumulative total so far in the first road period to 79.

Customer satisfaction

In 2018-19, Transport Focus will pilot their first ever cyclist, walker and equestrian satisfaction survey for the SRN. We look forward to seeing the results of this pilot and to working with Transport Focus and our stakeholders to identify the measures we can take to improve satisfaction in these areas.

Staff travel choices

We surveyed our own staff to better understand their travel choices. We have a well-established cycle to work scheme to assist staff to purchase bikes. We are supplementing this with a trial pool bike scheme, in partnership with Transport for Greater Manchester, to give our local staff the facilities to borrow bikes and safety equipment. We will assess the success of this scheme and consider extending it to our other larger offices in due course.

Progress monitoring

We engaged with a range of internal and external stakeholders to develop our approach to monitoring progress against our ambition for integration, and to understand the effectiveness and impact of the associated delivery programmes. This work will inform our approach to monitoring these areas during the second road period and beyond.

We have included cycling-specific improvements as part of our major highways construction projects. These include converting the existing northbound carriageway on the A556 Knutsford to Bowdon into a dedicated track for cyclists, pedestrians and equestrians. Ahead of the 2017 Tour de Yorkshire, one of the UK's biggest professional road cycling events, we also completed an improvement scheme for cyclists and pedestrians at the A64 Askham Bryan junction, near Tadcaster and York – part of National Cycling Route 665.

Creating a new cycleway through the Two Mills junction

This year we delivered a £1.1 million scheme to create a new cycleway through the Two Mills junction, used by more than 37,000 vehicles every day, where the A550 meets the A540 near Ellesmere Port. The A540, which runs between Chester and Hoylake, is popular with cyclists, and group rides set off from a cyclists' café near the Two Mills junction on most weekends throughout the year.

This project included a new 320-metre cycleway through the Two Mills junction. The new cycle path, traffic lights and crossings, combined with the wider and longer right turn lanes at Two Mills, make it easier and safer for drivers, cyclists and pedestrians to cross the junction and the A550. We also laid a new anti-skid road surface to reduce the risk of collisions.

This scheme is one of 24 cycling schemes completed in the North West over the past two years to make it easier for cyclists to cross motorway junctions and use major A-roads.

Delivering the A160/A180 Port of Immingham improvement scheme

The A160/A180 Port of Immingham improvement scheme in Lincolnshire, delivered in 2017, is an example of where we have considered vulnerable road user needs as part of a wider road scheme. The objectives were to improve safety, reduce congestion and improve journey time reliability as well as meet the demands of predicted future growth for this important route into the Port.

We achieved this by upgrading existing single carriageway sections of the Port's main access road to dual carriageway and completing several junction improvements. A new bridge provides access for cyclists, pedestrians and equestrians over the dual carriageway. In addition, 1,300 metres of new cycleway provides a safe and direct route for cyclists, removing conflict with the high-speed dual carriageway traffic.

Improving customer service

5. Innovation and technology

M26, South East

Our delivery over the year

Improving our network

Our innovation programme creates value for our customers and stakeholders. Innovation and the use of technology play an important role in improving the safety and efficiency of our network and how we provide information to our customers.

We are investing £150 million in the first road period through the Innovation Designated Fund to encourage more innovation and use of technology across the road transport sector, with a view to reducing road delays and improving safety and the environment.

Last year, we published our Innovation Technology & Research Strategy, as required under our Licence. This strategy set out our overarching approach and, in support of this, we built our innovation portal.

The portal is part of our Digital Innovation Implementation Plan, acting as our hub to help manage the innovation landscape and create an open environment for innovation to thrive.

In November 2017, we held our first intelligent infrastructure innovation competition at Highways UK, a key sector event. The winners included Birmingham University, who had developed a low-cost road surface temperature sensor for use in winter road maintenance applications, and Valerann, with their Smart Road Stud system. The Valerann system captures and aggregates real-time traffic data and uploads it to the cloud, where it can be made available to road operators. We will work closely with both organisations to trial their innovative products during 2018-19.

We delivered our tunnel incident detection test facility at Southwick Hills Tunnel on the A27 just outside Brighton. Incidents in tunnels are of particular concern, due to the confined space and limited escape routes. Many road tunnels have sensors for incident detection, and there is now a chance to carry out a real-world comparison of different sensors and new technology. We will apply the outcome of the evaluation of alternative sensors for other tunnels on the SRN.

For the first time, we have used rapid engineering modelling for the outline design of early stage smart motorway schemes. This modelling uses digital terrain site maps, provided by drone survey data. To support rapid engineering modelling software, we have to update our design requirements in the DMRB. This enables the software to interact with the manual and results in better, more-efficiently designed roads.

This year, using our Innovation Designated Fund, we piloted the combination of variable mandatory speeds limits via overhead electronic signs and traffic signals to manage traffic flow. Motorists travelling from the M6 to join the M62 go through new traffic lights on the link roads, while motorists on the M62 see speed limits displayed on overhead signs, together with new enforcement camera signs. We will monitor the impact of this over the next year to confirm that it does reduce congestion thereby being safer and making journey times more reliable.

Reducing duration of roadworks through self-healing roads

We have been working in collaboration with the University of Nottingham to develop an innovative self-repairing road surface. Dr Alvaro Garcia at the Nottingham Transportation Engineering Centre drew inspiration from MasterChef: watching a contestant jellify liquid into spheres gave him the idea that the same technique could be used to repair roads.

In the new material, the road asphalt has embedded microcapsules of sunflower oil. When the surface starts to crack with age, the capsules break open and release the oil, softening the asphalt around it. This helps the asphalt stick back together, effectively filling in cracks and preventing small defects from deteriorating further.

In trials, cracked asphalt was returned to full strength in two days, and the team estimate that it could increase the lifespan of the road surface by a third, from 12 to 16 years. By avoiding the conventional solution of re-surfacing patches of the road, the new technology could potentially significantly reduce the cost of major repairs and avoid road closures and disruption to traffic. We plan to carry out off-network trials next year.

Supporting connected and autonomous vehicles

We have made progress with our connected and autonomous vehicle programme, including:

Wireless technology

As part of a cross-industry consortium, we began the installation of wireless technology on the M40 and M42 in the West Midlands in preparation for our connected intelligent transport environment. Partly-funded from the Innovation Designated Fund, this will allow us to carry out trials transmitting live traffic information from the roadside into trial vehicles. One of our partners supplied the vehicles, which have been fitted with the latest technology.

Freight platooning

We have awarded a contract for a freight platooning trial. This will see up to three HGVs travelling in convoy, with acceleration and braking controlled by the lead vehicle. All lorries in the platoon will always have a driver ready to take control at any time. This trial is funded through our Innovation Designated Fund and has the potential to demonstrate how greater automation of vehicles can deliver reductions in vehicle emissions and improvements in safety and journey times.

Impact protection vehicles

Our suppliers began introducing automatic impact protection vehicles (AIPV) to the SRN. To protect road workers from the risk of vehicle strikes we currently depend on the use of impact protection vehicles (IPV) to guide traffic around our workers installing cones and signs to mark out sites. For the driver of an IPV, there is is always risk of being struck by passing vehicles. The AIPV is controlled remotely, without the need for a driver in the vehicle. The AIPV are designed to keep our customers and our road workers safe from harm, and our ambition is to start using them on our network later in 2018.

Intelligent construction

Working with key construction plant suppliers, Transport Systems Catapult and leading universities, we have started research to prove the concept of intelligent construction machinery. We plan to develop an early intelligent excavator prototype which will be fitted with the latest technology, including ground-penetrating radar, the utility network database, soil type detection, geolocation and 3D vision.

Improving customer service

6. Building collaborative relationships

Highways UK 2017

Our delivery over the year

Collaborating with stakeholders

This year, we have collaborated with a wide range of groups, including:

- our work partners and road user associations, such as the Freight Transport Association and the Motoring Schools Association of Great Britain
- our suppliers, including SMEs
- motorists and industry organisations, such as the RAC Foundation and the Confederation of British Industry
- regional transport authorities, such as Transport for the North and Midlands Connect
- the emergency services
- those who do not necessarily use our network but who are affected by it, such as cycling, walking and environmental groups
- Transport Focus
- Office of Rail and Road
- government and Members of Parliament (MPs) at both national and local levels

Building relationships with our suppliers

The government has a target of 25% spend for goods and services procurement to come from SMEs, and we achieved this target.

We hold supplier engagement events throughout the year, where we inform our suppliers of future tendering opportunities. Where possible, programmes of work are broken down to enable greater bidding opportunities for SMEs. Through these events, we listen to our supplier concerns and provide feedback and advice to improve practices and relationships. We can also feed innovation and continuous improvement initiatives from our suppliers back into our work.

We facilitated opportunities for organisations of all sizes to present their products, capability and capacity to internal stakeholders and delivery partners. These supplier meetings help us drive development in a peer-to-peer environment where shared learning and best practices can be adopted by others.

We need and value the expertise and innovation that our suppliers bring. Through our an annual Supplier Recognition Award, we recognise the contribution our suppliers make to the important work we do in areas such as safety, customer service and inclusion.

We participated in, and contributed to, the third annual Highways UK event. At this event, we have the opportunity to communicate our vision and plans, showcase our achievements and our projects, and deliver core messages to the industry.

Working with national, regional and local stakeholders

As a government-owned company, we work closely with ministers and officials across many departments in Whitehall. We have improved our communication with MPs, both around individual schemes and the impact of our work nationally. This has included holding regular surgeries in the Houses of Parliament to discuss our work in different regions and across the country.

Following the elections in May 2017, we engaged with the directly-elected mayors. As part of this, we entered into an agreement with the ten Greater Manchester local authorities, setting out how our North West regional team would work in collaboration with the Greater Manchester Combined Authority.

We work closely with all sub-national transport bodies, and engage with local authorities on a scheme-by-scheme basis. Our Growth and Housing Fund, in particular, has involved close working at a local level, including councils, Local Enterprise Partnerships and the private sector.

Working with the Office of Rail and Road

The Office of Rail and Road is responsible for monitoring us and advising government on efficient, safe and sustainable delivery of their investment for the benefit of road users and the wider public. We have continued to develop our relationship throughout the year and, as part of this engagement, representatives from the Office of Rail and Road attended one of our Board meetings this year.

Working in partnership with our stakeholders in the West Midlands

This year, we entered into an agreement with the West Midlands Combined Authority. Through closer communication and shared working arrangements, we will optimise traffic flows and keep journey disruption and delays as low as possible while vital repairs to the M5 Oldbury viaduct, the largest concrete repair ever carried out in Britain, is completed.

As part of this co-operation, our traffic officers provide support to motorists that encounter vehicle breakdowns on key non-motorway roads near the M5. They patrol the main routes and respond to incidents called in by the local authorities. This helps to keep local routes clear and minimise the potential impact on local communities arising from any delays on the M5.

Under a memorandum of understanding with Birmingham City Council, our traffic officers are also working with West Midlands Police to respond to incidents on the A38M (Aston Expressway). This is an integral and direct six lane link from the busy M6 junction 6 (Spaghetti Junction) to the centre of Birmingham. As part of our agreement, we carry out technical maintenance of the gantries and emergency roadside telephones, while the Council is responsible for other maintenance activity.

Grade II* listed Stockport viaduct on the M60, North West

Working with Transport Focus

As the independent road users' watchdog, Transport Focus' primary role is to advise the Secretary of State for Transport on our performance in relation to our customers. They are responsible for measuring customer satisfaction by carrying out the National Road User Satisfaction Survey. We work with Transport Focus to exchange surveys and information gathered from across our regions and road-user groups to help us understand the specific issues that matter to our customers. These are published on their website: www.transportfocus.org.uk

Working with emergency services

We work closely with our partners through the Joint Emergency Services Interoperability Programme and through the Collision, Lead, Evaluate, Act, Reopen (CLEAR) initiative, which outlines the steps to take during an incident. We are strengthening our partnership working with the emergency services through the National Roads Police Intelligence Forum and further developing our plan for enforcement and compliance activities on our network.

Developing international relationships

In the RIS, there is the vision that:

- Highways England will more broadly be recognised as a world-leader in operating, maintaining and modernising roads
- the SRN will enhance the UK's global competitiveness and, by 2040, will be recognised as one of the top 10 global road networks

To support these aims, we engage with international partners to share and learn best practice and expertise from across the world. We also seek to identify new ideas and innovation that will help deliver improved benefits and efficiencies.

As members of the Conference of European Directors of Roads, we are part of a trans-national research programme. We have funded research on improving guidelines, standards and network strategy in road safety, which will continue in 2018-19. The additional investment aligns with the commitment we made in our Innovation, Technology and Research Strategy to invest up to 5% of our annual research budget with other European road authorities. We have committed to the Research Call 2017, and associated projects will commence around May 2018.

Our investment, amounting to around £657,000 over three years, will be spent on new materials and techniques, the automation and collaborative planning of infrastructure and spatial planning programmes. With a total programme budget from the Conference of European Directors of Roads of around £4.3 million, we will leverage between six and eight times the independent research value for each of these programmes.

In addition to hosting valuable international visits to exchange information and promote Highways England, we are working closely with the Netherlands and Belgium on a number of areas.

A14 Cambridge to Huntingdon

The scheme

Our £1.5 billion A14 Cambridge to Huntingdon enhancement scheme is now well underway. It is our biggest scheme currently under construction, with local enterprise partnerships providing £100 million of funding towards the scheme.

It provides 21 miles and over 100 lane miles of new network, including a 12-mile bypass to the south of Huntingdon and a 750-metre viaduct. As part of the scheme, we are also widening and improving existing roads and junctions. To date we have moved and re-used over 2,500,000m^3 of soil (roughly the same volume as the Great Pyramid of Giza in Egypt) and diverted 41 miles of utility services, such as gas, water and broadband – with another 32 miles to complete.

We have completed nearly 40% of the main construction work and our current focus is on the scheme's 34 bridges and structures.

Benefits

Our scheme covers a critical east-west route, particularly for businesses and freight, linking the Midlands with the Suffolk ports. One of the fastest growth areas outside London, the Cambridge sub-region is expected to see a 23% rise in population, along with a 28% increase in housing and a 22% growth in jobs by 2031. Our scheme will improve connectivity, increase safety and generate significant economic benefits through better access to homes and jobs. It is forecast to make journey times 20 minutes quicker and to reduce over 3,000 collisions across 60 years.

Across the project, we have 111 trainees, apprentices and graduates working with our delivery partners. We have developed four pre-employment programmes, in collaboration with West Anglian Training Association, assisting 47 people who were out of work. We are also providing work experience to young people on one to two week programmes. To ensure we work closely with local communities, we have 110 science, technology, engineering and mathematics ambassadors working with a range of schools. We have allocated over £100,000 to 16 local projects under the A14 Community Fund.

Environment

Before works started, environmental surveys of ditches, drains, brooks and streams at the boundary of the scheme revealed the presence of water voles and their habitats. Water voles are protected under the Wildlife and Countryside Act 1981 and have declined nationally by around 90% since 1989. Throughout the planning and delivery of our scheme, we have been meticulous in ensuring that we provide the best possible and most sympathetic alternative habitats for this endangered species.

To mitigate loss of habitats, we created four new areas for water voles by recreating the conditions that they favour, including steep banks, good bankside vegetation and plenty of aquatic flora. Two existing water vole sites will need to be relocated to other areas, which we are enhancing so they can support the water voles when they arrive. In total, we are creating 18 wildlife habitats on this scheme.

Archaeology

We are completing the largest programme of archaeological excavations ever undertaken on a Highways England project.

At its peak, 250 archaeologists were excavating a range of sites over the 21 miles of the scheme. The sites, ranging from three Neolithic henges through to two 19th-century brick clamps, were recorded in advance of construction. Three Anglo-Saxon villages, dating between c.600 AD and c.900 AD were seen for the first time in over a thousand years. A lost village dating from after the Norman Conquest (c.1100) was found and recorded. Roman sites are often found on construction sites, but we have also found a new centre for Romano-British pottery with over 60 kilns near Brampton, beside the A1.

This represents our commitment to ensuring the past is understood and preserved for future generations.

Delivering the Road Investment Strategy

We are now three years into delivering government's £15 billion RIS, the largest investment in our network in a generation. Through this investment, we deliver tangible benefits to our customers and the economy, while minimising our impact on the environment and communities.

1. Our major improvement schemes

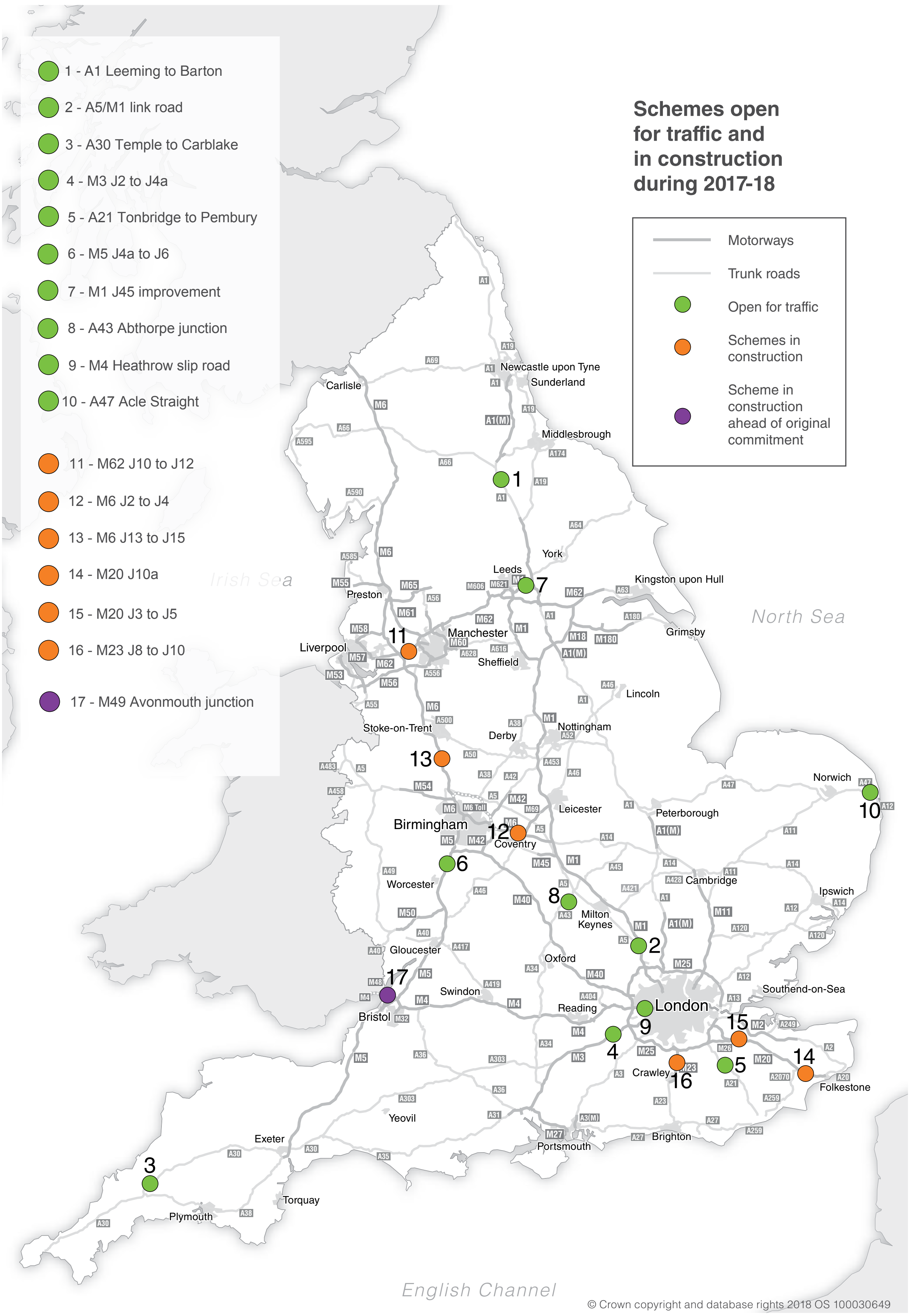
Our delivery over the year

Investing in major schemes

We are committed to investing over £7 billion of our capital budget into major schemes, many of which will be completed in the next road period from 2020. We are also committed to delivering efficiency savings of £1.2 billion during this road period.

2017-18 commitment	Planned number of schemes	Actual number of schemes
Started construction	7	8
Opened for traffic	10	10*
Moved from options to development phase	32	32

*Eight of these schemes relate to our 2017-18 commitments and two (A30 Temple to Carblake and A21 Tonbridge to Pembury) relate to the previous year


Schemes open for traffic and in construction during 2017-18
1 - A1 Leeming to Barton
2 - A5/M1 link road
3 - A30 Temple to Carblake
4 - M3 J2 to J4a
5 - A21 Tonbridge to Pembury
6 - M5 J4a to J6
7 - M1 J45 improvement
8 - A43 Abthorpe junction
9 - M4 Heathrow slip road
10 - A47 Acle Straight
11 - M62 J10 to J12
12 - M6 J2 to J4
13 - M6 J13 to J15
14 - M20 J10a
15 - M20 J3 to J5
16 - M23 J8 to J10
17 - M49 Avonmouth junction
Motorways
Trunk roads
Open for traffic
Schemes in construction
Scheme in construction ahead of original commitment
Irish Sea
North Sea
English Channel
Carlisle
Newcastle upon Tyne
Sunderland
Middlesbrough
York
Leeds
Kingston upon Hull
Preston
Grimsby
Liverpool
Manchester
Sheffield
Lincoln
Stoke-on-Trent
Derby
Nottingham
Norwich
Leicester
Peterborough
Birmingham
Coventry
Cambridge
Worcester
Ipswich
Milton Keynes
Gloucester
Oxford
Southend-on-Sea
Swindon
Reading
London
Bristol
Crawley
Folkestone
Yeovil
Brighton
Portsmouth
Exeter
Torquay
Plymouth
© Crown copyright and database rights 2018 OS 100030649

We opened 10 schemes in 2017-18 and this has added 90 extra lane miles of capacity to the SRN. We also started work on the M49 Avonmouth junction scheme, ahead of our original commitment date of 2019-20. As a result of this progress we have now opened 22 schemes in this road period and have started 40 schemes against a target of 33. There are currently 18 schemes in construction on our network.

In October 2017, following extensive collaboration with the DfT, we published a supplementary Delivery Plan. This update was based on a comprehensive review of all major schemes within the RIS to ensure that they continue to deliver value for money and to minimise disruption for our customers.

As a result of this review, we made a number of changes to enhance the delivery of our major schemes programme.

To minimise disruption from multiple interdependent road improvement projects, we have advanced 10 schemes and pushed back 16 schemes, 15 of which are now planned to start early in the next road period.

These changes included the deferral of six schemes that did not meet value for money for the taxpayer that we will re-consider as part of future road periods planning. These are:

- A1 and A19 technology enhancements, North East
- M62/M606 Chain Bar, North West
- M53 junctions 5 to 11, North West
- A14 junction 10a, Midlands
- M11 junctions 8 to 14 technology upgrade, South East
- A12 whole-route technology upgrade, East

Following a review of public consultation responses from residents, local authorities and MPs, the A27 Chichester scheme has been cancelled by DfT due to the lack of support by councils, local MPs, and regional stakeholders.

We have continued to use our Growth and Housing, Environment, Cycling, Safety and Integration, Innovation and Air Quality Designated Funds. These enable us to provide environmental, social and economic benefits to the people, communities and businesses who live and work alongside our SRN.

Upgrading the A303 at Stonehenge

In September 2017, the Secretary of State for Transport announced the preferred route for upgrading the A303 at Stonehenge, a key part of the 'South West Expressway'. The £1.6 billion scheme includes the construction of a tunnel past Stonehenge, a free-flowing dual carriageway and a much-needed bypass north of Winterbourne Stoke.

The expressway will upgrade the key route linking the M3 in the South East and the M5 in the South West, improving journey times for millions of people. This major investment will support economic growth and tourism in an area where congestion and slow journeys have previously hugely damaged the region's economy.

The tunnel near Stonehenge will reconnect the two halves of the 6,500 acre World Heritage site, which is currently split by the road. It will also remove the traffic from the Stonehenge landscape and local communities.

Working closely with our suppliers

This year, we made a number of major contract awards, including for two groundbreaking national infrastructure works: the Lower Thames Crossing and the A303 Amesbury to Berwick Down schemes.

The viability of our suppliers is important to us. We assess the financial position of each organisation before we enter into contracts, including an evaluation of the sustainability of the lead bid. During the life of the contract, we assess risks, including financial performance and capacity, as part of our project and contract management processes. We also regularly consider the ongoing financial position of key supplier organisations and we are proactive in exploring any concerns directly with them. Members of our senior leadership team are designated key contacts for all our key suppliers and have built and maintained good working relationships.

This year saw the closure of one of our key suppliers. We had closely monitored Carillion's position from their first profit warning and had a cross-business team ready to develop and implement contingency plans, should they have been required. Following the announcement of the company's collapse, we immediately mobilised our team and managed the step-in by Carillion's joint venture partners or the transition of their business initiatives to other framework providers. We strongly encouraged the joint venture partners or new providers to make offers of employment to Carillion employees on similar terms and conditions and we understand that the vast majority have accepted the offers. This includes 21 apprentices, trainees and graduates, all of whom have transferred to the joint venture partners.

Our use of project bank accounts enabled us to provide both security and continuity of payment to the lower tiers of the supplier base. Because of this we were able to ensure that we had no significant disruption to our operations or projects caused by Carillion ceasing to trade.

Adding extra capacity across the Lower Thames

In April 2017, the Secretary of State for Transport confirmed the preferred route for the Lower Thames Crossing scheme. This scheme will significantly improve connections between Essex, and Kent by adding 70% extra capacity east of London across the River Thames. The scheme will also improve safety and reduce congestion particularly for the communities around the current Dartford crossing.

The 70 mph, 13-mile route includes a bored tunnel crossing under the River Thames east of Gravesend and Tilbury, a new road north of the river which will join the M25 between junctions 29 and 30, and a new road south of the river which will join the A2 east of Gravesend.

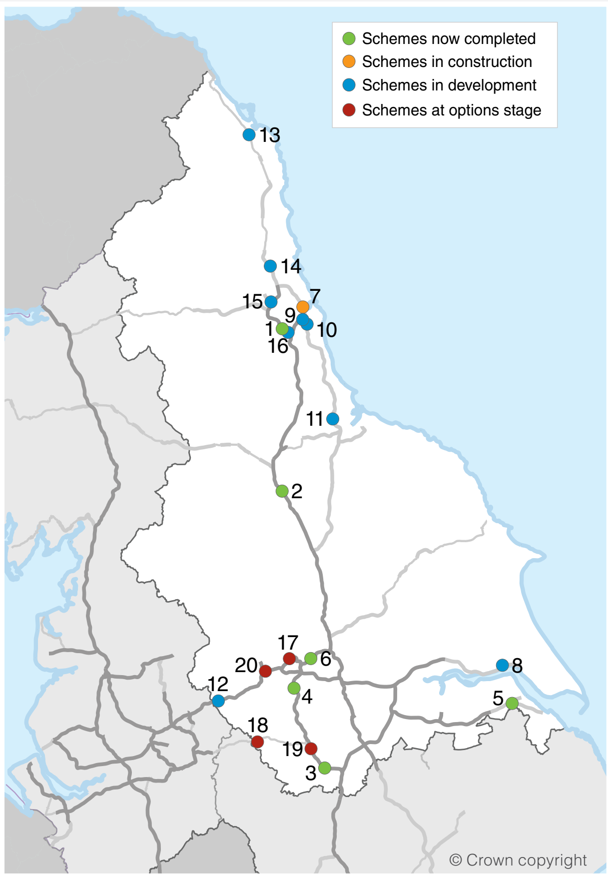
We expect the scheme to provide £8 billion in economic benefits and to create over 6,000 jobs and training opportunities. It will also strengthen and connect local communities, improving access to jobs, housing, leisure and retail facilities on both sides of the river.

Delivering the Road Investment Strategy

2. Our major road schemes region by region

Here we summarise, region by region across our network, the major road improvements identified in the RIS that are: under construction; in development; in the options identification phase; or completed.

North East and Yorkshire



	Schemes now completed
1	A1 Coal House to Metro Centre
2	A1 Leeming-Barton
3	M1 junctions 32 to 35a
4	M1 junctions 39 to 42
5	A160/A180 Immingham
6	M1 junction 45 improvement

	Schemes in construction
7	A19/A1058 Coast Road

	Schemes in development
8	A63 Castle Street
9	A19 Testos

10	A19 Down Hill Lane junction improvement
11	A19 Norton to Wynyard
12	M62 junctions 20 to 25
13	A1 North of Ellingham
14	A1 Morpeth to Ellingham dualling
15	A1 Scotswood to North Brunton
16	A1 Birtley to Coal House widening

	Schemes at options stage
17	M621 junctions 1 to 7 improvements
18	A628 climbing lanes
19	A61 dualling
20	M62/M606 Chain Bar

A1 Leeming-Barton

This scheme, completed in March 2018, will improve safety, increase capacity and enhance journey time reliability between London and major urban centres in the north of England and Scotland.

The 12-mile section of the A1 between Leeming and Barton carries up to 69,000 vehicles per day. Prior to the upgrade, it had poor bends and slopes with many side road junctions, farms and field accesses.

While the accident rate was in line with the national average for older dual carriageways, the severity was significantly higher. Incidents were more likely to lead to a fatality or serious life-changing injury, and a full closure of the route with lengthy diversions.

We have replaced the former dual carriageway with a new three lane motorway. Access is now via a new junction at Catterick and an improved junction at Scotch Corner. The project provided a new local access road alongside the motorway, improving connectivity and safety for local traffic as well as providing safer accessibility for cyclists, horse riders and pedestrians away from the main carriageway.

M1 junction 45 improvement

This year, we completed an improvement scheme to ease congestion and to facilitate economic growth within the Leeds area.

The M1 junction 45 serves east Leeds and is a major route into Leeds city centre. The scheme involved widening some of the slip roads and approaches to the roundabout and adding an additional lane on the roundabout itself.

The scheme will improve capacity at the junction and reduce delays for our customers. It will also open up new areas for development, particularly along the East Leeds Link Road, which is part of the Aire Valley Enterprise Zone.

A19/A1058 Coast Road

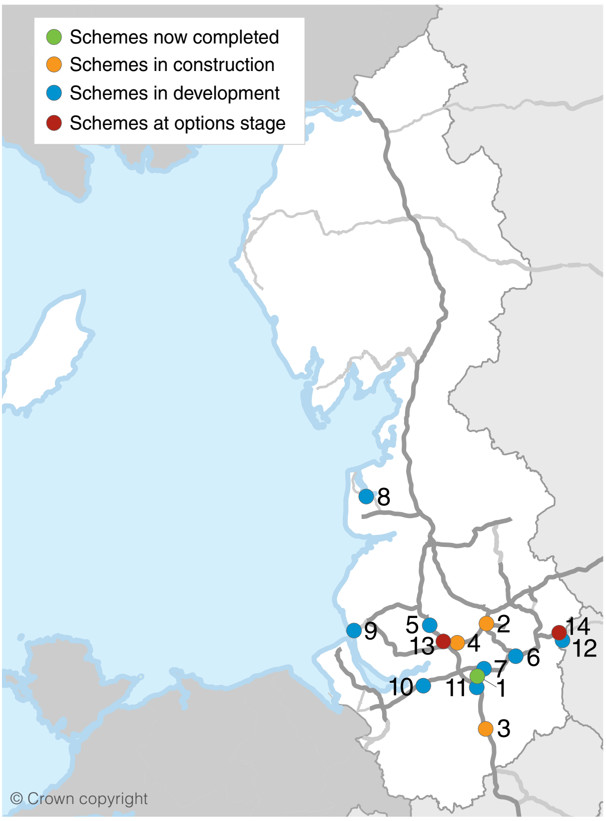
Construction to reduce congestion is entering its final stage and will create the North East's first triple decker junction in North Tyneside and improve journey time reliability for the 80,000 drivers who use it every day.

Since June 2016, we have built three new bridges – one to support the A1058 Coast Road over the Coast Road roundabout and two to carry the Coast Road roundabout over the newly-lowered A19. We are also building pedestrian and cycle bridges to improve access for vulnerable users.

We will be removing around 80,000 cubic metres of soil (enough to fill 32 Olympic-sized swimming pools) and using it to help form the embankments on the nearby A19 Testos scheme. Over the next year, we will carry out improvements to cycleways, install gantries for improved signage and completely resurface the roundabout.

The scheme is supporting the 'Year of Engineering' campaign, which aims to inspire young people to consider engineering as a rewarding career. 60% of the scheme workforce is from the North East and the scheme employs six graduates or apprentices.

North West



Schemes now completed	
1	A556 Knutsford to Bowdon

Schemes in construction	
2	M60 junction 8 to M62 junction 20: smart motorway
3	M6 junctions 16 to 19
4	M62 junctions 10 to12

Schemes in development	
5	M6 junctions 21a to 26
6	M60 junctions 24 to 27 and junctions 1 to 4
7	M56 junctions 6 to 8: smart motorways
8	A585 Windy Harbour – Skippool
9	A5036 Princess Way – access to Port of Liverpool
10	M56 new junction 11a
11	M6 junction 19 improvements
12	A57(T) to A57 link road

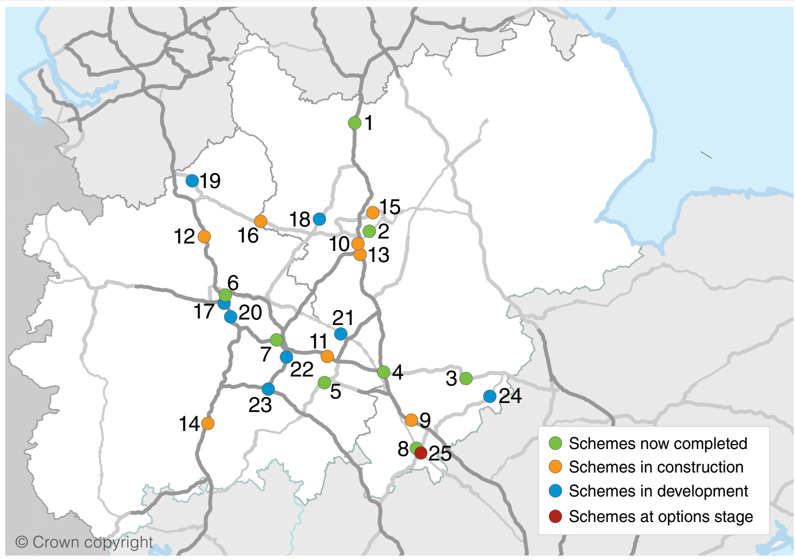
Schemes at options stage	
13	M6 junction 22 upgrade
14	Mottram Moor link road

M60 junction 8 to M62 junction 20 smart motorway

We are completing a smart motorway scheme on the M60 junction 8 to M62 junction 20, an important part of the main east-west transport corridor, linking Yorkshire and the Humber with Merseyside and Greater Manchester. This 17-mile route serves both national and international traffic movements, forming part of Euro Route 22, which links Siberia to Dublin. Over 180,000 vehicles per day use this route, which suffers from heavy congestion, especially during peak periods. This upgrade scheme is aimed at easing congestion and making journeys more reliable for our customers. This in turn will create economic benefits for the region and the country as a whole.

To maximise opportunity, the construction programme was extended to upgrade the communications network and areas of the drainage system. This meant that we missed our commitment to open to traffic in 2017-18. Construction is now nearing completion and we aim to remove all roadworks by the end of Summer 2018. The remaining work includes completing a new concrete safety barrier in the central reservation, fitting electronic signs to overhead gantries, installing new street lights and commissioning the new technology along the route.

Midlands



	Schemes now completed
1	M1 junctions 28 to 31
2	A453 widening
3	A14 Kettering bypass widening
4	M1 junction 19 improvement
5	A45/A46 Tollbar End
6	M6 junctions 10a to 13
7	M5 junctions 4a to 6
8	A43 Abthorpe junction

	Schemes in construction
9	M1 junctions 13 to 19
10	M1 junctions 24 to 25
11	M6 junctions 2 to 4
12	M6 junctions 13 to 15
13	M1 junctions 23a to 24
14	M5 junctions 5, 6, and 7 junction upgrades
15	A52 Nottingham junctions
16	A50 Uttoxeter

	Schemes in development
17	M54 to M6/M6 toll
18	A38 Derby junctions
19	A500 Etruria widening
20	M6 junction 10 improvement
21	A5 Dodwells to Longshoot widening
22	M42 junction 6
23	M40/M42 interchange smart motorways
24	A45/A6 Chowns Mill junction improvement

	Schemes at options stage
25	A5 Towcester relief road

M5 junction 4a to junction 6

Around 110,000 drivers per day are now benefitting from the junction 4a to junction 6 smart motorway scheme.

Construction started in 2014, with the installation of a new, safer concrete central reserve barrier, and continued in 2015-16 with the conversion of the hard shoulder to a new running lane with associated emergency areas. We also installed new technology including CCTV, radar, VMS and overhead lane signals. This new smart motorway:

- increased capacity by a third
- smoothed out traffic flows, avoiding stop/start congestion
- provided the monitoring, automatic detection and signals to maintain safe, reliable journeys

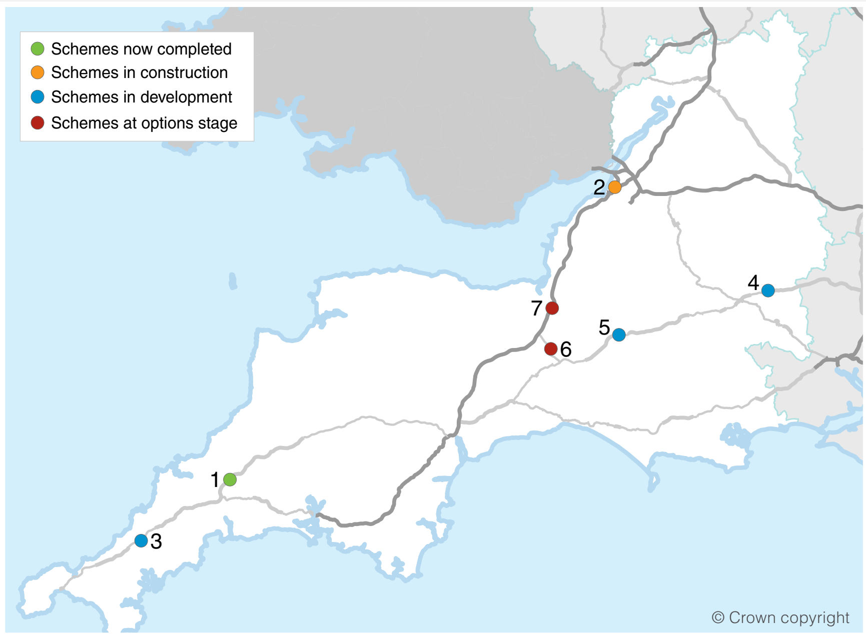
Tackling the congestion, especially for the many commuters using this route, has improved access to business centres, freight depots and key regional hubs, including Birmingham International Airport and the National Exhibition Centre.

The scheme has enabled us to introduce some major environmental benefits, with the installation of new noise barriers in sensitive areas and new low-noise surfacing across all four lanes. We have improved local habitats too, building new dens for wildlife such as badgers and newts.

The scheme links newly-planted vegetation on the soft estate with adjacent habitats and provides local connectivity with the wider habitat network.

Completed in May 2017, this scheme is the first in a series of schemes to tackle motorway congestion in the Midlands region and drive regional growth. It links into schemes currently underway, and in planning, on the M1, M6 and M42.

South West of England



Schemes now completed	
1	A30 Temple to Carblake

Schemes in construction	
2	M49 Avonmouth junction

Schemes in development	
3	A30 Chiverton to Carland Cross
4	A303 Amesbury to Berwick Down
5	A303 Sparkford – Ilchester dualling

Schemes at options stage	
6	A358 Taunton to Southfields
7	M5 Bridgwater junctions

A30 Temple to Carblake

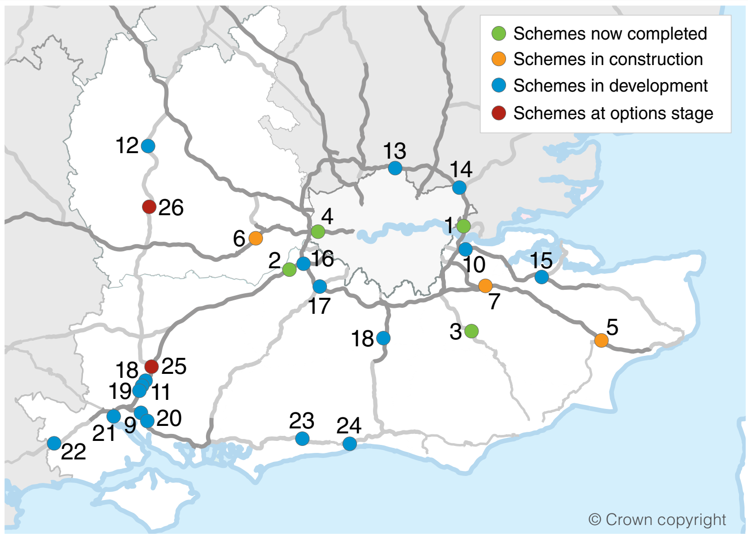
The A30 Temple scheme, on one of Cornwall's most important strategic routes, opened for traffic in July 2017.

Working in partnership with Cornwall County Council, we replaced 2.9 miles of the single carriageway with high-quality dual carriageway, including three grade-separated junctions. This reduced the extensive delays faced by our customers, which were previously made even worse by holiday traffic.

We radically improved links to the villages on both sides of the route and increased walking and cycling opportunities. This provided access to areas that were previously more isolated due to the road layout. We used local materials and regional design features to ensure that the scheme was in keeping with its location in an area of outstanding natural beauty.

The improvements are forecast to bring more than £134 million into the Cornish economy each year, encouraging economic growth by aiding regeneration, business expansion and housing delivery.

London and the South East



Schemes now completed	
1	M25 junction 30
2	M3 junctions 2 to 4a
3	A21 Tonbridge to Pembury
4	M4 Heathrow slip road
Schemes in construction	
5	M20 junction 10a
6	M4 junctions 3 to 12
7	M20 junctions 3 to 5
8	M23 junctions 8 to 10
Schemes in development	
9	M27 junctions 4 to11
10	A2 Bean and Ebbsfleet
11	M3 junctions 9 to14
12	A34 Oxford junctions
13	M25 junction 25 improvement
14	M25 junction 28 improvement
15	M2 junction 5 improvements
16	M25 junctions 10 to 16
17	M25 junction 10/A3 Wisley interchange
18	M3 junctions 10 to 11 improved sliproads
19	M3 junctions 12 to 14 improved sliproads
20	M27 Southampton junctions
21	M271/A35 Redbridge roundabout upgrade
22	A31 Ringwood
23	A27 Arundel Bypass
24	A27 Worthing and Lancing improvements
Schemes at options stage	
25	M3 junction 9 improvement
26	A34 technology enhancements

A21 Tonbridge to Pembury

Having started in 2015, this major upgrade to the A21 connecting Hastings and London, between Tonbridge and Pembury in Kent, was officially opened in September 2017.

The scheme, which created a new dual carriageway and two new junctions, has enabled faster journeys and safer access to the A21 for homes and local businesses. It has reduced congestion and boosted the economy, with 35,000 drivers a day already benefitting from the upgraded route. Dedicated new facilities are also available for pedestrians, horse riders and cyclists.

We took great care to protect the beautiful and protected countryside alongside the road, creating 18 hectares of new woodland along with heathland as part of the project. We carefully took down an ancient barn, which is now being reconstructed in a new location and preserved as a heritage museum.

M4 Heathrow slip road

In March 2018, we completed improvements to the M4 Heathrow slip road, which were designed to reduce delays and improve access to Heathrow airport.

As part of the scheme, we introduced new traffic signals, signage and white lining, helping to improve lane discipline and traffic movement. These enhancements will also have a positive impact on safety and air quality in this area.

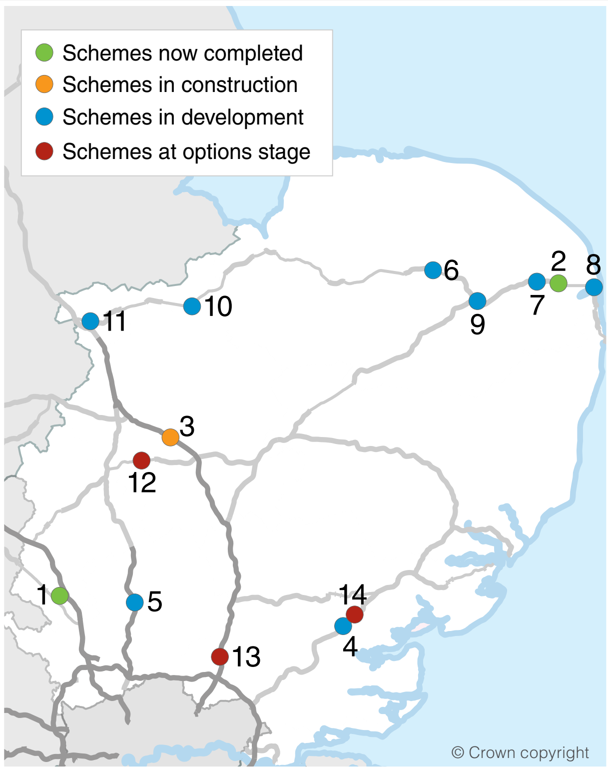
Close working with Heathrow Airport and co-operation with local businesses were vital to the success of this project.

M3 junctions 2 to 4a

In June 2017, we opened the M3 as a four lane smart motorway between junction 2 for the M25 and junction 4a for Farnborough, used by 130,000 vehicles a day. The smart motorway upgrade has added an extra lane in both directions along a 13.4-mile section of the motorway, with 12 new high-visibility emergency areas installed throughout the length of the scheme.

We introduced technology enhancements as part of this scheme. This included 45 new CCTV cameras, 63 advanced motorway indicators and 50 electronic information signs and signals mounted over the road. Through these improvements, we can better manage traffic flow and incidents, helping to reduce congestion and provide smoother journeys for our customers on this route.

East of England



Schemes now completed	
1	A5/M1 junction 11a link
2	A47 Acle Straight
Schemes in construction	
3	A14 Cambridge to Huntingdon
Schemes in development	
4	A12 Chelmsford to A120 widening
5	A1(M) junctions 6 to 8 smart motorway
6	A47 North Tuddenham to Easton
7	A47 Blofield to North Burlingham dualling
8	A47 and A12 junction enhancements
9	A47/A11 Thickthorn junction
10	A47 Guyhirn junction
11	A47 Wansford to Sutton
Schemes at options stage	
12	A428 Black Cat to Caxton Gibbet
13	M11 junction 7a to junction upgrade
14	A12 whole-route technology upgrade

A5/M1 junction 11a link (Dunstable northern bypass)

The £162.1 million A5/M1 link road, which opened in May 2017, is creating safer, less congested journeys for drivers and unlocking major growth in the region. It is now part of the A5, providing drivers with better access to the M1 via the new junction 11a in Bedfordshire.

Also known as the Dunstable northern bypass, this scheme consists of a new 2.8-mile dual carriageway, three new junctions, including a new motorway junction, and six new bridges. It unlocked up to 40 hectares of land for businesses and provided the infrastructure for 7,000 homes to be built to the north of Houghton Regis.

Since construction started in 2015, more than 50 new deals have been completed for industrial and distribution units, creating nearly 2,500 new jobs. Overall, the investment already generated or planned for the area so far is worth an estimated £2 billion.

As part of this scheme, we also allocated £1.5 million from the Environment Designated Fund to deliver a number of interventions, including:

- developing new heritage gateway features, providing a historical and floral entrance to the town and encouraging a sense of arrival for road users
- restoring the historic Middle Row area of central Dunstable
- improving the townscape along the old route of the A5, removing redundant signage, railings and other street furniture
- improving safety and sustainability, including providing new street lights

We are working in partnership with Central Bedfordshire Council to support the long-term regeneration of the centre of Dunstable. This encompasses a range of social and environmental improvements that will address the extensive damage caused by years of heavy traffic. The project will help to:

- revise priorities and reallocate existing carriageway space to reduce the reliance on cars within central Dunstable, creating a more pleasant, safer and attractive environment for people
- re-engineer junctions to allow greater self-management of traffic, improving circulation within the centre of town, reducing levels of congestion and improving air quality
- improve the accessibility and interconnectedness of the different areas forming the town centre, facilitating increased footfall and supporting retail premises
- introduce materials and furniture that enhance the streetscape and urban spaces, raising the quality of the public realm
- apply urban design principles to help re-create a more traditional town centre
- improve the identity of the high street and reflect the unique history and heritage of the town

Delivering the Road Investment Strategy

3. Efficiency

Key performance indicator (KPI)	2017-18	2016-17	2015-16
Achieving real efficiency	**£485.6m**	**£169m**	**£54.5m**
KPI: Savings on capital expenditure			
TARGET: Total savings of at least £1.212 billion over the first road period on capital expenditure			

Performance against our KPI

Our approach to efficiency is set out in our Efficiency and Inflation Monitoring Manual and the Capital Efficiency Delivery Plan. We are working to drive efficiencies across all our programmes and operations, and we have established a robust accountability and governance framework to provide strong leadership and oversight. Effective engagement and collaboration with our stakeholders, including our suppliers and the Office of Rail and Road, are integral to achieving greater efficiencies.

We report on our performance against our efficiency target, to the DfT and the Office of Rail and Road, as outlined in the Manual. The Office of Rail and Road also validate our efficiency savings to provide assurance over the audited values.

We have identified a total of £485.6 million of efficiency savings, which is above our cumulative target of £377 million for 2017-18.

A key driver in delivering efficiencies has been the implementation of Lean initiatives to increase productivity when carrying out pavement (road surface) renewals.

Our delivery over the year

We have set efficiency targets for individual projects and provided incentives for project managers to deliver efficiently. This is supported by a comprehensive review of the business changes which have the potential to contribute directly or indirectly to our overall efficiency target. We have created a network of efficiency managers across the Company to capture efficiencies and share knowledge.

This year, we appointed a pavement efficiency lead and we have identified further ways to continuously improve pavement productivity. Examples of this are the use of warm mix material, removing downtime, extending the working window and using full weekend closures. Such activities enable us to complete our work faster, generating cost savings while also minimising the impact on our customers and communities.

Embedding Lean techniques

Continuous improvement and Lean techniques help us streamline processes, reduce waste and focus on measuring and delivering our customers' needs.

On the M5 Oldbury Viaduct repair scheme, we used Lean continuous improvement to identify and remove non-productive travelling time from the daily routine of site workers. To minimise this time, the project built three satellite offices and supplied minibuses to transport workers. These actions increased productivity from 62% to 78%. It also improved wellbeing on site as the new offices contain welfare facilities.

We are working with our suppliers to identify and implement better ways of working on our major construction schemes. This includes adopting standardised designs, using common components and moving our construction off-site. We applied this approach to design eight overbridges for the ongoing A14 Cambridge to Huntingdon scheme, using standardised elements and allowing pre-fabrication rather than construction on-site. This has the benefit of improving quality control, reducing safety hazards to road workers and generating efficiencies in how we deliver.

Using Lean expertise, we are supporting the development of modular off-site construction within our smart motorway programme, which should result in these schemes being delivered more quickly and safely.

Delivering the Road Investment Strategy

4. Supporting economic growth

Key performance indicator (KPI)	
Encouraging economic growth	
KPI	Average delay (time lost per vehicle per mile)
TARGET	The government did not set a target for this measure in the first road period, but Highways England should act in a way that will minimise delay as far as possible

2017-18	2016-17	2015-16
9.19 seconds	8.95 seconds	8.93 seconds

Performance against our KPI

The average delay was 9.19 seconds per vehicle per mile, an increase of 2.68% compared to last year. This is due to harsher weather conditions this year, particularly during February and March 2018, which had an impact on customers' experience on our network. To minimise delays on our roads, we have increased the proportion of road works carried out at night, when there are lower traffic volumes, and we continued to lift roadworks during bank holidays. We have also implemented more efficient ways of working to make better use of lane closures, including using shorter lengths of road works.

Our delivery over the year

The SRN contributes to the success of the UK economy. Supporting economic growth is one of our objectives in our Strategic Business Plan. In our Delivery Plan, we committed to launching the £100 million Growth and Housing Fund.

Strategic Economic Growth Plan

Our Strategic Economic Growth Plan, The Road to Growth, sets out four economic roles for the SRN and Highways England.

These are:

1. Enabling a high performing SRN to support reliant business sectors' productivity and competitiveness
2. Providing efficient routes to global markets through international gateways
3. Stimulating and supporting the sustainable development of homes and employment spaces
4. Providing employment, skills and business opportunities within our sector

M621, Leeds

We were delighted that, in November 2017, the Road to Growth received the award for ‘greatest economic impact’ from the Institute for Economic Development.

1. Enabling a high performing SRN to support reliant business sectors’ productivity and competitiveness

In the first road period, we are delivering a programme of major improvement schemes across the country, improving safety, capacity and access, unlocking land for development and reducing congestion and delays.

To date, we have:

- started work on the extensive improvements to the A14 trunk road between Cambridge and Huntingdon
- started work on a new junction at Avonmouth to the west of Bristol, which will improve access to both the port and the enterprise area
- continued to work with the freight industry and the DfT to better understand the needs of the freight and logistics sector, such as the potential need for additional lorry parks

- established a joint programme of strategic planning activity with Network Rail relating to research and intelligence, freight and supporting access to major urban centres

2. Providing efficient routes to global markets through international gateways

We work with key gateway operators across the country, facilitating UK trade and exports. We increased engagement with ports and airports at a national level, and worked with the Department for International Trade to support the development of government's trade strategy.

A number of our schemes support access to international gateways. In 2017, we completed a major upgrade to the A160 between the A180 Brocklesby Interchange junction and the Immingham harbour, a strategic route to the port of Immingham. Our A556 Knutsford to Bowdon scheme, which opened during 2017, improved strategic connectivity between the M6 and Greater Manchester, including Manchester airport.

We have schemes to improve road access to Liverpool, Hull, Southampton and Tyne ports, as well as Birmingham, East Midlands and Gatwick airports. These are currently in the planning stages and are due to start delivery by 2020. We are continuing to support government with preparations for a third runway at Heathrow airport and for HS2.

3. Stimulating and supporting the sustainable development of homes and employment spaces

Our Growth and Housing Fund is aimed at supporting road improvement schemes which help unlock the development of housing and employment sites across the country. We are working in partnership with local authorities and housing developers to deliver schemes that help generate long-term economic benefits for local communities.

To date, we have committed £77 million from this fund to 21 schemes, unlocking the development of up to 38,000 homes and 44,000 jobs – including schemes recently announced in Wigan and Plymouth. We have already completed construction on schemes at Darlington and Honiton.

We have strengthened our engagement with stakeholders in the English planning system and provided pre-application advice to prospective developers. We are working with the DfT to update their planning policy on the SRN and the delivery of sustainable development. We have also advised government on potential schemes that could be invested through the Housing Infrastructure Fund, the government's capital grant programme for local authorities.

In the Autumn Statement 2016, government committed £220 million to a Safety and Congestion Relief programme, which was aimed at improving safety on the SRN, reducing journey times and increasing capacity on our network. Schemes within this programme will help to stimulate economic growth. For instance, in July 2017, we completed an improvement scheme on the M1 junction 36 slip road, which provides access to Barnsley and Sheffield. We widened part of the slip road from two to three lanes, easing existing peak time congestion. This work is linked to a larger scheme led by Barnsley Metropolitan Borough Council to improve access to employment sites and support housing growth in Birdwell and Hoyland. It is forecast to facilitate the growth of 17,000 jobs and 3,600 houses.

4. Providing employment, skills and business opportunities within our sector

Our Routes to Market initiative is a new approach to contracting with our suppliers, ensuring a more sustainable long-term environment for our supplier base. In January 2018, we launched the first programme under this approach: our Regional Delivery Partnership programme. At £8.7 billion, this is our largest ever single tender. Key features include:

- a more streamlined procurement procedure
- a more visible and programmatic approach to awarding work
- integrated regional delivery teams, bringing us, our advisors and our suppliers together to forge relationships and deliver solutions
- improvements in regional efficiencies, innovation and rewarding strong performance

We work with SMEs and regularly update our published list of upcoming contract opportunities. Our contract terms now include a requirement for our suppliers to invest in one apprentice for every designated £5 million of spend.

We expanded our apprenticeships programme in 2017 to cover 17 different disciplines up to Masters level. Since the start of the first road period, we have increased the number of apprenticeship places we offer by 60%.

Wider developments

Aside from strengthening our focus on these four economic growth areas, we are developing our economic focus across our business through:

- using our increasing assessment of local economic opportunity areas as part of the development work for the next road period
- strengthening our consideration and understanding of the economic impact of our investments, including through improved internal investment guidance, a national economy model and a new toolkit to assess the local benefits of enabled developments
- embedding economic stakeholders, such as local enterprise partnerships, sub-national transport bodies, representatives of ports, airports and the business community, into our communication and engagement activities, and our new Strategic Planning Advisory Panel
- using our economic evidence base to support our long-term planning for the network

Supporting home building and jobs in the South West and North East

In the South West, the A30/M5 junction 29 Tithebarn link road improvement scheme was delivered by Devon County Council in collaboration with us and the Heart of the South West local enterprise partnership. This scheme provides better access to employment sites, including Exeter Science Park, and facilitates the development of homes in the area. We committed £4.5 million to the works, with developers committing a further £4.6 million.

The scheme opened to traffic in February 2018, and we expect it to facilitate over 2,000 homes and 400 jobs in the area. This scheme also provides safety and integration benefits as a cycleway / footway was constructed to help with crossing the link road and a pedestrian and cycling bridge was built over the M5.

In the North East, we completed a Growth and Housing Fund scheme on the A1(M) Darlington. Working with Darlington Borough Council, the Tees Valley local enterprise partnership and developers, we committed up to £1 million to improve junction 58 of the A1(M), unlocking two development sites to enable the construction of 1,200 homes and the creation of 1,500 new jobs. Completed in February 2018, the scheme added a third lane on the A68 on the approach to the Rotary Way roundabout and widened the roundabout itself. The scheme also involved reducing the speed limit along the dual carriageway section of A68 to 50 mph, improving safety and traffic flows from the A1 interchange roundabout down to the rotary way roundabout.

Delivering the Road Investment Strategy

4. Sustainability and the environment

We know that our network has an impact on the surrounding environment, and we aim to ensure that all our activity on the SRN contributes towards a sustainable future and delivers long-term benefits to the natural and built environment.

We have two specific KPIs around delivering better environmental outcomes: noise and biodiversity.

Noise

Key performance indicator (KPI)

Delivering better environmental outcomes

KPI: Number of Noise Important Areas mitigated

TARGET: 1,150 Important Areas where interventions are used to reduce the noise exposure of the population within the Important Area

2017-18	2016-17	2015-16
448	141*	62*

* Due to agreed changes to metric calculation methodology, the figures for previous years have been restated (agreed through DfT and Office of Rail and Road change control). The cumulative figure is 651.

Performance against our KPI

To improve the quality of life for our neighbours living alongside the SRN, we have mitigated 448 Noise Important Areas (IAs) during 2017-18 through a variety of mitigation methods.

Mitigation method	IAs mitigated in 2017-18
Noise insulation	386
Resurfacing	47
Major scheme bypasses	8
Noise insulation and resurfacing	5
Barriers	2
Total	**448**

The cumulative total for this road period is 651 IAs against our target of 1,150. In April 2017, we started a noise insulation pilot to effectively manage environmental, neighbour and neighbourhood noise. Through this scheme, we install improved glazing to homes within IAs where our other mitigation measures are not practical.

Our performance also reflects the impact of new criteria for when an IA is considered mitigated, as agreed with stakeholders and the Office of Rail and Road in this year.

Reducing noise for 80 homes in Cheshire

This year, we installed a 70-metre noise barrier to protect 80 homes near the M56 in Cheshire. The original location was identified in collaboration with a broad range of stakeholders, including Public Health England, the Noise Abatement Society, UK Noise Association and the Department for Environment, Food and Rural Affairs. Funded from our Environment Designated Fund, the noise barrier reduces the impact on the communities that live alongside our network.

Delivering the Road Investment Strategy
4. Sustainability and the environment

Biodiversity

Key performance indicator (KPI)	2017-18	2016-17	2015-16
Delivering better environmental outcomes			
KPI: Delivery of improved biodiversity, as set out in Highways England's Biodiversity Plan	**Plan published and we report annually**	**Plan published**	**Plan published**
TARGET: Reduction in the net loss of biodiversity by end of the first road period, on an ongoing annual basis			

Performance against our KPI

We published our Biodiversity Action Plan in 2015-16. Our 2016-17 Biodiversity Report will be published externally in 2018 and we will report on an annual basis.

In consultation with Natural England, we have developed and validated 15 management plans for sites of special scientific interest across England.

A45, West Midlands

Our Environment Designated Fund provides the principal source of funding for projects to improve biodiversity across our network. We completed a range of projects that contribute to government's Insect Pollinator Strategy by providing species-rich grasslands on our estate.

These grasslands are distributed across our network from Cornwall to Cumbria, providing wild flower areas to support pollinating insects. Other activities include tree planting and work to improve habitats alongside our network as part of our major schemes.

Planting 10,000 trees in the South West

We are committed to protecting and improving habitats along our roads. As part of our Biodiversity Action Plan, we started a major programme of tree and shrub planting along the A30 and A38 in Devon and Cornwall in February 2018. We wanted to reconnect wildlife habitat and ecosystems, allowing species to move between core areas.

We planted 10,000 native trees and shrubs, including oak, maple, holly, willow, honeysuckle and rose, to fill or reduce gaps in hedgerow and woodland along the roadside at 21 sites. In total, our planting will provide around three extra miles of vegetation and connect over 105 miles of habitat. Our work will benefit a wide variety of species of animals, including insects, birds and mammals, and provide suitable places to forage, shelter and breed.

Our delivery over the year

Establishing our strategies and principles

In April 2017, we published our Sustainable Development Strategy, communicating our aim to ensure a long-term and sustainable benefit to the environment and the communities we serve. We also published our first Environment Strategy. We are continuing our work with our partners to protect and improve the environment, and develop and implement solutions to environmental challenges.

In January 2018, we launched The Road to Good Design, outlining our vision to design an inclusive, resilient and sustainable network. We will design in a way that is sensitive to the context of a road's surroundings and responsive both to the needs of those who use it and the communities through which it passes. We believe that this will create an essential piece of infrastructure that is functional and makes a positive contribution.

To support our vision for the network, we established a set of principles for good road design which follow the themes of people, places and processes. These will encourage better design and provide the basis for road schemes to be objectively reviewed. Close engagement with communities, careful assessment of context, robust decision making and collaborative working are all necessary to support investment that will enhance our urban and rural environments.

Flood mitigation

We are committed to reducing flood risk to those using, or living next to, the SRN. We have a programme of schemes to address high priority flooding locations throughout the remainder of the first road period.

In 2017-18, we mitigated 40 flooding hotspots, some of which were funded through the Environment Designated Fund. For example, we mitigated hotspots along the A5 in Northamptonshire and we carried out similar work in collaboration with the Environment Agency as part of the A1 Leeming to Barton improvement scheme.

Protecting the A66 in Cumbria against flooding

This year, we completed a project on the A66 in Cumbria, an area where flooding has had a huge impact on the local community, environment and economy.

Our studies revealed that some flooding on the A66 and the surrounding area was as a consequence of Bassenthwaite Lake rising more considerably than originally anticipated. Working with our suppliers, and in consultation with local stakeholders, we designed solutions aimed at withstanding more severe levels of flooding. This helps maintain access to our network, and also protects it over the long term.

Our collaborative team raised the profile of the affected sections of carriageway, installed large cross-carriageway culverts and created emergency crossing points to maintain access. We also assessed the effects of the mitigation measures to ensure that they would not create flooding problems elsewhere.

Air quality

We consider the management of air quality to be an important challenge on our network. In the RIS, government established a £100 million Air Quality Designated Fund to improve air quality on and around the SRN, through to 2021. We are committed to supporting government's efforts to improve air quality.

This year, we published our Air Quality Strategy, which set out our approach and activities. We work with local authorities as they develop local air quality plans, particularly those authorities included in government's UK Plan for Tackling Roadside Nitrogen Dioxide Concentrations.

This year, 10 studies have been undertaken, nine reports have been issued as a final version and one still awaiting completion and sign-off. At least one of the fleets that supported our electric van pilot study committed to switching 12 of their diesel vehicles to electric vans based on their experience of the pilot.

We carried out air quality monitoring around a barrier that was taller than our specification and overhangs the road in the Netherlands. We confirmed that it helped disperse pollutants to improve air quality for those living closest to the network. Feasibility work for the first barrier alongside the M1 in South Yorkshire started in September 2017, and we have completed ground investigation works.

We installed 38 continuous air quality monitoring stations, which operate as part of our national air quality monitoring network. These stations provide information about the quality of air on the SRN and help inform our national air quality barrier programme.

In June 2017, we published our bidding guidance to organisations for the Air Quality Designated Fund and a number of bids have successfully demonstrated viability to progress to the feasibility stage.This included joint feasibility work with Hampshire County Council to understand if parking and service

improvements to Swanwick railway station could help improve air quality on the M27 as road users change transport modes. It also included work to determine if road alignment changes on the A616 could improve air quality for our neighbours in South Yorkshire.

In recognition that improving air quality is a collaborative effort, we sponsored the Clean Air Award this year at the Energy Saving Trusts' Fleet Heroes event. This recognises those organisations working to tackle fleet emissions and contribute to improving air quality.

Carbon

We are playing our part in reducing the UK's carbon emissions through lowering our carbon footprint and working with our suppliers to reduce emissions from activity on the SRN.

We are working to meet the current Greening Government Commitment target to reduce our carbon emissions by at least 32% by 2020, compared with the 2009-10 baseline. For example, we have installed more efficient lighting to many of our sites to reduce energy use. We have reduced emissions associated with traffic officer patrols by making better use of cameras to monitor our network. We are working to reduce emissions from business travel through promoting sustainable modes of travel, including cycling, public transport and car sharing. Our actions have contributed towards a 36% reduction against the baseline.

We monitor the carbon footprint of our suppliers as they operate, maintain and improve the SRN. We are working with them to reduce emissions as part of our carbon management priority within our Sustainable Development Strategy.

Embedding sustainability into the A160 upgrade

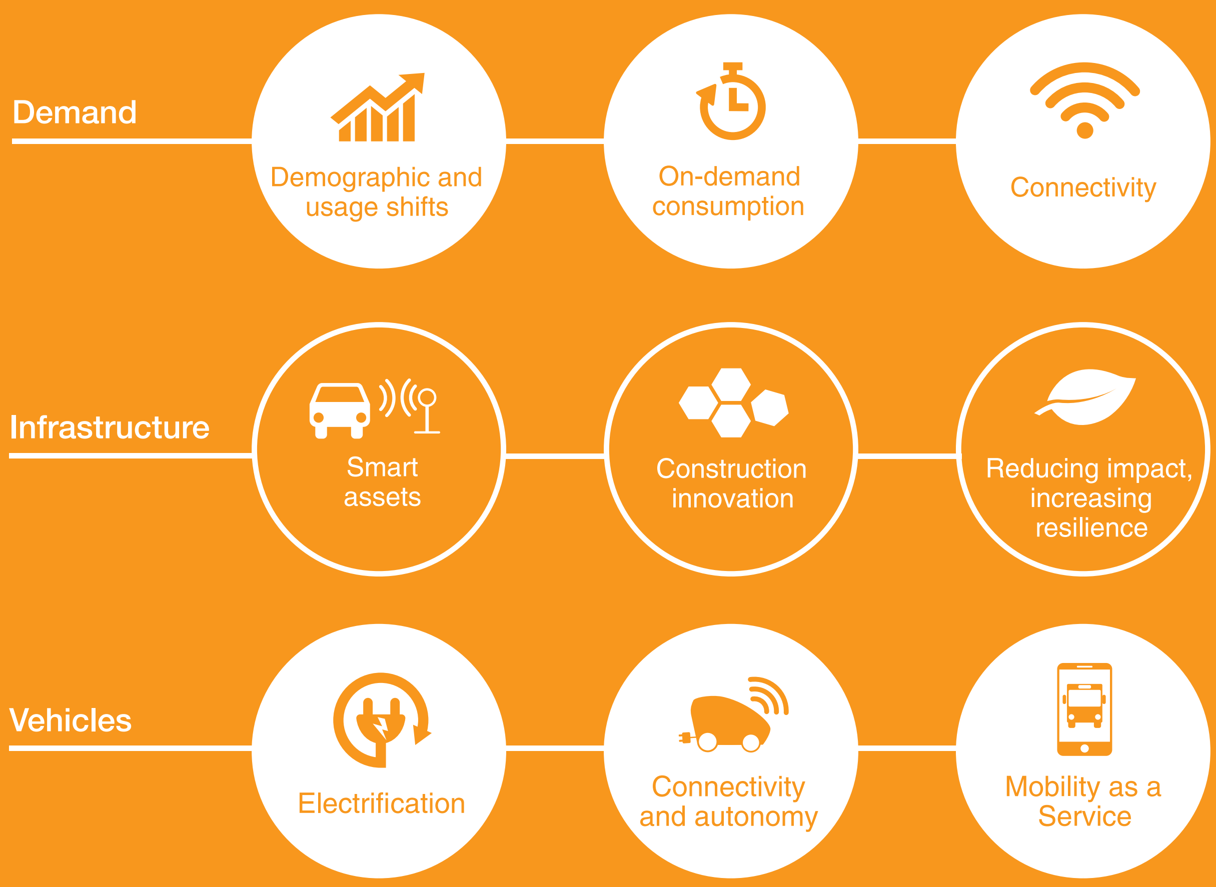
Sustainability was an important part of our major scheme to upgrade the A160 between the A180 Brocklesby Interchange junction and the Immingham harbour in north east Lincolnshire. More than two years before work started on the site, research identified the presence of hazardous waste material. Through early engagement and collaboration with our suppliers, we adopted an innovative approach to addressing this, including diverting 2,800 tonnes of planings (material removed from road surface) from landfill and encapsulating it into recycled aggregates. We also built low temperature asphalt into the road design, saving more than 204 tonnes of carbon dioxide equivalent.

This scheme won the award for delivering sustainable and environmental outcomes in our Supplier Recognition Awards in 2017.

Delivering the Road Investment Strategy

6. Developing the next RIS

Connecting the country – the nine trends that we believe should be considered in planning our network



Our delivery over the year

In December 2017, we published our first Strategic Road Network Initial Report. This followed extensive engagement with numerous stakeholders and analysis of evidence provided through our Route Strategies and Strategic Economic Growth Plan: The Road to Growth (both published in March 2017).

In our Initial Report, we set out the areas where we believe government should focus funding for the second road period. These are:

- focusing on operations, maintenance and renewals, recognising that these areas are essential to our customers and provide the foundation for a safe, reliable and resilient network
- building the smart motorway spine of our network, enhancing capacity between our major cities through a stable, continued smart motorway programme and preparing the network for connected autonomous vehicles
- undertaking transformational investments, implementing the next generation of transformational schemes, following on from the A303 and Lower Thames Crossing, and prioritising the areas with greatest need
- delivering a balanced programme, ensuring sufficient funding for medium-sized schemes, for example, junction and capacity improvements
- renewing focus on small schemes, ensuring dedicated funding for small, regional schemes to address safety and congestion hotspots
- delivering through refined Designated Funds, with an increased focus on roadside facilities, more flexibility, and new ways of working with partners
- preparing for the future, responding to longer term developments that could transform our roads, such as electrification and autonomous vehicles, and enabling this through pilots and appropriate investment

In December 2017, we published Connecting the Country, our longer-term vision for the SRN. This supports our Initial Report, and outlined the nine trends that we believe should be considered in planning so that we can develop our network to cater for evolving needs and the influence of technology.

In the RIS, government announced six strategic studies to investigate potential options to solve some of the most significant and complex challenges on the SRN. This will provide long-term solutions to improve capacity and connectivity. The studies on the North Trans-Pennine, Oxford to Cambridge corridor and the Manchester North West Quadrant have progressed from the initial phase of assessment to the next stage where options for interventions are developed. During 2018-19, we will further develop our studies on the Trans-Pennine Tunnel, the A1 East of England and the M25 South West Quadrant.

Next steps

Our Initial Report formed part of the DfT's public consultation on the SRN and we look forward to receiving the DfT's response to the consultation.

Over the course of 2018-19, in response to DfT's second Road Investment Strategy (RIS2), we will develop our Strategic Business Plan, setting out how we intend to deliver our commitments between 2020 and 2025. This will be subject to an efficiency review by the Office of Rail and Road. The draft RIS2 is expected to be published in Summer 2019 and our final Strategic Business Plan is expected to be published in Autumn 2019.

Our people

We are proud of our people. We are committed to recruiting, developing and incentivising our staff to build our organisational capability and capacity. We are also dedicated to embedding equality, diversity and inclusion across all areas of our business.

Our company values

Last year, we introduced our company values and associated behaviours, which support progress on our three imperatives. We have embedded these values into key business processes, such as performance management, and they drive how we engage with our customers and stakeholders.

To enable our people to recognise colleagues who demonstrate our values and behaviours, we have modernised our approach to in-year employee recognition, moving to an online recognition platform. This approach is designed to build stronger relationships across our organisation. So far, 13% of the recognition given has been of a cross-organisational nature and is a positive reflection of our progress towards working more collaboratively across the business.

Vanessa Howlison, Chief Financial Officer, meeting staff at the A14 Cambridge to Huntingdon site

Our delivery over the year

2020 Organisational Plan

This year we launched our Highways England 2020 Organisational Plan, setting out the key changes we are making to enable us to deliver current and future investment programmes. The plan contains cross-organisation and directorate-led initiatives in key areas, such as capability development, culture change and estate and capital portfolio management, to improve how we operate.

We need to become more competitive in the market place to attract and retain talent. In 2017, we started negotiations with our recognised Trade Unions on a revised job grading structure and associated pay policy. The first ballot highlighted areas of the proposal that needed further development. These included clarity of job descriptions, career progression and the proposed pay cap on promotion. Once established, our new job grading framework will house all roles and identify clear career pathways. This will help our staff understand how they fit into our overall structure and how they can build and progress their career.

Capability

This year, we focused on developing our technical capability, including defining technical competencies for project, programme and portfolio roles and establishing corresponding training programmes. We defined clear career pathways for all job families within our Major Projects directorate. We will continue to introduce these throughout 2018-19, aligned with the implementation of our new grading structure. We also started developing capability across other key areas and roles within our business.

We provided a diverse range of training opportunities for our employees, including our leaders. Last year over 1,300 managers completed our two-day values-based management development programme, which focused on quality performance management and coaching.

Our targeted safety leadership programme is designed to ensure that managers have the appropriate level of safety competency for the risk exposure associated with their roles. Our training programmes for frontline roles, such as the Driver First Assist programme and customer correspondence training, also build safety and customer service capability.

This year, we expanded our successful sector-wide leadership programme, Roads Academy, to four programmes so that it now offers a full career pathway in leadership development. These programmes will drive a significant change in how individuals think, behave and perform to help the roads sector meet the challenges that we all face.

In the Roads Academy ‘Step up to Leadership’ programme, participants can receive a qualification accredited by the Chartered Management Institute. Those who have already completed our senior leaders programme can now pursue a Masters qualification in Leadership. We have tiered our membership model to enable SMEs from our suppliers, as well as larger organisations, to join and enjoy the full benefits of the Roads Academy, broadening the depth and breadth of our membership.

Staff on the Highways England graduate scheme

We launched our new automated learning system, allowing our staff to access learning wherever and whenever they want. They can search for online resources or book a face-to-face course to meet their development needs. We have provided over 100 online learning modules and created a library through our collaboration with Ashridge Business School. This will ensure that our people can continue to have access to learning activities and resources on demand.

Organisational capacity

Attracting employees with the right skills is essential to building our organisational capacity and strengthening our ability to deliver our strategic objectives. To support this, we have developed our recruitment processes and supplier contracts to deliver a stable, high volume resourcing service across the business. In 2017-18, we recruited over 1,700 people, helping grow the Company by over 20% for the second year running. This includes the staff that joined our Company following the expansion of our Asset Delivery programme and the transfer of the Severn River crossing operations.

This growth has focused on our key capability areas. It has supported our drive to reduce our contingent labour requirements in critical, hard-to-recruit areas, such as programme and project management, asset management and commercial roles. We launched our new online careers area and social media approach, refreshing our presence in the labour market. We will further develop our recruitment effectiveness in 2018.

In collaboration with an external partner, The Clear Company, we reviewed our recruitment practices to ensure that all elements of diversity are included. As a result, we have revised our sifting and interview forms, implemented a new recruitment system and added the requirement to demonstrate inclusive recruitment practices into all our resourcing supply contracts. We have enhanced our recruitment training to cover the nine protected characteristics under the Equalities Act 2010 and unconscious bias.

In 2017, we became members of the 5% Club, a network of UK organisations committed to having 5% of their workforce as early talent in 'earn and learn' opportunities. To achieve this target, we continue to recruit graduates and apprentices, and provide work programmes that help develop our pipeline of future talent and capability. This year, we recruited 43 apprentices and 31 graduates and now have over 190 graduates and apprentices working across the business. Our early talent roles make up 4% of the entire workforce against our 5% target. We plan to recruit a further 80 apprentices and 30 graduates next year.

Employee engagement

We conduct an in-depth annual survey to gain a clear picture of how our employees are feeling, recognising that people who are engaged with their role and the company in which they work are likely to perform better. In April 2017, we started to measure engagement through shorter, in-year 'pulse' surveys.

Our annual survey identified that, overall, employee engagement has increased to 46%, its highest level since 2010. The 81% participation rate was also the highest level for the survey since 2011. We are pleased with the rise in employee engagement, particularly around our strategic direction and purpose and the positive sentiment about our Company's future. The survey results indicated that some staff were unaware of how their roles related to the Company objectives and we have created a development programme designed to help our people connect to these. We will be rolling this out across the Company from April 2018. Overall, the survey results provide a strong foundation for our work in preparing for the next road period and for strengthening our performance company-wide. We will monitor our progress with more pulse surveys to complement our annual survey next year.

Performance and talent management

During 2017, we embedded our performance management approach through supporting our managers to have good quality performance conversations with their staff. We know that there is still more we can do. In 2018, we will move our performance management process online to increase visibility and provide greater consistency in how performance management is applied at all levels.

We implemented a talent management framework, which focuses on career conversations and more structured succession planning. Next year, we will align the talent management conversations with the performance management cycle. This will improve overall performance and inform critical role succession planning across the business.

Wellbeing

We launched mental wellbeing and stress management e-learning courses for staff and line managers, the latter building on foundational training delivered as part of our management development programme.

We took part, for the second year, in Britain's Healthiest Workplace study, with 810 staff participating, a 50% increase from the previous year. We used trend data generated from this survey to inform the design of our 2017 and 2018 wellbeing programmes. These cover a broad range of topics, including healthy eating and drinking, mental health, active lifestyles and health for all ages. Our 2017 wellbeing programme has proved highly successful in engaging staff. An internal communications initiative to help colleagues share their personal wellbeing stories, for example, regularly attracts over 1,000 readers.

Training staff volunteers to increase mental health support for colleagues

According to the NHS, one in six people in England report experiencing a common mental health problem in any given week. We know that three out of four staff absences relate to common conditions, including stress, anxiety and depression.

In 2016, we trained and launched 45 mental health first aiders into our business as a pilot to provide better mental health support to colleagues who were impacted at work or at home. The main aims of the pilot were to raise the profile of talking about mental health and making stigma and discrimination a thing of the past. The mental health first aiders can also signpost colleagues to relevant self-help tools or encourage them to seek early professional support, as there is clear evidence of the benefits of early intervention.

In 2017-18, we increased the number of trained mental health first aiders to 150. All of the volunteers undertook a two-day accredited training course, learning how to better understand mental health issues, how it affects people and, most importantly, how to spot the early signs of a mental health issue.

Our mental health first aiders have substantially contributed to raising the profile of mental health. Use of our employee assistance support line has increased, with the percentage of employees accessing their programmes rising from 5% to 23%. This service, like our business, is available 24/7, 365 days a year.

Equality, diversity and inclusion (EDI)

Our aims and commitments

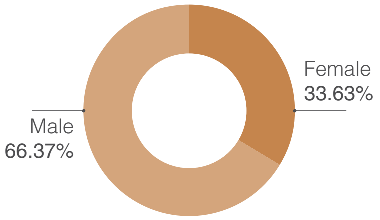
We are working to create an environment where:

- individuals' differences are more valued and respected
- everyone has an equal opportunity to contribute and develop
- our policies, procedures and behaviours increase fairness and inclusion

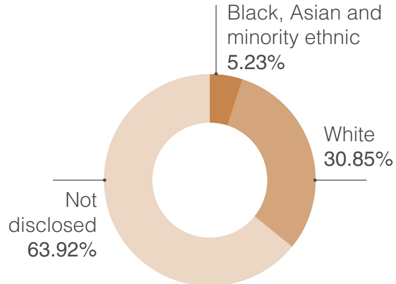
We are committed to:

- recruiting and retaining a workforce that represents the diverse society we serve
- delivering services that all customers can access and that take account of their diverse needs
- embedding principles of EDI into all areas of our business, driving real change in how we work with our customers, communities, suppliers and employees
- meeting our legislative duty to promote equality and social inclusion, and eliminate discrimination and harassment

Percentage of Highways England staff / Gender



Percentage of Highways England staff / Ethnic group



Supporting and recruiting our staff

We are broadening our inclusion and progression programmes. This year, we piloted a number of initiatives, including:

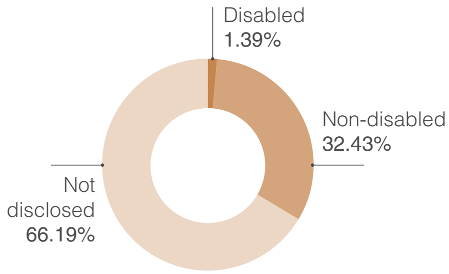
Our first career returners programme
This is designed for people returning to work after a career break of two or more years. As part of this programme, 14 returners completed six-month placements within project, programme, strategy and communications roles, before transitioning to permanent positions.

Our female coaching programme
Our EDI data shows that there is less progression for women from our middle grades to senior grades. This trial programme targets the development of women and, as a result, 33% of the delegates on the trial have already been promoted.

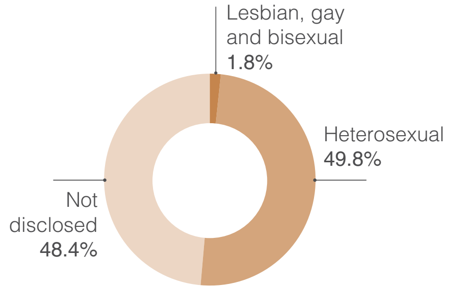
Our partners in inclusion programme
This pairs senior leaders with colleagues from different backgrounds or experiences. This six-month 'reverse mentoring' programme helps to build a more inclusive work environment and develop our leaders' understanding of diversity and inclusion.

Based on the success of these pilots, we will expand these initiatives in 2018-19.

Percentage of Highways England staff / Disability



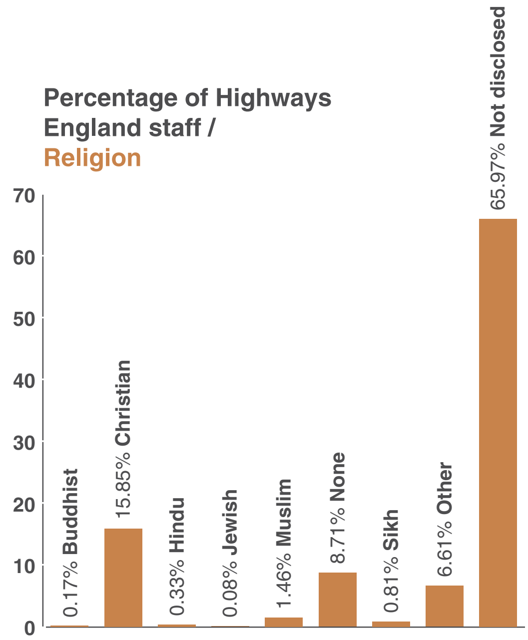
Percentage of Highways England staff / Sexual orientation



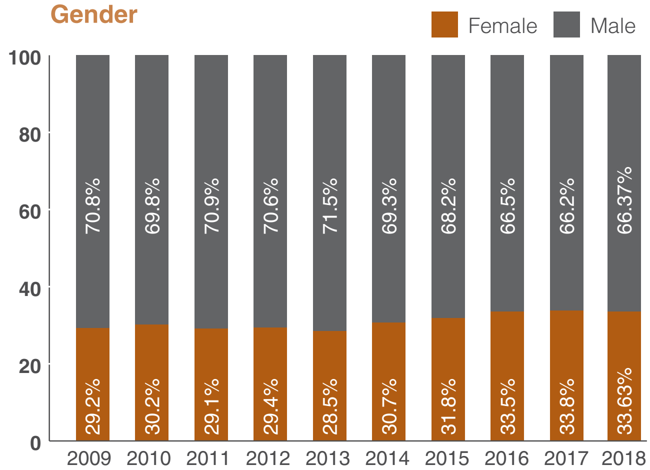
We are proud to have signed up to government's Disability Confident scheme. As a Disability Confident Committed organisation, we employ and retain people with disabilities and health conditions. We guarantee interviews for all job applicants with disabilities who meet the minimum criteria for competencies, qualifications, skills and experience. We make reasonable adjustments that support applicants and employees to do their roles, including at each stage of the recruitment process. This might involve changing the time or location of an interview, providing written information in an alternative format, changing the layout or lighting of a room or providing an interpreter.

We operate and support a number of staff networks, which work with us to create a diverse and inclusive organisation. This includes our Action for All network for staff with and without disabilities, working together to support each other, share experiences, raise awareness, inform policies and address disability issues.

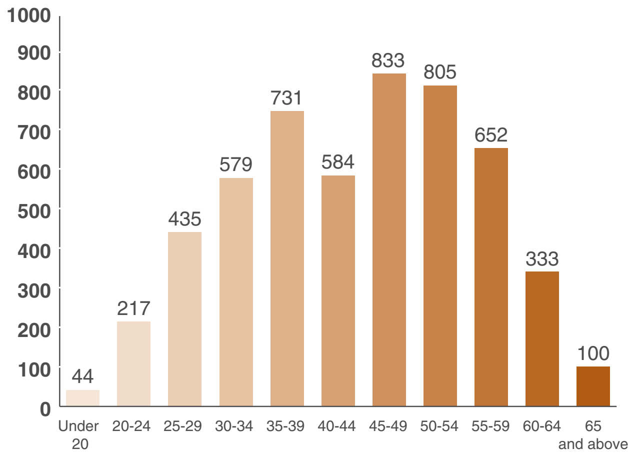
Percentage of Highways England staff / Religion



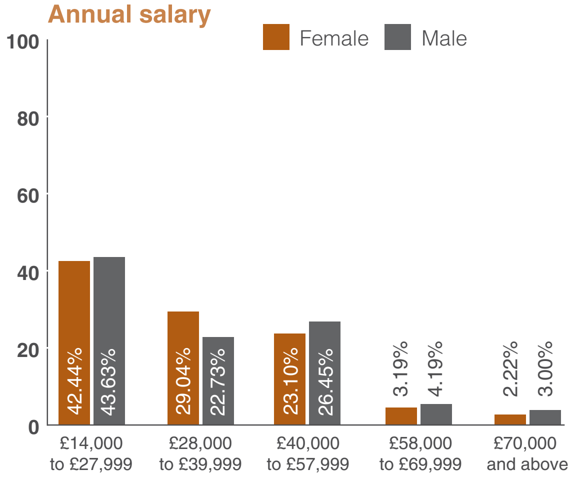
Percentage of Highways England staff / Gender



Number of Highways England staff / Age group



Percentage of Highways England staff / Annual salary



Working with our suppliers

We have continued to drive improvement in implementing EDI principles across the wider industry. Through working with our Supplier Diversity Forum, we have advanced our research on how the sector attracts people, improves workforce data collection and develops a threshold for EDI performance in employment, customer service and community engagement.

The National Centre for Diversity has given us several awards in recognition of our work to influence inclusion in our industry. Working with the Supply Chain Sustainability School, an industry-wide initiative to develop skills within the construction sector, we developed an online Fairness, Inclusion and Respect Toolkit. This was designed to promote these important values across the industry.

We have shared best practice through events such as the International Women in Engineering Day and we have monitored supplier EDI performance through our collaborative performance framework and certain contracts.

Financial review

We have had a successful third year. Our strong financial results show that we remained within our funding levels for both capital investment and operational expenditure. We planned our delivery and managed our risks and opportunities, aligning financial and operational planning and emphasising the importance of delivering to plan to all our staff and throughout our supplier base.

Our key successes in 2017-18 included:

- delivery of our planned investment programme within funding
- actual year-end results (outturn) within 1% of funding
- cash outturn for the year within 1% of target
- efficiency savings ahead of RIS trajectory
- management of significant cost pressures to ensure operational expenditure within funding available
- maintaining and enhancing the value of our assets
- continued prompt supplier payment performance

Financial performance

Overview

We spent £3.4 billion to operate, maintain and enhance the SRN in 2017-18, which equates to over £9 million per day. Of this, £2,318 million relates to capital investment in our road network, that has an accounting value of £113.6 billion. Our robust financial management framework has helped us to manage opportunities and risks across the investment portfolio and to perform in line with the funding provided.

Our capital funding was invested in the renewal of the SRN through resurfacing and maintenance (£0.8 billion) and major asset enhancements (£1.5 billion). These enhancements improve safety, increase network capacity and reduce congestion.

Capital investments

Total capital investment (Capital departmental expenditure limit)[1]	**Funding £m**	**Outturn £m**	**Variance £m**
	2,318	2,319	-1

[1] Excluding unallocated contingency

Our capital funding from government increased in 2017-18 to £2,318 million from £2,031 million in the previous year. This funding was slightly higher than originally planned, reflecting some re-profiling between years, as agreed with the DfT. Schemes planned in the early years of this road period are now entering the construction phase, which is reflected in the increasing capital investment.

Our outturn is in line with our forecast, which in turn aligns to our funding delegation as agreed with the DfT and is within the Parliamentary-approved Supplementary Estimate. The flexibility operated across our portfolio, and the early identification of schedule and cost changes, has ensured that funds were allocated appropriately between projects.

Operational expenditure

Operation expenditure (Resource departmental expenditure limit, excluding depreciation)	**Funding £m**	**Outturn £m**	**Variance £m**
	1,081	1,081	-

The operational budget for 2017-18 was set at a similar level to the preceeding two years, with a small increase to cover the costs arising from managing the Severn and Dartford river crossings. The majority of spend is used to pay for the maintenance of our network and for service payments relating to past improvements funded through private finance initiatives (PFI).

We remained within flat operational funding in accordance with our commitment made in the last government comprehensive spending review. This requires all inflationary pressures to be absorbed and transformational change to deliver at least as much as we did the year before.

By identifying cost pressures early, and building in responses to our plans, we have been able to outturn within funding.

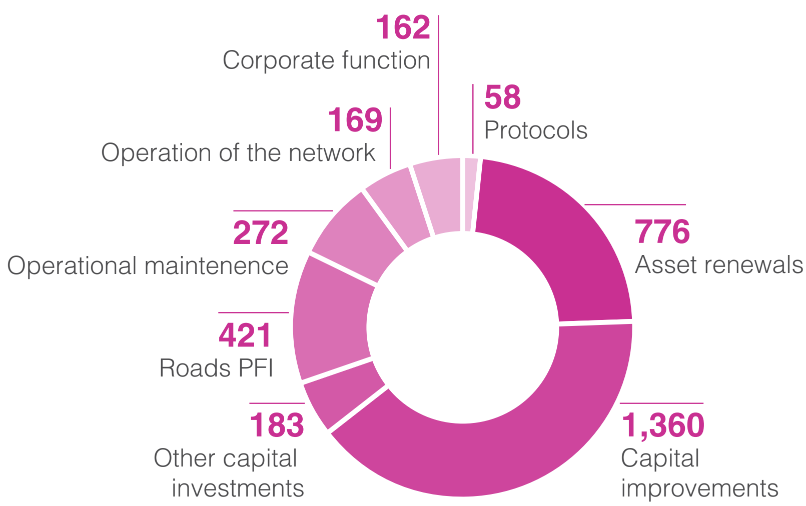
There have been a number of cost pressures in 2017-18, all of which have had to be managed within our operational funding. We prioritised activities through the annual business planning cycle and we implemented savings initiatives across all our functions. Specific challenges managed during 2017-18 include:

- rolling out Asset Delivery across Cumbria and Lancashire, the North East and the South West, which delivers savings but requires up-front investment to unlock the future potential
- supporting our transport partners in their planning to deliver HS2 and additional airport capacity in the South East
- rising service payments on our PFI arrangements, which increase by inflation indices each year in line with the underlying contracts
- managing legacy IT issues across the operational estate, which require additional funding
- enhancing capability and capacity across many functions to support a growing capital investment programme, which reaches the £3 billion mark by 2019-20
- manging the end of the Severn River crossing concession in January 2018, including the additional costs which came from planning and ensuring a smooth transition (we are now operating and maintaining the crossings, for which additional funding was made available)

How we spent our money in 2017-18 (£3.4 billion)

Over 70% of our funding is spent on renewing and enhancing the SRN, with a further 17% spent on operations, including service payments on PFI contracts. This year, a higher proportion of our other capital investments relates to Designated Funds, as these programmes ramp up towards the final years of this road period.

Expenditure 2017-18 (£m)



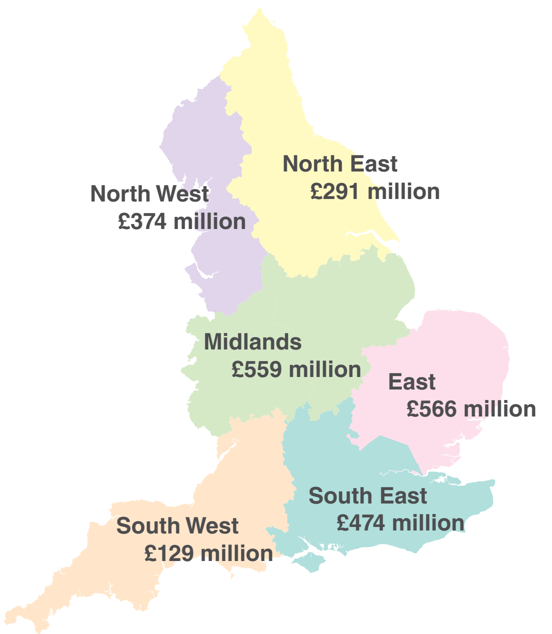
Our spend on corporate services includes all our commercial and procurement activity, which has been expanding to support the increasing investment programme, as well as our role in maintaining engineering guidelines for roads and structures which are used across the sector.

Our full year cash outturn was £3.51 billion against a forecast of £3.49 billion, a variance of less than 1% (our target is within 5%). Monthly forecasting performance across the year has been accurate, making a positive contribution to the overall DfT cash forecasting performance.

Capital	2017-18 £m	2016-17 £m
Asset renewal	776	626
Capital improvement	1,360	1,279
Other capital investment	183	115
Total	**2,319**	**2,020**

Resource	2017-18 £m	2016-17 £m
Roads PFI	421	413
Operational maintenance	272	270
Operation of the network	169	176
Corporate services	162	144
Protocols	58	49
Total	**1,082**	**1,052**

Where we spent our money in 2017-18 (£3.4 billion)



National £1,007 million
(including PFI service payments, national projects and support costs)

The split of expenditure by region varies based on the extent of the SRN and the condition of the asset. Regional spend each year also reflects the timing of construction activity for major enhancements. For example, the investment in the East this year reflects the activity taking place on the A14 Cambridge to Huntingdon scheme, our largest scheme currently in construction. Our schemes also provide benefits to other regions outside of the direct investment. For instance, the A14 scheme will provide major benefits to the North West, Midlands and South East.

Efficiency

We have continued to deliver efficiently across our capital and operational activity. As outlined in Section 6, we are ahead of our RIS efficiency trajectory having delivered £485.6 million of efficiencies in the first three years. We remain confident in delivering the full RIS target of £1.2 billion of capital efficiencies.

Our operational funding remains flat across this five-year road period, and this in itself presents us with an efficiency challenge. Our operational excellence programme, aimed at transforming and improving how we work, is assisting us in meeting this challenge. We have developed a series of internal regional operational metrics and a full understanding of the costs of our corporate functions. This allows us to benchmark our activities to identify where we can make improvements and become more efficient.

The value of our network

The SRN consists of roads, structures (such as bridges, viaducts and tunnels), land and communication technology. These come together to form a single, integrated network. We value our network using standard replacement costs (which are increased every year for inflation), less an adjustment for wear and tear.

These costs are calculated using a number of assumptions which tend to produce a lower rate than is achieved in actual construction. These differences are defined as write-downs and are accounted for as projects are delivered.

The SRN valuation at the end of the year was £113.6 billion, an increase of 1.7%. This reflects capital investment of £1.2 billion and an indexation uplift of £2.4 billion, based on ROCOS (Resource Cost Index of Road Construction). These increases in valuation are offset by depreciation of £1.4 billion and other valuation adjustments of £0.4 billion. At the year-end, there were projects valued at £1.3 billion under construction, a 30% increase on the prior year.

Relationship with suppliers

We look for ways to reduce cash flow problems for small businesses in our supply chain, allowing them to have a greater level of confidence when doing business with us. We have signed up to the Prompt Payment Charter, and 93.4% of payments to our suppliers were made within five days of receiving a valid invoice. A further 6.2% were paid within 30 days or within contract terms.

We support government's fair payment charter, and our use of project bank accounts (PBAs) makes a big difference to the cashflow of sub-contractors. PBAs mean all parts of the supply chain receive payment for their delivery at the same time, and sub-contractors do not have to wait for main contractors to cascade payment, which can sometimes mean weeks of delay. During the year, we paid £1.2 billion into PBAs, of which a third (£0.4 billion) went to SMEs. The cashflow benefits mean that 80% of our sub-contractors have elected to be paid this way.

Protocols

In addition to our RIS activity and deliverables, the Secretary of State for Transport relies on us to manage a range of activities on behalf of the DfT. These activities are known as 'protocols' and are funded separately. Some protocols generate income for government, a proportion of which is then used to undertake the relevant operational and maintenance activities. In 2017-18, our funding of £58 million was spent to:

- co-ordinate the movement of abnormal loads within Great Britain
- manage the Dart Charge scheme and other charging authority functions at the Dartford-Thurrock Crossing
- oversee the M6 Toll as set out in the concession agreement between the Secretary of State and the M6 Toll concessionaire
- inspect and maintain the Historical Railways Estate, a portfolio of over 3,400 disused former railway structures as defined by the Public Bodies (Abolition of BRB (Residuary) Limited) Order 2013, the assets and related contingent liabilities of which are held by the Secretary of State for Transport
- hold the emergency national salt reserve for English local highway authorities
- oversee the Severn River Crossing as set out in the concession agreement with Severn River Crossing PLC until the end of the concession in January 2018, and then to operate and maintain the crossings
- maintain and develop the standards, guidance and specifications for all works on the motorway and all purpose trunk road network

Catthorpe Interchange, East Midlands

Events after year-end

There have been no events after the year-end requiring specific disclosure.

Future viability

The Board has assessed the prospects of the Company over the three years to March 2021. We have based this assessment in accordance with provisions C.2.2 of the UK Corporate Governance Code, taking into account the Licence, the Company's current performance in this road period, negotiations around the next road period, the corporate planning process and the business's principal risks.

We are funded from the public purse by grants-in-aid from the DfT. We operate on a five-year funding allocation. Our funding framework includes a formal change control process which allows any change to funding to be aligned with a change to deliverables. We also have a flexibility mechanism which allows funds to be moved between years should there be significant scheduling changes that cannot be mitigated within the wider portfolio. This funding framework provides us with a high degree of certainty over the road period. This in turn allows us to deliver more efficiently and effectively. The Statement of Funds Available (SOFA), covering financial periods 2015-16 to 2019-20 inclusive, totals £11.4 billion of capital funding. This total capital expenditure settlement for this road period includes all funds that we will use to enhance and renew our network. As part of the Highways England Spending Review Settlement 2015, the DfT also provided an indication of the capital expenditure funding level for the first year of the next road period, providing us with an element of certainty up to March 2021.

Resource funds required to operate our network are also included in the SOFA and are set out in government's annual Resource Delegated Expenditure Limit. The Spending Review 2015 confirmed our resource funding in this road period. For the final two years of this road period (2018-19 and 2019-20) this is £1,086 billion and £1,106 billion.

As a direct response to the RIS, we published a Strategic Business Plan and, following on from this, our Delivery Plan 2015-20, which set out in detail how we will deliver our strategic outcomes, measure our success and identify future goals and plans to keep improving our customers' and neighbours' experience of the SRN. Performance against the Delivery Plan is monitored on a quarterly basis by the Office of Rail and Road, and the plan is refreshed and republished annually.

Our Delivery Plan, budgets and related financial models are used to project cash flows, monitor financial risks and forecast future funding requirements. As detailed within Section 9 of this report, our Delivery Plan identified a number of key risks and uncertainties. While we manage the risks that are within our control, there are, inevitably, some that we do not have control over, and we work closely with our partners and stakeholders to mitigate their impact.

In November 2015, government outlined plans to develop RIS2, which will run from April 2020 to March 2025. Work is underway to develop the scope of operations and investment during this period. As part of this, we published our first Strategic Road Network Initial Report in December 2017. This sets out the challenges faced over the medium to long term and how we can respond to the delivery of government's ambition for the road network as set out in the RIS. At this stage, the final funding envelope for RIS2 has yet to be confirmed.

We are considering our longer-term view of the direction for the SRN as we develop our 2050 Master Plan. This will be used to inform our recommendations to government on RIS2 and future investments. It is based on an understanding of likely demand, customer service expectations, technological advancements and strategic levers that can be used to deliver these.

Government has also stated that investment in the SRN is funded from Vehicle Excise Duty from 2020-21. The mechanism for this has yet to be agreed, and this has not yet been included within the Board's assessment of our viability.

The period over which the Board considers it possible to form a reasonable expectation as to our longer-term viability, based on the current level of funding certainty, is the three- year period to March 2021.The Board has a reasonable expectation we will be able to continue in operation and meet our liabilities as they fall due over the period to March 2021.

Principal risks and uncertainties

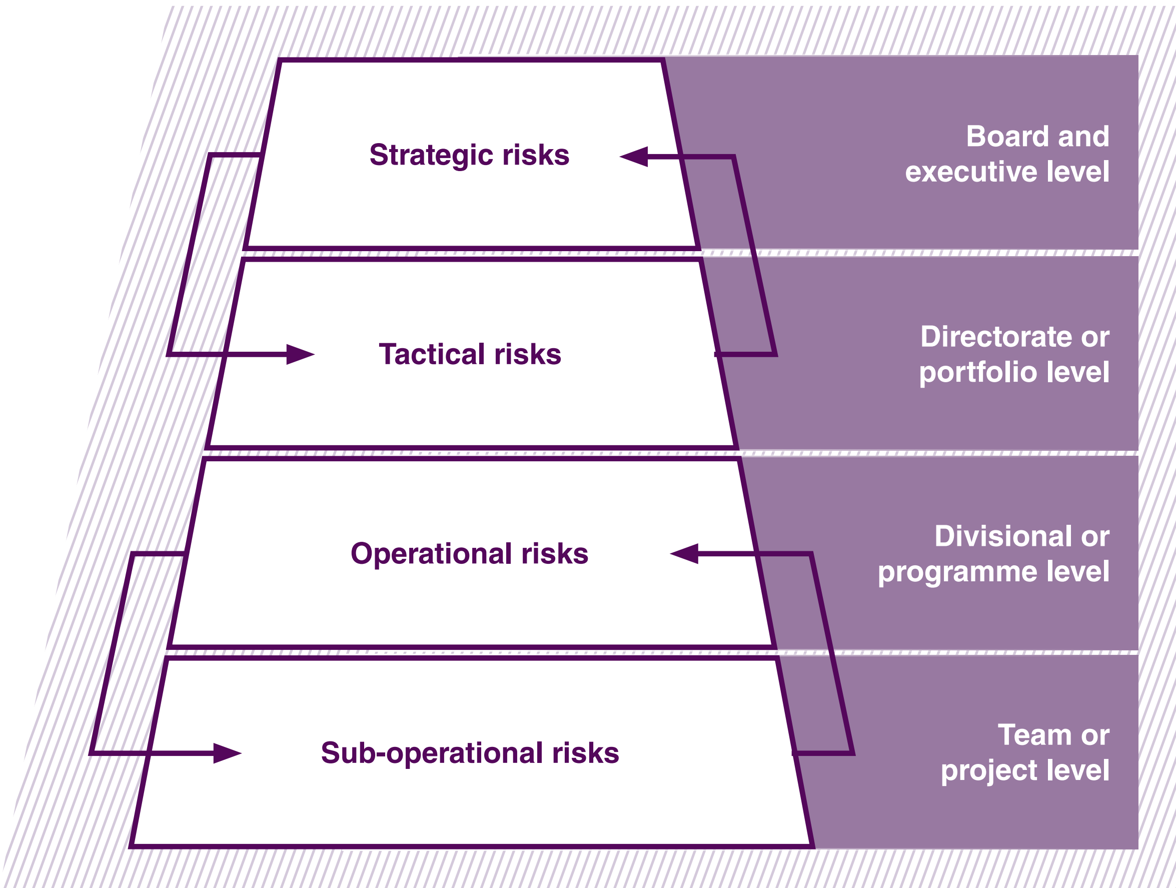
We work closely with our partners and stakeholders to mitigate the impact of all risk on our operations. Our approach encompasses managing risk across a broad range of activities at operational, tactical and strategic levels.

Risk management

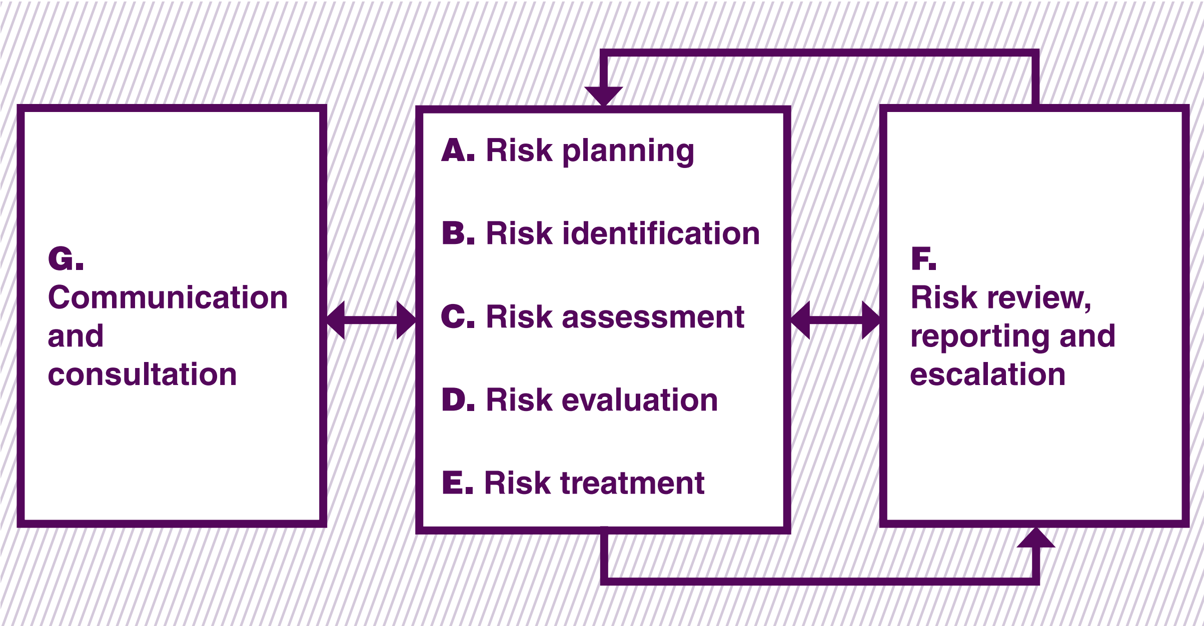
Overview

Our risk management process focuses on the early identification and management of risk. Our framework provides the structure for staff to identify, prioritise, manage, monitor and report risks throughout the Company.

Our principal risks, identified by the Board and our Executive team, align to our strategic objectives, which we agree with our Shareholder, the Secretary of State for Transport. Similar exercises are carried out across all key business areas and we use the outputs from these to review and refresh all our risk register information.



Key elements of our risk management framework



A. Risk planning

Our policy, process and procedure define the external / internal criteria to be considered when identifying and managing risk.

B. Risk identification

This covers the process of identifying, recognising and describing opportunities and threats to strategic, programme, project and operational objectives.

C. Risk assessment

We assess the probability and impact of all risk against a matrix that recognises that any risk has the potential for multiple impacts. We encourage the risk owner to identify the most important impact and this helps us to prioritise our response.

D. Risk evaluation

We compare the level of risk assessed with our risk appetite (set by the Board) to help the risk owner prioritise management activity.

E. Risk treatment

We identify actions to enhance opportunities and reduce threats (controls in place) and any further activity that will help the risk owner manage the event successfully.

F. Risk review, reporting and escalation

This is structured so that:

- risks and opportunities are managed in line with our risk appetite
- risks are updated as additional activity to manage the risk is delivered
- escalation of risk to senior management for information, review and/or management action is reported on a timely basis

G. Communication and consultation

We consult and communicate with internal and external stakeholders through all stages of the risk management lifecycle to increase understanding and improve our risk management capability across the business.

Highways England's risk management process is based upon the core requirements of ISO 31000:2018

Roles and responsibilities

The Board has overall responsibility for determining our risk appetite: the amount and type of risk we are willing to take to meet our strategic objectives. Our Chief Executive (as Accounting Officer) is responsible to Parliament for the stewardship of public money and he exercises his delegations in line with the Finance and Reporting letter and Accounting Officer letter, issued by our Shareholder.

While the ultimate responsibility for risk management rests with the Board, it delegates the more detailed oversight to the Audit and Risk Committee. They, in turn, report their findings from their reviews covering all principal risks and material controls, including financial, operational and compliance with key processes, to the Board.

The Audit and Risk Committee reviews the effectiveness of our internal controls and procedures to identify, assess and report risk. The Board Safety Committee reviews our safety risks separately and this feeds into the Board's wider discussions.

Our Executive team will escalate any significant risks, including those with the potential to jeopardise our business, to the Board. If agreed, the risk is added to our corporate risk register as a 'Board-level risk', ensuring that the Board can maintain visibility of its status and mitigation plan. At a corporate level, the relevant executive director owns each risk and they formally review and report on it on a quarterly basis.

Our underlying principles are that risks are:

- identified and then mitigated in line with our risk appetite
- monitored continuously
- reported through our established procedures

Developing risk management capability

During the year, we began implementing Xactium, an enterprise-wide risk management tool to improve the way that we record and report risk. This will provide us with:

- greater visibility of risks and their associated controls and planned mitigations
- flexible and enhanced reporting capability
- the potential to manage risk contingency funds more strategically and achieve greater efficiencies
- increased ability to ensure compliance with our risk management processes

Xactium is now live across our Major Projects directorate. In 2018, we will continue to roll out the software across the rest of the Company.

Our risk appetite

Recognising that Highways England faces risks inherent to the sector that we work in and on behalf of our key stakeholders, we have defined our risk appetite as follows:

Safety

We face various risks in the operation of our high-speed road network, and with our construction and maintenance activities. Where it is not appropriate to eliminate all risk inherent in our activities, we will take reasonable measures to minimise the potential for harm, or loss of life, for the public, road users, road workers or our staff.

Customer

We want to be trusted that we can deliver our commitments and be respected by those who use our services. In the pursuit of our delivery objectives, we will work to ensure risk outcomes have only potential for low-to-medium impact on our customers and stakeholders.

Delivery

We will identify risks which might impact our ability to meet key performance goals and capital outcomes. We will adapt our approach to optimise our ability to meet our short-term and long-term targets.

Financial governance

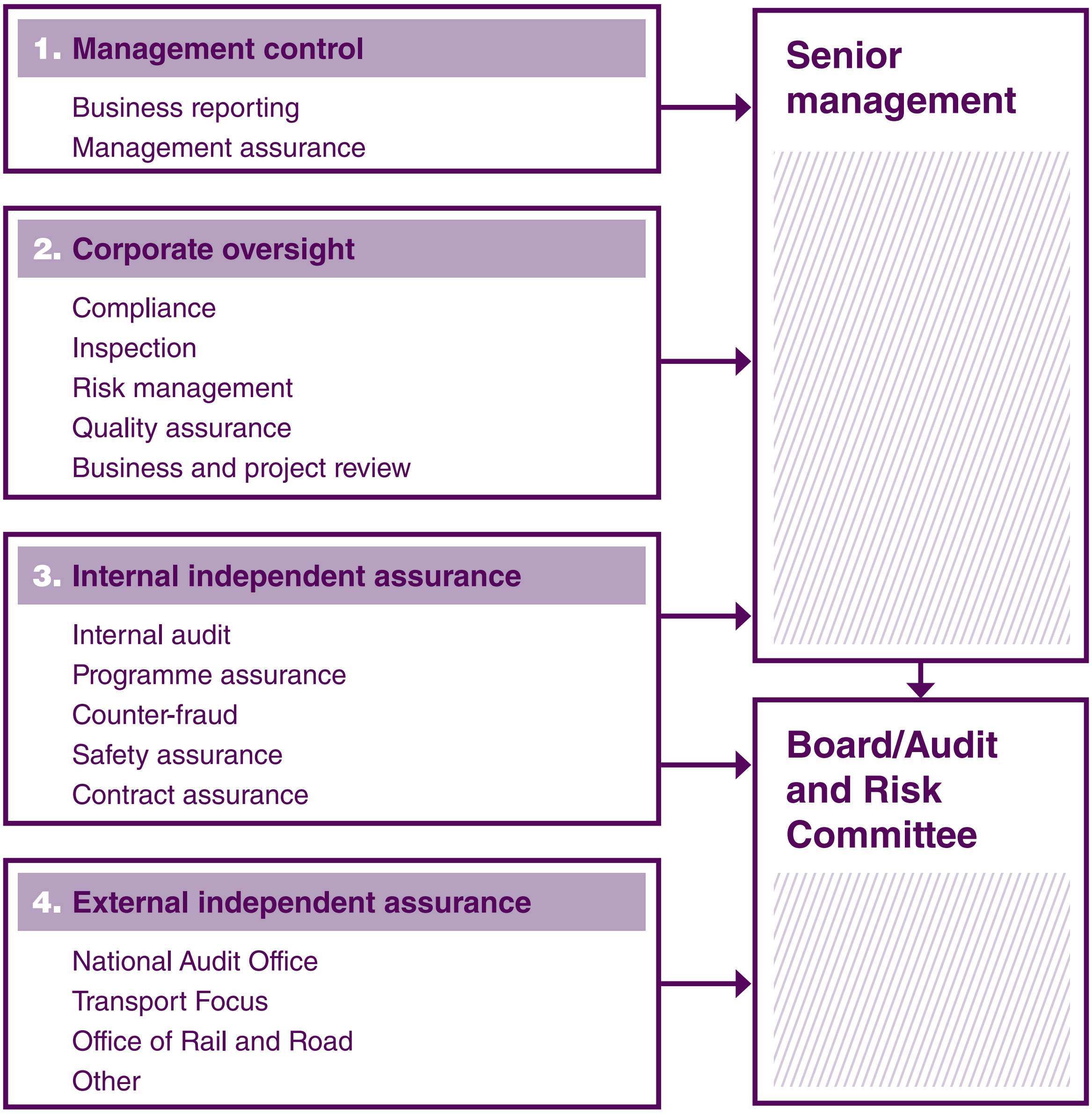
We are willing to accept some circumstances where we will actively manage financial risk to optimise our long-term financial performance and our portfolio of performance and capital outputs. Decisions on these will be taken in accordance with our internal governance arrangements.

Assuring our risk

Our four lines of assurance provide the Board with an appropriate level of comfort that we are managing risks properly.

This model allows each risk owner to draw from a breadth of information and rely on assurances obtained at the most appropriate level.

Four lines of assurance model



A5/M1 junction 11a link (Dunstable northern bypass), East

Our principal risks

We have set out the principal risks in this section, including examples of the controls and mitigating actions we are taking. They are the focus of the Board and are managed by our Executive team.

We take a thematic approach to risk reporting and have identified nine themes, linked to the performance specification within the RIS, to create a reporting dashboard. This provides a commentary on the status of the theme and the risks within it.

During the year, the Board and our Executive team reviewed our strategic risks and refreshed our risk register.

The following tables provide an overview of our principal risks, including our current exposure which has remained broadly constant throughout the year. Current exposure is the actual risk, taking account of our risk mitigation activity.

Safety

Strategic risk	Summary of mitigation
Ineffective control over safety, health and wellbeing might lead to an increase in staff and road workers being physically or mentally harmed | Raw risk ■ | Current risk ■ |	▪ We require certain health and safety standards to be met, including the use of competent contractors, across our suppliers ▪ An established Health and Safety Management System incorporates policies and processes that direct our workforce and ensure the control of contractors ▪ We have an ongoing monitoring regime, including inspections, leadership tours, accident reviews and compliance and assurance reviews ▪ We have dedicated Health and Safety professionals across each region who provide health and safety advice and support to the business ▪ An established wellbeing programme is in place and progress is monitored on a quarterly basis
Ineffective interventions or investments for road user safety might lead to an increase in road users being harmed | Raw risk ■ | Current risk ■ |	▪ The Executive and Board-led committees monitor the implementation of actions from our Health and Safety Five Year Plan ▪ The National Incident Casualty Reduction Plan and Regional Incident Casualty Reduction Plans provide detailed programmes of interventions to reduce incidents on our network ▪ Overall levels of casualty incidents are tracked, monitored and reported as part of our Health and Safety Performance Report

See Section 4: Making our roads safer for more information

Delivering to customers and communities

Strategic risk	Summary of mitigation
We do not influence or respond effectively to changes in our customers' expectations, which might result in a poor level of customer service being delivered | Raw risk (amber) | Current risk (amber) |	▪ An Executive Customer Group is in place to oversee cross-business activity and ensure it is in line with our Customer Service Strategy ▪ Customer service directors are appointed across the business to deliver their elements of the Customer Service Plan
Inappropriate information and data governance might lead to the inefficient delivery of our business objectives | Raw risk (red) | Current risk (amber) |	▪ We have established policies, procedures and processes for the governance and assurance of personal and sensitive information, and records management ▪ Our Information Vision and Strategy is in place to set the direction of future improvements in this area
We do not respond to our asset intelligence with appropriate maintenance and/or interventions, which might increase the risks of injury to road users or property damage, and frequent periods of network disruption | Raw risk (red) | Current risk (amber) |	▪ We set clear contractual responsibilities and competence is monitored through spot checking and auditing of supplier performance throughout the term of the contract ▪ We have established processes to identify and prioritise our interventions based on asset needs ▪ Value management methodology provides risk-based options for prioritising capital improvements, supported by technical input and oversight by asset specialists

See Section 5: Improving customer service for more information

Delivering performance and efficiency

Strategic risk	Summary of mitigation
We do not fully exploit data and information, which might reduce our ability to deliver efficiency through new ways of working | Raw risk (amber) | Current risk (amber) |	▪ We have an Analytical Assurance Framework, which sets our governance arrangements around value for money assessment. ▪ Major delivery programmes are supported by business partners providing analytical expertise during investment and key evaluation stages ▪ Our Analytical Assurance Plan underpins our future investment analysis
Our capital project efficiency savings target may not be achieved, which might undermine our Shareholder's confidence in our delivery capability for future road periods | Raw risk (red) | Current risk (amber) |	▪ An Efficiency Delivery Plan and an Efficiency Manual are in place, and are complied with by the business ▪ A framework for reporting efficiencies to the DfT and our Monitor is in place, with monitoring of efficiencies built into our corporate performance monitoring process ▪ Efficiency managers are in place across the business, co-ordinated by our Commercial Team and the results verified by our Internal Audit team ▪ Efficiency targets are part of our leaders' personal objectives to embed accountability for delivering efficiency targets across the business
A misalignment between the required and available capability or capacity of our suppliers may impact our ability to deliver the RIS outputs and associated benefits | Raw risk (amber) | Current risk (amber) |	▪ Our Supply Chain Group co-ordinates the ongoing monitoring and intervention around supplier stability ▪ We carry out standard procurement evaluations as part of the tendering process and update our Procurement Plan regularly ▪ Our Supply Chain Strategy and Routes to Market procurement approach establish long-term relationships and stable demand visibility to drive supplier investment in skills and capability
Requirements to improve air quality may impact on the ability to achieve our Licence obligations, internal performance indicators and successfully deliver our capital programme | Raw risk (red) | Current risk (red) |	▪ We are working with the Department for Environment, Food and Rural Affairs (Defra) and the DfT to help support government's Air Quality Plan - including engagement with local authorities ▪ The delivery of our Air Quality Strategy is overseen by an Air Pollution Strategy Board, which includes representatives from the DfT, Defra and the Office for Low Emission Vehicles ▪ A Major Projects-led Air Quality Roads Board manages scheme-level air quality risks and considers interventions to mitigate air quality impacts

See Section 5: Improving customer service and Section 6: Delivering the RIS for more information

Licence to operate

Strategic risk	Summary of mitigation
Ineffectively securing our information might result in reputational damage, fines and business disruption | Raw risk ■ | Current risk ■ |	■ We have separate risk assessment frameworks in place for business information technology and operational technology ■ Our code of connection process is the means to risk assess and assure the design, build and implementation for operational technology ■ Our policies, procedures and processes are in place for the governance and assurance of personal and sensitive information and reflect the requirements of the General Data Protection Regulations

Economic crime

We refer to the collective of fraud, bribery, corruption and money laundering as economic crime.

We are determined to manage this risk across the Company and our suppliers. Exposure could lead to financial loss or delays to delivery, and might impact on customer and stakeholder confidence when cases are proven.

In line with our values, we require all staff to act honestly and with integrity to safeguard the public funds for which they are responsible. We endorse a zero-tolerance approach to any (and all) instances of economic crime. There is an improving counter-fraud culture throughout our organisation, with appropriate channels in place for staff, customers and our suppliers to raise concerns safely.

Our suite of policy, process and procedures reflects current legislative requirements. These are communicated to all staff, no matter what their role. We have improved our understanding of our risk profile, which captures internal and external economic crime risks, including from cyber-crime, based on industry and government information. We update the information on an annual basis and use it to carry out proactive testing over our control activity to improve our resilience.

We have seen an increase in the number of fraud allegations from external sources, and we investigate all allegations in line with our suite of policies. The Counter-fraud Group and the Audit and Risk Committee receive reports on the work of the Counter-fraud team and the results of all investigations.

Working proactively with our suppliers, we are raising the profile of economic crime risk across the sector. We have created the Supply Chain Economic Crime Group, a forum which brings together our staff and suppliers to highlight areas of commonality and share best practice. In 2018, our engagement will focus on incorporating any new counter-fraud processes into suppliers' quality management systems.

Brexit

In 2017, the UK Government submitted its notification to leave the European Union (EU) in accordance with Article 50. The triggering of Article 50 started a two-year negotiation process between the UK and the EU. Any subsequent changes in legislation, regulation and funding arrangements are subject to the outcome of these negotiations. During this negotiation period, which includes the full duration of the next accounting period, the UK remains a full member of the EU with all the rights and obligations arising from membership.

There are currently no significant impacts on our financial statements in the short term from government making the formal notification. We will keep this under review as negotiations continue.

General Data Protection Regulation

The EU General Data Protection Regulation (GDPR), which takes effect in May 2018, harmonises data privacy laws across Europe. Non-compliance with the new regulation may result in heavy fines. In preparation, we have been rolling out GDPR training to ensure that all our staff and suppliers understand their responsibilities and the impact of the new legislation. We are providing more in-depth training to business areas that process significant amounts of personal data. In accordance with guidance from Crown Commercial Services, we are working to ensure that our contracts are compliant with the legislation.

Our governance

Our governance arrangements align with the principles and provisions set out in the UK Corporate Governance Code and public sector governance codes.

1. Corporate governance report

'More than halfway through our first five-year road period, our imperatives remain the same: making our roads safer; improving customer service; and delivering the RIS'

Highways England was established on 1 April 2015 under the Infrastructure Act 2015, and appointed and licensed as a strategic highways company by the Secretary of State for Transport. It is the highway authority, traffic authority and street authority for England's motorways and major A-roads that together are known as the SRN.

Accountability

Our governance framework

We are an arm's-length, government-owned company, delivering, and contributing to, government's long-term plan for the SRN. Our performance is monitored by the Office of Rail and Road and our consumer watchdog body Transport Focus, who provide insight into us and our customer voice. Both organisations advise the Secretary of State for Transport.

Setting out roles and accountabilities

Our Framework Document sets out the respective roles and accountabilities of the Secretary of State for Transport, the DfT and Highways England. This is essential as we work to achieve our common objectives of delivering a network that provides the best possible service for our customers and stakeholders safely, and which meets the country's needs efficiently.

Our Framework Document also:

- recognises our functional and day-to-day operational independence
- sets out how financial control and accountability is achieved
- recognises the governance and decision-making arrangements of the Board that are appropriate to Highways England as a corporate, legal entity, and with executives reporting to that Board

Our Delivery Plan

Our Delivery Plan explains how we will meet the specific requirements of the first road period. The Board reviews the Plan each year and refines it in line with our annual objectives and other strategies, including our approach to safety. We publish an annual update describing the work programme for the current year.

Relationship with our Shareholder and statutory stakeholders

The Company's Framework Document also includes arrangements for regular formal meetings with our Shareholder and his officials. These take place throughout the year, supplemented by informal meetings, as necessary. The Framework Document outlines the arrangements for the Office of Rail and Road to monitor our performance. These include regular meetings between the Office of Rail and Road and the appropriate areas of our business. They evaluate our performance, carry out regular independent reviews and publish their reports on their website.

We have established arrangements for regular meetings with customer groups, including Transport Focus who are now responsible for the National Road User Satisfaction Survey and are key to helping us improve our customer service.

Role of Non-Executive Chairman

The Chairman leads the Board. He is responsible for ensuring that we conduct our affairs openly, transparently and with probity. He is also responsible for ensuring that the Company's policies and actions are appropriate to those of an arm's-length body, support those of the Secretary of State for Transport and, as appropriate, escalate risks to the DfT. The Chairman's role is non-executive and part-time, at a minimum of one and a half days a week.

Role of Chief Executive

Our Chief Executive has day-to-day responsibility for the performance of the Company and of executive management, and for running operations. He leads the development of strategy and makes recommendations to the Board. He also provides Company leadership and promotes the Company's culture and standards. Under government requirements, our Chief Executive is the Accounting Officer, responsible to Parliament for the stewardship of the public funds under his control.

Role of Senior Non-Executive Director

The Senior Non-Executive Director's role is to provide a sounding board for the Chairman and to serve as an intermediary for the other Directors, when necessary. The Senior Non-Executive Director is also available to our Shareholder if they have a concern that contact through the normal channels of Chairman or Chief Executive has failed to resolve, or for which such contact is inappropriate.

Role of Non-Executive Directors

Non-Executive Directors are appointed to the Board to contribute their independent external expertise and experience in areas of importance to the Company. They also provide independent challenge and rigour to the Board's deliberations.

Role of Executive Directors

Each Executive Director supports our Chief Executive in leading the Company effectively towards the achievement of the Company's strategic objectives. They implement the Board's strategic decisions and are committed to doing this responsibly, taking into account our three imperatives – safety, customer service, and delivery – and our values.

Highways England's governance system overview

The Infrastructure Act 2015 sets out the overall framework for Highways England, including the Licence, Road Investment Strategy, Office of Rail and Road and Transport Focus

Legislation

Empowers SofS to appoint a Strategic Highways Company, set a RIS and issue directions via a Licence

Parliament

SofS remains accountable to Parliament for the activities and performance of the Company

Secretary of State for Transport

(SofS)

CEO, as Accounting Officer (AO) for the Company, is accountable to the Department for Transport's Principal Accounting Officer (PAO) for the day-to-day management of public funds. Both the AO and PAO are accountable to Parliament

SofS, as sole Shareholder, holds the Board to account for stewardship of the Company

Board is accountable to the SofS for all activities and performance

Articles of Association

Set by SofS, as Shareholder, in consultation with the Company, and sets the internal rules for governing the Company

Licence

SofS sets directions and guidance for the Company about how it must act, and defines the process for setting and changing the RIS

Framework Document

Defines governance, decision-making roles and working arrangements between the Company, SofS and DfT

Road Investment Strategy (RIS)

SofS sets strategic direction, delivery requirements and funding for the Company. The Company feeds into setting the RIS

Office of Rail and Road

The Office of Rail and Road reviews Company performance and advises the SofS on whether obligations have been met and can impose sanctions

Transport Focus

Transport Focus gathers road user views and advises Ministers on users' interests and priorities

Chief Executive Officer and Board

Highways England

Operates, manages, maintains and improves the Strategic Road Network, delivers requirements set through the Road Investment Strategy and provides services to road users. In doing so, we comply with our legal duties, licence conditions, other statutory guidance and relevant standards

Road users

Governance bodies
Board and Executive committee framework

Board

Governance committees	
Board Safety Committee	Oversight of our safety ambition and leadership, strategy, performance review and compliance
Audit and Risk Committee	Oversight of financial and internal control, risk and governance, financial reporting, internal audit and assurance programme and external audit
Remuneration Committee	Oversight of remuneration framework, including performance-related pay, Board and senior pay decisions
Nominations Committee	Board and Executive appointments
Investment Committee	Investments within delegated authority thresholds of between £200 million and £500 million

Executive Committee

Executive committees and groups	
Safety	Safety management and leadership, strategy development, performance monitoring and compliance
Counter-fraud Group	Oversight of systems, measures and a culture that counter the risk of economic crime
Executive Customer Service Group	Oversight of the development of an effective relationship with customers and communities
Supply Chain Group	Oversight of work to develop and manage an effective supply chain
Reward and Resourcing Executive	Workforce planning, including decisions under the remuneration framework
Executive Finance Group	Plan, control and manage resources effectively to support decision making and delivery over the short, medium and long term
Information Leadership Group	Data improvement, assurance of quality of reporting and internal decisions in support of the investment programme
Investment Decision Committee	Investments within delegated authority thresholds of between £50 million and £200 million

Leadership

Role of the Board

The Board is accountable to our Shareholder for all aspects of our activities and performance, including fulfilling our role and responsibilities as a strategic highways company. The Board is our primary governance arm in line with its fiduciary and other duties under company law. Our governance activities include setting strategy, overseeing performance, reviewing risks and appointing senior leaders. The Board delegates responsibility for the day-to-day running of the Company and operations to our Chief Executive.

Composition of the Board

The Board is expected to have no more than ten and no fewer than five members, with a balance in favour of independent Non-Executive Directors.

Our Shareholder appoints the Company's Chair. He may also appoint a further Non-Executive Director as his company representative. He must approve all other Non-Executive and Board Executive Director appointments, as well as the salary for all Executive Directors. Our Chief Executive must be appointed to the Board, together with up to two further Executive Directors, including our Chief Financial Officer.

The members of the Board, their length of service and information on the committees that they chair/attend are shown in the table on page 140. Their roles and activities are discussed in more detail on the following pages.

In September 2017, we welcomed Alan Cumming to the Board. Alan joined us with a wealth of experience in the engineering sector and replaced Tom Smith, who resigned from the Board in February 2017.

Our committees

A number of strategic, financial or other significant matters are reserved for the Board for decision. The Board committees are the:

- Safety Committee
- Audit and Risk Committee
- Remuneration Committee
- Nominations Committee
- Investment Committee

The Board and Executive Committee Framework is shown on page 138. All are mandatory under the Framework Document, except for the Investment and Safety committees, which have been established by the Board to provide appropriate focus on these key matters. The role of each committee is described in its own committee report in this section.

Composition, attendance and advice

The composition of, and attendance at, our committees is shown on page 140. All Directors have access to the advice and services of our Company Secretary and his team. Our Company Secretary is responsible for ensuring that the Board operates in line with the governance framework. He also ensures that there is an effective flow of information to the Board and its committees, and between senior management and the Non-Executive Directors.

Board and committee membership and attendance

Name	Role		Term of office ends	Board[1]	Audit and risk	Nominations	Remuneration	Safety	Investment
Colin Matthews	Non-Executive Director	Chairman and Chair, Nominations Committee	31/08/2020	12 (12)	-	3 (3)	7 (7)	6 (6)	6 (6)
Roger Lowe	Non-Executive Director	Shareholder-appointed Non-Executive Director and Senior Non-Executive Director Interim Chair Remuneration Committee until February 2018	31/07/2019	10 (11)	4 (5)	3 (3)	7 (7)	5 (6)	6 (6)
David Hughes	Non-Executive Director	Chair, Audit and Risk Committee	31/08/2018	11 (11)	5 (5)	3 (3)	5 (7)	5 (6)	6 (6)
Simon Murray	Non-Executive Director	Chair, Investment Committee	31/03/2019	9 (11)	4 (5)	2 (3)	-	6 (6)	5 (6)
Elaine Holt	Non-Executive Director	Chair, Safety Committee until December 2017 Chair, Remuneration Committee from February 2018	31/03/2020	11 (11)	-	3 (3)	4 (4)[2]	6 (6)	4 (6)
Alan Cumming	Non-Executive Director	Chair, Safety Committee from January 2018	31/09/2020	7 (7)	3 (3)	1 (1)	2 (4)[3]	4 (4)	3 (4)
Jim O'Sullivan	Executive Director	Chief Executive	N/A	12 (12)	5 (5)[3]	2 (3)[3]	6 (7)[3]	6 (6)	5 (6)
Vanessa Howlison	Executive Director	Chief Financial Officer	N/A	11 (12)	4 (5)[3]	-	-	3 (6)	5 (6)

[1] One sub-committee meeting of the Board took place, attended by one Non-Executive Director (Chairman of the Board) and two Executive Directors

[2] Elaine Holt became a member of the Remuneration Committee in October 2017, and became Chair of the Committee in February 2018

[3] Not a committee member, in attendance only

The Company's General Counsel attends Board meetings, the Safety Committee and the Audit and Risk Committee. The Chief Highways Engineer (the Executive Director for Safety, Engineering and Standards) is the executive lead for safety and regularly attends the Board and the Board Safety Committee. Other Executive team members and senior management attend the Board by invitation.

The work of the Board

Now in the third year, the Board has maintained its focus on our three imperatives of safety, customer service and delivery. At each meeting, the Board reviews performance against targets, paying particular attention to the key performance indicators.

The Board approves the annual budget and the updated Delivery Plan that supports the delivery of government's RIS. It also makes investment decisions based on recommendations from the Company's Executive Investment Decision Committee and monitors progress with the capital programme. This is part of its responsibility to ensure good governance, including the delivery of value for money. Risk is a key consideration in this process and the Board reviews the strategic risks at each meeting and the remainder of the corporate risk register on a periodic basis. Section 9 outlines our approach to risk reporting.

As the Company's capacity and capability are central to the delivery of both current and future investment strategies, the Board monitors progress on recruitment, retention and plans to develop and reward staff.

The Board considers the development and delivery of key strategies and activities aligned with the Company's imperatives and strategic aims, as presented by the Executive. The Board oversees the Company's roll-out of Asset Delivery, our new approach to directly managing the maintenance and renewal of the SRN. The Board has reviewed the approach and activities related to key national strategic projects, including HS2 and the South East airport expansion projects.

The Board has placed a greater emphasis on considering longer-term strategic issues this year, including focusing on the:

- development of the Strategic Road Network Initial Report that will inform RIS2
- technology, funding and new enhancements portfolio relating to RIS2
- Highways England's 2050 masterplan and vision for the SRN, Connecting the Country
- future approaches to working with our suppliers to deliver future investment programmes

Developing the Company's relationship with the Office of Rail and Road is highly important to the Board. As part of this, representatives from the Office of Rail and Road attended a Board meeting this year, and exchanged views on performance and how we can enhance future ways of working together.

Evaluation

In 2017, Heidrick & Struggles/JCA Group completed an independent evaluation of the Board's effectiveness. The review was mainly interview-based, capturing the opinions of Board members, Executives, senior management (who have regular engagement with the Board), the Director General, Resources and Strategy Group from the DfT and a key representative from the National Audit Office (NAO). They also attended a Board meeting and an Audit and Risk Committee meeting in an observation capacity.

Their review concluded that the Board is effective and their report highlighted five focus areas for 2018-19 to further improve effectiveness:

1. **Maintaining the right balance in Board discussions between challenge and encouragement**
   When the Company was formed three years ago, the tone of the Board was regarded as sometimes confrontational. The Board and the Company have matured and the balance is now considered healthier, with a more constructive tone. The Board will work to maintain an appropriate balance.

2. **Growing management capability and capacity**
   To deliver our commitments, including a growing rate of road investment, requires greater management capacity and capability. In 2018-19, the Board and its committees will devote more time to reviewing organisational development, including structure, talent reviews, succession planning and training.

3. **Quality of Board papers**
   Board paper quality has improved since becoming a company and there is room for further improvement. The Board will provide feedback, encouragement and offer support and training to Executives who prepare board papers.

4. **Board activities beyond formal meetings**
   Board discussions are helped as the Directors become more familiar with the business and each other during time spent outside of formal meetings. Our Company Secretary will plan an appropriate number and range of activities.

5. **Time spent on strategic topics**
   As the Company matures and establishes a longer track record of day-to-day operational delivery, the Board has been able to spend more time looking ahead and debating strategic topics and will ensure it continues to do so.

The Chairman discussed the outcomes and performance feedback with Board Directors individually. A review of the Chairman's performance was carried out by the Shareholder with support from the Senior Non-Executive Director.

Other activities carried out during the year included:

- streamlining the Board's monthly review of operational performance to create more time at Board meetings for discussions on strategy, people and customer service
- regularly reviewing relationships with key stakeholders
- reviewing the committee structure to ensure continued effectiveness

During the year, the Board held one meeting off-site at the A14 scheme site office in Cambridgeshire. Directors also conducted a number of safety visits which helps to demonstrate the Board's commitment to safety and attended a one-day visit to the Horiba MIRA test centre in Nuneaton, Warwickshire. These activities, together with our enhancements to the way the Board conducts its business, have improved the Board's effectiveness throughout the year.

We will conduct our next evaluation in November 2018, which will also review the progress made on actions identified in 2017.

Colin Matthews CBE, Chairman

Our governance

2. Committee reports

Nominations Committee Report

Colin Matthews (CBE FREng), Non-Executive Chairman

Colin was appointed Chairman of Highways England in December 2014, having previously been appointed Chairman of the Highways Agency in September 2014. Before that, Colin was Chief Executive of Heathrow Airport Holdings Limited (formerly BAA).

Colin has also held the following appointments: Chief Executive, Severn Trent Water PLC; Chief Executive, Hays PLC; Managing Director, Transco Ltd; and Engineering Director, British Airways PLC.

He is the Non-Executive Chairman at Renewi PLC and of EDF Energy Holdings Limited.

Colin holds an MA in Engineering, an MBA and is a Chartered Engineer.

Role

The committee's role is to make Board and Executive appointments. This is subject to approvals required by the Articles of Association and the Framework Document, and our Shareholder. Specific responsibilities include:

- advising on recommendations in respect of the appointment of Executives and Non-Executive Directors of the Company
- keeping the structure, size and composition of the Board and its committees (including their chairpersons) under review
- the continuation in office of Directors, and the appointment process for Board members and our Company Secretary
- succession planning for the Board and for posts reporting to our Chief Executive, as well as ensuring planning arrangements are in place for the tier immediately below, giving full consideration to the challenges and opportunities facing the Company and future skills needs

Composition

The committee is chaired by the Chairman of the Board and is composed of five other Non-Executive Directors (including the Shareholder-appointed Non-Executive Director), who bring the relevant skills and impartiality to assist with the recruitment of senior appointments.

The Chief Executive and Executive Director of Human Resources and Organisational Design are in attendance when required.

They meet regularly to discuss succession plans for senior managers and they can meet on a flexible, ad hoc basis when required.

Work

Chairman's highlights

The committee's main business this year was to review the succession plans of senior management roles and consider the appointments of Alan Cumming and Kathryn Cearns as new Non-Executive Directors, appointed with effect from September 2017 and April 2018 respectively.

We reviewed the composition of the Board and confirmed that the current structure remains appropriate.

Safety Committee Report

Alan Cumming, Non-Executive Director

Alan joined the Board in September 2017 and is the Chair of our Safety Committee.

He has recently joined the Nuclear Decommissioning Authority (NDA) as Director of Nuclear Operations, where he also has responsibility for all aspects of safety within the NDA estate.

Prior to joining the NDA, Alan was the Board Director responsible for Projects and Engineering with Viridor (part of Pennon Group plc), Commercial Director for EDF Energy's New Build Nuclear Programme, Director of Projects for British Energy and Senior Vice President with Aker Kvaerner, where he delivered projects and programmes in China, South Africa, Norway and the UK.

Alan is a Chartered Civil Engineer and a Chartered Structural Engineer. He completed his nuclear training at Massachusetts Institute of Technology (MIT) in Boston and has an MBA from Strathclyde Business School in Glasgow.

Role

The Safety Committee ensures that the Board fulfils its leadership responsibilities in relation to our health, safety and wellbeing ambition, culture, strategy and management arrangements. It works closely with our Executive team to monitor safety performance and to ensure that a strong, robust and continuously-improving safety culture thrives across the Company and our suppliers.

Safety risks cannot always be eliminated entirely, so the Safety Committee provides leadership to ensure that key risks are identified, appropriately managed and mitigated. The committee is responsible for setting clear expectations to improve safety standards across our business, our suppliers and across the SRN.

Composition

The committee comprises all Non-Executive Directors, as well our Chief Executive, Chief Financial Officer, Chief Highways Engineer and Health, Safety and Wellbeing Director. Alan Cumming became its Chair in January 2018. Members of the Executive team and other senior managers with operational responsibility for safety attend the committee when required.

Work

The committee's work is divided into four areas: road user safety; safety performance of our suppliers; monitoring the delivery of our Health and Safety Five Year Plan; and staff safety. We outline further details against each of these areas below.

1. Road user safety

The safety of our road users is the main focus of the committee. It monitors the Company's performance to reduce the number of people killed or seriously injured on our network.

Chairman's highlights

The committee spent half of each meeting considering safety performance against the Company target to reduce the number of killed and seriously injured by 40% by the end of 2020, considering the strategy for delivering this target and reviewing reports on major incidents. We focused on the impact of the DfT's new collision recording system on performance against this target. We received updates from the DfT, the Office of Rail and Road and the Office for National Statistics on ongoing work to review how road user safety performance is measured in the future.

The following topics were considered this year:

- the Road User Compliance Framework and the National Incident Casualty Reduction Plan
- the Driving for Better Business campaign
- the re-development of the Fatal Collision Investigation Manual
- the Suicide Prevention Strategy and toolkit
- progress with the Motorcycle Incident Prevention Strategy

In 2017, the committee had a briefing session with the Swedish Transport Administration to gain insight into their approach to safety. We also visited Horiba MIRA Limited to improve our understanding of safety improvements in vehicles and the associated risks and opportunities they may introduce to the network.

This year, Transport Focus provided an overview of road users' feedback on safety. Such feedback is essential as the committee reviews a range of strategies, policies and interventions aimed at improving road safety.

2. Safety performance of our suppliers

The committee looks at our supplier's safety performance. It acknowledges that there are still too many avoidable incidents and closely monitors the accident frequency rates, progress on investigations, incident reporting and its outcomes.

Chairman's highlights

This year, there was an increased emphasis on the safety performance of our suppliers who work under joint venture arrangements. We invite suppliers to our meetings so we can understand their challenges and improvement plans. As part of this, the Committee Chair and Chief Highways Engineer met with one of the Company's key suppliers to discuss their safety performance.

The committee regularly takes part in safety leadership tours of the major schemes to see how safety arrangements are working on the ground.

3. Monitoring the delivery of our Health and Safety Five Year Plan

Our Health and Safety Five Year Plan sets out how the Company will achieve its safety ambition within this investment period. Our Safety Committee monitors progress in delivering the range of actions and initiatives set out in the Plan, and holds the business to account for any deviation or late delivery.

Chairman's highlights

During the year, the committee endorsed the refresh of our Health and Safety Five Year Plan, which took into account the progress already made over the last two years. The plan includes eight new actions to ensure our vision for continued improvement is maintained.

4. Staff safety

Our staff's safety is a key priority for the committee. As such, it regularly monitors accident frequency rates and reviews reports on major incidents. The committee monitors a range of health and safety transformation work, which is aimed at developing the Company's capacity and capability in this area, including innovations in traffic officer training and development.

Chairman's highlights

The committee had the opportunity to experience a new traffic simulator used as a safe alternative to training our traffic officers in a live environment.

We also focused on initiatives designed to improve staff wellbeing and mental health, and received regular reports on this. This year, the Company held its first Health, Safety and Wellbeing Awards, with a number of impressive examples of how we and our suppliers are improving safety for our customers, suppliers and workforce. The annual staff engagement survey acknowledged the importance of leadership in demonstrating that safety comes first.

Audit and Risk Committee Report

David Hughes (MA, FCA), Non-Executive Director

David was appointed as a Non-Executive Director in March 2015. David was a Non-Executive Director of Highways Agency from 2009. He has been a member of the DfT's Group Audit and Risk Assurance Committee since his appointment to Highways Agency. David's appointment ends on 31 August 2018.

A Chartered Accountant and a former Senior Partner with Arthur Andersen, David was the Client Service and Audit Partner for a number of major engineering and construction companies. Previously, he was a Non-Executive of the Animal and Plant Health Agency, a member of the Audit and Risk Committee of the Department for Environment, Food & Rural Affairs (Defra) and a Non-Executive Director of a clinical commissioning group.

Role

The Audit and Risk Committee's principal role is to assist the Board in carrying out its oversight responsibilities in relation to four areas: financial reporting; internal controls; risk management; and ensuring an appropriate relationship with our external auditor is maintained. The committee is responsible for providing advice to our Chief Executive in his capacity as Accounting Officer.

In particular, the committee oversees:

- the strategic processes for risk management, internal control and governance arrangements
- the acceptability of the Company's Annual Reports and Accounts
- the integrity of the Company's corporate reporting obligations under the Licence between the Secretary of State for Transport and the Company
- responses to the external auditor's management letter

- significant proposed changes to accounting policies
- the annual internal audit programme
- the appropriateness of the Company's counter-fraud, anti-bribery and anti-corruption activity
- the appropriateness and effectiveness of the Company's mitigation response to the risk of cyber-crime

Composition

The committee is composed entirely of Non-Executive Directors, including the Shareholder-appointed Non-Executive Director, in accordance with the requirements of the Company's Framework Document. As part of the role, the Chair is also a member of the DfT's Group Audit and Risk Assurance Committee, representing the Company, as well as performing a similar check and challenge role to the DfT's senior management.

Our Chief Executive, Chief Financial Officer, Financial Controller, Corporate Assurance Director, Head of Internal Audit and the NAO Financial Audit Director regularly attend meetings. Other senior management may be called to attend as necessary to provide information for the committee to perform its duties.

Periodically, the committee meets with the Corporate Assurance Director and the NAO Financial Audit Director to discuss any matters without executive management being present. The Chair meets separately and periodically with our Chief Financial Officer and our Corporate Assurance Director, and also liaises with other senior managers, our Company Secretary and the NAO, as required.

Work

The committee's work is divided into four areas: financial reporting; internal controls; risk management; and external auditor and policy on provision of non-audit services. We outline further details against each of these areas below.

1. Financial reporting

As part of its remit to ensure the integrity of the accounts and effective management of public funds, the committee gives careful consideration to the following matters:

- Accounting policies and judgements updates
- Taxation strategy, tax risks and other tax issues
- Annual Report and Accounts review and approval
- External audit approach and findings
- Year-end assurance over reported performance

Chairman's highlights

During the year, the committee focused on the Company's approach to accruals to ensure that a robust and consistent approach was taken across the business. We evaluated the Company's taxation strategy to understand the risks, issues and control activity, and were content with the approach taken.

The committee's responsibilities in relation to reviewing the final validated position on the Company's KPIs are substantive. In line with the process established last year, we reviewed the current suite of KPI and performance-related data (post-independent validation), and made a recommendation to the Board to approve its publication in this report and the Performance Monitoring Statements, which are published separately.

2. Internal controls

The committee is responsible for ensuring that the Company has the right control framework in place. It also ensures that its internal audit function is properly resourced, with the right skills and experience to provide the required level of assurance. This is essential for the committee to judge whether the operation of internal controls, risk management and governance is effective.

The committee's work in this area includes:

- endorsing the annual internal audit programme
- reviewing regular reports on the internal audit programme's progress, including a summary of the effectiveness of the areas under review (in addition to receiving individual reports on each audit assignment)
- assessing the implementation of actions from internal audits, and outstanding and overdue actions
- reviewing the annual assurance statement

Chairman's highlights

The committee endorsed both parts of the audit programme and discussed significant findings from their reports throughout the year. Our focus was to discuss the emerging themes, particularly in relation to the development of capability across the business and the pace of that delivery. We also reviewed and discussed the overdue management actions, and challenged whether the number of extensions allowed for completion indicated that the right timelines had been originally agreed with the business. A review of all live actions took place in the final part of the year and the revised list was presented to the committee for information.

The Corporate Assurance division now includes the programme assurance function. As such, the committee now receives summary information on the outputs of the independent assurance reviews completed on the capital programme across the organisation. We considered the emerging trends identified and how they influence the Company's governance, internal control and risk management framework.

Under the Framework Document, the committee is required to participate in the DfT's management assurance process. Accordingly, we reviewed and endorsed both the nine and 12-month submissions to the DfT.

3. Risk management

The committee is responsible for ensuring that the Company's approach to managing key threats and opportunities is proportionate and appropriate to the environment in which the Company operates. It regularly receives updates on how the process has been embedded within the business and periodically reviews the status of the corporate risk register. At each meeting, an Executive Director is asked to present on a specific risk or areas of interest. These 'deep dives' are an important vehicle for the committee to understand whether the mitigation identified is appropriate and effective.

The committee also considers matters relating to the Company's approach to mitigating the risk of economic crime. It receives regular updates on the progress and outcome of investigations and endorses the actions taken to create a proactive approach to countering the risk of fraud, bribery, corruption and modern slavery within our suppliers.

Chairman's highlights

This year, the committee looked again at cyber security and capital efficiency savings to gain greater understanding and assurance of the adequacy of the risk management arrangements in these areas. We also placed a greater emphasis on the importance of establishing the right arrangements to address the risk of economic crime within our suppliers.

4. External auditor and policy on provision of non-audit services

In accordance with the Framework Document, the Comptroller and Auditor General (C&AG) is Highways England's appointed external auditor. The external audit work is carried out by the NAO on behalf of the C&AG. The NAO does not provide non-audit services but is responsible for carrying out value-for-money reviews according to their statutory responsibilities.

The Company uses professional firms where it requires specialist advice, such as on tax compliance and accounting standards. In these cases, the firms are engaged through our established procurement framework.

Chairman's highlights

During the year, the Company engaged the services of Deloitte LLP to provide advice in relation to VAT, corporation and employment taxes and the Senior Accounting Officer sign off.

Investment Committee Report

Simon Murray (BSc CEng FICE FCGI), Non-Executive Director

Simon joined Highways Agency as a Non-Executive Director in 2012, and was appointed to the Highways England Board in April 2015. He is a Chartered Civil Engineer, who has spent much of his career in the infrastructure sector.

From 2003 until his retirement in 2012, Simon was Non-Executive Chairman of contractor Geoffrey Osborne Ltd. Simon is also a Director of the Acumen7 network. He set up his own consultancy practice in 2001, and has worked with a number of infrastructure organisations, including Transport for London and Anglian Water Services. Prior to that, he was appointed Director of Major Projects at Railtrack plc in 1998, where he was responsible for restructuring Railtrack's legacy projects. In 1994, he joined BAA plc and led their airport infrastructure programme and the planning for the delivery of Terminal 5 at Heathrow. He subsequently worked with Sir John Egan on the government's construction task force.

Role

The committee assists the Board in effectively exercising its investment decision-making authority. It advises the Board on the approval of investments of more than £200 million in any individual project, and on other matters relating to the delivery of the Company's investment programme. On decisions relating to schemes of more than £500 million, or where the treatment is considered novel or contentious (as per the HM Treasury definition), the committee advises the DfT's Board Investment and Commercial Committee on whether the investment is sound.

The committee is an integral part of the Company's investment decision process and works closely with the Executive Investment Decision Committee to ensure effective governance of the expenditure of public money. It also supports our Chief Executive in discharging his responsibilities as Accounting Officer. This assurance regime meets the criteria outlined in our Framework Document, as agreed with the DfT.

Composition

The members of the committee are the Chairman of the Board, five Non-Executive Directors (including the Shareholder-appointed Non-Executive Director), our Chief Executive and our Chief Financial Officer. The General Counsel and other members of our Executive team who are responsible for the programmes and contracts under consideration will also attend the meetings, as required.

Work

The committee has met five times this year and can meet more frequently if a prompt investment decision is required.

The work of the Committee covers three areas: monitoring the investment programme; reviewing proposed investments; and undertaking in-depth reviews of current projects and delivery strategies. Further details against each of these areas is provided below.

1. Monitoring the investment programme

At each meeting, the committee reviews the progress and status of the capital portfolio. The capital forecasts are scrutinised and risks to the delivery of the current investment programme are considered.

Chairman’s highlights

During the year, the committee had oversight of the RIS optimisation work. This reassessed the major schemes in our current programme and identified those that no longer offered best value for money in their current scoping. The work was assured by the Infrastructure Projects Authority, before culminating in the revision of our Delivery Plan in October 2017.

2. Reviewing proposed investments

The committee reviews the Executive team's business investment proposals and plans for delivering projects, making recommendations to the Board in line with its delegations. It carefully scrutinises the proposals made and considers the value for money assessments, forecast benefits and the outcomes of independent reviews as part of the Company's decision-making process.

Chairman's highlights

During the year, the committee endorsed the development phase budgets for a number of projects including:

- Smart motorways programme
- A303 Amesbury to Berwick Down
- Lower Thames Crossing
- A5036 Port of Liverpool
- Trans-Pennine upgrade programme
- A63 Castle Street
- M6 junctions 13 to 15

We endorsed the construction budgets for the following projects:

- M6 junctions 16 to 19
- A1 Leeming to Barton
- National Roadside Telecommunications Service 2 contract
- Manchester smart motorways programme

3. In-depth reviews of current projects and delivery strategies

The committee sets aside time for in-depth reviews of the performance of projects and major programmes that are in construction, covering forecast costs, completion dates and outstanding risks. It also considers emerging strategies for delivering future programmes and the overall performance of our suppliers.

Chairman's highlights

During the year, the committee held in-depth reviews of the A14 Cambridge to Huntingdon project and the smart motorways programme. We also reviewed the emerging strategies for the future delivery of the smart motorways programme, the regional investment programme and the pavement renewals programme.

The committee has reviewed the ongoing change programme to ensure that the Company has sufficient capacity and capability to deliver the current and future investment programme. We also considered the development of the Company's supplier strategies and our future working relationship with our suppliers. We reviewed the Strategic Outline Business Case for the proposed Routes to Market strategy and monitored the progress made with the current Collaborative Delivery Framework.

Remuneration Committee Report

Elaine Holt (FCLIT), Non-Executive Director

Elaine was appointed as a Non-Executive Director on 1 April 2015.

Prior to this, she held a number of senior roles within the UK travel and transport industry, including Chairman and Chief Executive of Directly Operated Railways, Chairman of East Coast and Managing Director of First Capital Connect. Elaine was also Executive Vice President Guest Experience at Carnival UK, leading the operations of P&O Cruises and Cunard.

Elaine is an independent shareholder advisor to the Mayor of Bristol in relation to the council's commercial companies, and a Non-Executive Director of Corserv Ltd and Cormac Ltd.

Role

The committee's role is to establish a robust, transparent and formal procedure for developing policy on executive remuneration. This includes the total reward packages of our Chief Executive, Executive Directors and Non-Executive Directors, subject to the approval of our Shareholder, where required.

The committee is responsible for keeping the Remuneration Framework, required under the Framework Document, under review. Any amendments must be agreed with our Shareholder, including recommending performance targets.

It is also responsible for deciding or recommending proposals for approval by the Board, including company-wide reward and incentive plans, and the structure of the remuneration packages for senior management.

Composition

The committee is comprised of four Non-Executive Directors, including the Chairman of the Board. Our Chief Executive attends all meetings, except when his own remuneration is under discussion. The DfT Director General, Resources and Strategy Group represents our Shareholder at committee meetings as an observer. The committee is advised by our Executive Director of Human Resources and Organisational Development. Our Head of Reward also attends for relevant agenda items.

EY have been appointed advisors to the committee on a call-off basis. They were not used during 2017-18.

In February 2017, Tom Smith (Non-Executive Director) stood down from his role on the Board and as Chair of the Remuneration Committee. Roger Lowe, our Shareholder-appointed Non-Executive Director, chaired the committee on an interim basis pending the appointment of a permanent Non-Executive Director. Elaine Holt became the Committee Chair in February 2018 and Roger Lowe reverted to his original position and remains on the committee.

Roger Lowe has been the Shareholder-appointed Non-Executive Director since July 2016 and in February 2018 was appointed the Senior Non-Executive Director for Highways England.

Roger joined UK Government Investments as a Director at its inception in April 2016. Before that, he was a Director for the Shareholder Executive, which he joined in May 2010.

He has led on a number of projects and transactions, including the privatisation of Royal Mail, the sale of Her Majesty's Government's shareholding in Eurostar and the sale of the Green Investment Bank.

He has also led the Portfolio Governance of UK Government Investments, overseeing its stewardship of some 20 organisations.

Before this, Roger was a Director of a corporate finance advisory business, focused on advising clients on acquisitions and disposals, joint ventures and corporate restructurings across Europe. Previously, he worked in industry as Group Director of Corporate Finance at TI Group PLC. Roger started his career in investment banking at Lazard, where he spent 11 years in corporate finance, including two years on secondment to Lazard Frères in New York.

Work

The Company has continued to implement plans to develop a capable workforce to deliver the ambitious RIS. To support this aim, the committee maintains close oversight on key organisational initiatives relating to staff performance and reward.

Chairman's highlights

This year, the committee reviewed progress with the ongoing job scopes and grading project. This is designed to implement a new pay and grading structure to enable the Company to attract key talent in a highly-competitive market. We also made specific decisions regarding the proposed pay of replacement Executive Director roles.

We reviewed the corporate performance against our KPIs and its impact on performance-related pay for 2016-17. The mid-year and year-end performance ratings of the Executive Directors and the senior management group were also scrutinised to ensure that they were appropriate and in line with the Remuneration Framework.

At each meeting, the committee reviews the following areas:

- the use of contingent labour and consultants, including the development of plans to further reduce reliance on interim staff
- use of specialist pay freedoms*
- an assessment of all perceived senior ‘flight risks’, along with retention and resilience plans in place to manage these risks
- activity and decisions of the Reward and Resourcing Executive sub-group, which considers remuneration issues for staff below Executive level

During the course of the year, we have also considered:

- approval of the pay review approach for 2017-18
- the DfT’s remuneration framework review
- the pension implications of the transfer of the Severn River crossings into Highways England

---

* The ability to pay above the current pay bands, aligned to market median, for roles deemed to be specialist in nature, scarce or difficult to recruit

Our governance

3. Remuneration report

Directors remuneration report (audited)

	Year	Salary	PRP	Pension related	Other	Total
Jim O'Sullivan	2017-18	£340,500	£32,076	£30,000	-	**£402,576**
	2016-17	£306,000	£30,868	£30,000	-	**£366,868**
Vanessa Howlison	2017-18	£196,950	£12,227	£19,695	£19,127	**£247,999**
	2016-17	£152,208 (£195,000)	-	£15,221	£23,742	**£191,171**

Notes

1. Jim O'Sullivan received £30,000 in lieu of pension payments.
2. Vanessa Howlison is a member of Highways England defined contribution Group Pension Plan. Employer contributions are equal to 10% of salary. Vanessa Howlison became Chief Financial Officer on 20 June 2016. The 2016-17 full year equivalent salary was £195,000.
3. The performance-related payment (PRP) paid in 2017-18 related to performance within the financial year 2016-17 and that paid in 2016-17 related to performance in financial year 2015-16.
4. The 2017-18 performance process is being finalised and the value of payments have yet to be determined. Payments will be made in 2018-19.
5. 'Other' amounts relate to travel expenses for secondary workplaces, as defined by HMRC.
6. Only those members of the Executive team who are (or were) also members of the Highways England Board have their remuneration reported.

Independent Non-Executive Directors (audited)

Member	2017-18 fee	2016-17 fee
Colin Matthews (Chairman)	**£130,000**	£129,996
Elaine Holt	**£28,000**	£25,000
David Hughes	**£28,000**	£25,000
Simon Murray	**£28,000**	£25,000
Tom Smith	**-**	£22,917
Alan Cumming	**£14,389 (FYE 25,500)**	-
Roger Lowe	**-**	-

Notes

1. Service details for Directors are shown on page 140.
2. From 1 April 2017, the fees were updated to £25,000 plus an additional £3,000 for chairing a committee.
3. Elaine Holt became a member of the Remuneration Committee in September 2017. Elaine served as Chair of the Safety Committee until January 2018 and served as Chair on our Remuneration Committee from February 2018.
4. David Hughes serves as Chair of the Audit and Risk Committee at Highways England, but also serves as a member of the DfT's Group Audit and Assurance Committee (GARAC). He was paid a fee of £2,359 for his DfT services, which is not included in the fees reported above.
5. Alan Cumming joined the Board in September 2017. Alan served as a Chair of the Safety Committee from January 2018.
6. Tom Smith resigned from the Board in February 2017.
7. Roger Lowe became the Shareholder-appointed Non-Executive Director representative from 27 July 2016. He is not paid a fee for serving as the Shareholder-appointed Non-Executive Director for Highways England and did not receive any fees in the 2016-17 or 2017-18 financial years. Roger Lowe served as interim Chair of the Remuneration Committee from February 2017 to February 2018 and is not remunerated for this role.

Pay multiples (audited)

	2017-18	2016-17
Remuneration	**£372,576**	£336,867
Number of staff	**5,189**	4,392
Median point	**2,595**	2,196
Median remuneration	**£33,340**	£29,169
Ratio	**11.175**	11.549

Notes

1. Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.
2. The ratio between the median remuneration and the remuneration of the highest paid director is 11.175. This has decreased from 2016-17 figure of 11.549. The ratio has decreased due to the increase in the median salary of staff. This is explained by the growth in the Company which is primarily around commercial and asset management roles, which are more highly paid roles and therefore increase the median pay.
3. In 2017-18, no employee received remuneration in excess of the highest paid director (2016-17, nil). Full time equivalent remuneration ranged from £14,089 to £372,576 (2016-17: £14,089 to £336,868).
4. The median remuneration of the Company's staff in 2017-18, as shown in the table above and is based on annualised full time equivalents, is £33,340, which has increased from the previous year due to natural pay progression.

Our governance

4. Statement of effectiveness of our internal controls and risk management

Overview

Our system of internal control is based on a continuous process of identifying, assessing and managing risk. The Board is responsible for ensuring that an effective internal control framework is in place. This framework is designed to minimise, to a reasonable level, risks to the achievement of our objectives, in line with our risk appetite. Our risk management processes are outlined in Section 9.

Our Corporate Assurance function encompasses internal audit, risk assurance, counter-fraud activity and programme assurance. The function's primary purpose is to provide objective and independent assurance on the adequacy and effectiveness of our internal control, risk management and governance framework.

Internal audit

The annual internal audit programme covers key areas of risk and provides continuous assurance over core operational processes, such as finance, procurement and human resources. Results of this work are reported to senior management and monitored regularly by the Audit and Risk Committee. This year, internal audit did not identify any significant weaknesses in our control, risk or governance arrangements.

Risk management

Our Risk Assurance function supports our Executive in maintaining the corporate risk register. It monitors and reviews strategic risk and provides assurance through their continuous check, challenge and reporting process to our Executive and the Board.

In accordance with the Framework Document, our senior management conduct a self-assessment exercise, led by the Risk Assurance team and timed to meet our Shareholder's reporting requirements. This provides assurance over the effectiveness of controls in key areas, including contract management, project management and safety. The results of this process are reported to the Audit and Risk Committee and to the DfT.

For 2017-18, the results of the exercise showed a positive picture in relation to governance, risk management and internal control, with no poor practice evident in any of our directorates.

In May 2017, we failed to obtain timely approval from the Cabinet Office in relation to the extension for the ICT service integration and management contract. In addition, an internal review identified that some of the expenditure had not been correctly approved. We submitted a business case seeking retrospective approval for these costs, which was given in October 2017. We have also strengthened the governance and control over ICT procurement and expenditure to prevent this reoccurring.

Economic crime

Counter-fraud activity is co-ordinated by the Counter-fraud team. All referrals are logged, investigated, tracked and reported to the Counter-fraud Group. We received 35 referrals this year, ranging from allegations of employees not working their contracted hours and failed procurement exercises to concerns of sub-standard materials being used that were not in line with the required specification. The results of our investigations confirmed that no fraudulent activity had occurred.

Increasing awareness of the Company's 'Raising Concerns at Work' channels has been a priority and we saw an increase in the number of external referrals received.

DartCharge operates an account facility for customers who make frequent journeys over the Crossing. This year, a potential money laundering incident was identified and reported to the National Fraud Authority, in accordance with the Proceeds of Crime Act 2002. This protects the Company from any legal action taken against the perpetrator. The incident was identified through our control framework and the vigilance of our staff.

Programme assurance

The Programme Assurance team co-ordinates the independent assurance review process (previously known as Gateway Reviews). This process ensures that timely assurance interventions are scheduled at key milestones in the lifecycles of projects. In this way, the process provides confidence in the ability of projects to deliver and proceed to the next stage of investment. The results from these reviews are analysed and reported to the Audit and Risk Committee to enhance their overall assurance coverage.

Our independent assurance reviews feed into our management case review process for all business cases as they pass through our Investment Decision process.

Annual assurance statement

The Corporate Assurance Director provides an annual assurance statement to our Chief Executive, as Accounting Officer. This statement provides an opinion on the adequacy and effectiveness of the Company's governance, risk and control mechanisms through incorporating the outputs of the main assurance bodies and other assurance activity from across the Company. The assurance statement provides reasonable, rather than, absolute assurance over the adequacy of risk management, internal control and governance arrangements. The Accounting Officer retains overall personal responsibility for also maintaining an effective internal control framework.

This year, the Corporate Assurance Director recognised that the Company:

- has established a strong governance structure to help it successfully carry out its activities
- is maturing in its approach to risk management across the organisation
- is demonstrating a strong control environment, particularly across Procurement, HR and Finance

It is evident that the Company continues to move forward with increased ambition, which is necessary if we are to meet the challenges and expectations of the Board and our stakeholders. As such, and in reflection of this, the statement applied a 'moderate' assurance rating for 2017-18 activities.

Based on the arrangements set out above, and the information provided by the Corporate Assurance Director, our Chief Executive considers that there is a sound system of internal control, risk management and governance in place and working effectively across the Company.

The Directors' report for the year ended 2017-18

The Directors of Highways England present their Annual Report on the performance of the Company, together with the financial statements and the Auditor's Report for the financial year ending 31 March 2018. Highways England was incorporated on 8 December 2014 as the appointed and licensed Strategic Highways Company by the Secretary of State for Transport, who is our sole Shareholder. The Company's registered number is 09346363. We are the highways authority, traffic authority and street authority for England's motorways and major A-roads, termed collectively as the SRN.

The Board

The Board is responsible for the overall strategy and direction of the Company. Details of the Board's role, composition and responsibilities are set out in Section 10.

Directors and corporate governance

Full details of the Company Directors and corporate governance requirements are also set out in Section 10.

Employees

The Company recognises that the commitment of a skilled and experienced workforce is paramount to the efficient and effective delivery of our objective to operate, maintain and modernise the SRN.

Further information about the Company's employment strategy, including our diversity and employee engagement policies, can be found in Section 7.

The number of the Company's employees (full time equivalents) as at 31 March 2018 was 5,282. This figure includes secondees and Executive Directors, but excludes interims, contractors and independent Non- Executive Directors.

As at 31 March 2017, Highways England had 3,939 full-pay relevant employees (those who received a normal month's salary i.e. excluding long term sick, those on maternity and employees with a change in pay that month): 1,305 women and 2,634 men. Based on this population, the mean gender pay gap for Highways England is 5.4%.

Full details of the Company's gender pay gap information were published in March 2018. We have a clear policy of paying employees equally for the same or equivalent work and are confident that our gender pay gap does not stem from paying men and women differently.

Sustainability, corporate responsibility and environment

We are committed to ensuring that activity on our network is delivered in a manner that does not harm the environment. Details on the measures we are taking to reduce impacts on both the built and natural environment are set out in Section 6.

Human rights in the supply chain

The Company is not a commercial organisation as defined in the Modern Slavery Act 2015, which covers how companies need to be aware of modern slavery practices in their supply chain. Our suppliers are required to comply with all legal requirements. We use our contractual arrangements and regular meetings with our contractors to remind them of the need to comply with all legislation, including the Modern Slavery Act.

Payment to suppliers

Our payment systems aim to ensure that we pay our suppliers promptly. This is monitored through the application of project bank accounts as well as through our own financial systems. More detail is provided within the Financial Review in Section 8.

Charitable and political contributions

The Company made no charitable or political contributions during 2017-18.

Results, going concern, share capital and dividend

The Company has prepared its financial statements for the reporting period ending 31 March 2018 in accordance with International Financial Reporting Standards (IFRS) rules. The audited financial statements for this period are set out in Section 13.

The Directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future.

The financial statements have been prepared on a 'going concern' basis and note 2.4 to the financial statements outlines the basis of this view. The Company does not pay a dividend.

The Company is a government not-for-profit company, incorporated by shares and funded by grant-in-aid. The sole Shareholder is the Secretary of State for Transport and the authorised and paid-up share capital is £10. The Company's short-term and long-term funding need, including the funding commitment from government, is met through the RIS, and is set out in note 15 to the financial statements.

The Company's financial statements are consolidated into the DfT Group Accounts and can be found at: https://www.gov.uk/government/collections/dft-annual-reports-and-accounts#department-for-transport

Directors' third party indemnity provisions

The Company has appropriate Directors' and Officers' liability insurance in place in respect of legal action against, among others, its Executive and independent Non-Executive Directors.

Conflicts of interest

The Company has established procedures in place in accordance with its Articles of Association to ensure that we comply with the Directors' conflicts of interest duties under the Companies Act 2006. Procedures are also in place for dealing with any situation in which a Director may have a direct or indirect interest that conflicts with, or may conflict with, the interests of the Company.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare the financial statements for each financial year.

Under that law, the Directors have elected to prepare the company financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and in accordance with applicable law. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and viability to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors, whose names and functions are described in this Annual Report, confirms that to the best of his or her knowledge:

- the financial statements have been prepared in accordance with IFRS rules, as adopted by the EU, and give a true and fair view of the assets and liabilities, financial position, and the profit and loss of the Company
- the Directors' Report and Strategic Report include a review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The Directors consider that the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the Shareholder to assess the Company's position, performance, business model and strategy.

Accounting Officer's responsibilities statement

The Permanent Secretary of the DfT has appointed Jim O'Sullivan as Accounting Officer for the Company. The Accounting Officer shares – on an individual basis – many of the Directors' responsibilities listed above, as well as having responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding the Company's assets. These responsibilities are set out in full in Managing Public Money, published by HM Treasury.

Compliance with the UK Corporate Governance Code 2016

The Company is required to comply with the Code, or specify and explain any non-compliance in its Annual Report. The Company believes that the adoption of the principles of the UK Corporate Governance Code is a means of recognising and embedding best practice in corporate governance. The Board considers that, for the financial year ending 31 March 2018, Highways England was fully compliant, except for the following areas that it cannot comply with:

- Provisions C3.2, C3.7 and C3.8 – the Company is unable to appoint, reappoint or remove our external auditors. The requirements reflected within the Framework Document, agreed between the DfT and the Company, require the Comptroller and Auditor General to act as independent auditor

- Provision D.2.1 – the Board should establish a Remuneration Committee, with at least three independent Non-Executive Directors. In February 2017, the Chairman of this committee stood down from the Board. As an interim solution, the Shareholder-appointed Non-Executive Director was elected as the interim Chair of the committee until February 2018, when an independent Non-Executive Director took his place

- Section E – requires the Company to maintain a dialogue with its shareholders, based on a mutual understanding of objectives. Highways England has built, and maintained, its relationship with its single Shareholder, the Secretary of State for Transport, with frequent contact with the DfT as their representative. The Board recognises that this sits outside of the corporate norms contained within the Code

Compliance with other government best practice codes

Any term beyond six years should be subject to particularly rigorous review, and should take into account the need for progressive refreshing of the Board.

David Hughes has served as a Non-Executive Director (and Chair of the Highways Agency and Highways England Audit and Risk Committees) for a period of eight years. He was reappointed for a third term on 1 April 2015 by the Board to provide continuity during the transition from Government Agency to Government-owned Company. David's appointment ends on 31 August 2018. Kathryn Cearns joined the Board on 17 April 2018 and will take over as Chair of the Audit and Risk Committee in September 2018. Simon Murray has served as Non-Executive Director of Highways England and its predecessor, Highways England, for a period of six years. Following a review, his appointment has been extended until 31 March 2019.

Disclosure of information to auditors

The Company's auditor is the Comptroller and Auditor General.

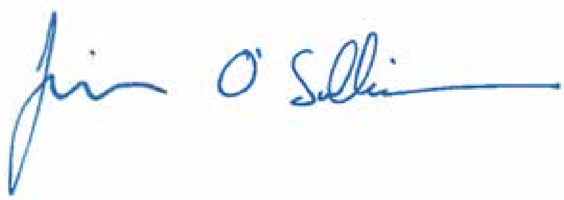
Insofar as each person serving as a Director of the company is aware (at the date of approval of this Directors' report by the Board), there is no relevant audit information (that is information needed by the auditor in connection with preparing their report) that the Company's auditor is unaware of.

Each Director confirms that they have taken all the steps necessary as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This report and its contents are the Board's statement of compliance with our Licence and Framework Document obligations. To the best of the Board's knowledge and belief, having made all reasonable enquiries, the information contained in this document and the accompanying performance monitoring statements is set out appropriately. It also constitutes our annual progress report under clause 6.26 of the Licence.

As Accounting Officer, I confirm that this Annual Report and Accounts as a whole is a fair and balanced reflection of the Company's performance this year. I take responsibility for this report and the jugements taken.

The Board approved this Director's report on 5 July 2018. It is signed by:



Jim O'Sullivan

The Chief Executive (in his role as Accounting Officer) on behalf of the Board

Auditor's report

Independent Auditor's report to the sole shareholder of Highways England Company Ltd

Opinion on financial statements

I have audited the financial statements of Highways England Company Ltd (the Company) for the year ended 31 March 2018 which comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cashflows and Changes in Taxpayers' Equity and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006

Opinion on regularity

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

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of Highways England Company Ltd in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising and governing legislation	▪ Infrastructure Act 2015 ▪ The Delegation of Functions (Strategic Highways Companies) (England) Regulations 2015 ▪ The Licence issued by the Secretary of State for Transport providing statutory directions to the Company
HM Treasury and related authorities	▪ The Framework Document between the Department for Transport and the Company ▪ HM Treasury guidance, including Managing Public Money, and Cabinet Office Spending Controls, to the extent they are made applicable to the Company by the Framework Document

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under International Standard on Auditing (UK & Ireland) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on pages 149 - 152.

Comparison to key audit matters communicated in prior year

In my report on the 2016-17 financial statements, I reported on the key audit matter of the existence and accuracy of accruals. While we undertook substantial sample testing of accruals this year, we found significantly greater accuracy in the Company's estimates. Consequently, while my risk assessment in relation to accruals remained broadly unchanged, the extent of judgment and audit effort in this area reduced this year and I have not highlighted a key audit matter in this area.

As shown below, I continue to highlight my audit work on the Strategic Road Network asset as a key audit matter given the extent of judgement involved in its valuation. My work this year focused, in addition to the areas previously highlighted, on the reasonableness of the assumptions and methodologies involved in the Company's full revaluation of costing rates associated with Network structures. Finally, I performed additional risk-based work this year following a number of transfers in and a change in HR systems.

1. Valuation of the Strategic Road Network (SRN)

Description of risk

The SRN is the dominant component of the accounts (£113.6 billion as at March 2018). The valuation comprises an estimate of the depreciated replacement cost of the SRN, as a proxy for its fair value. The estimate uses the best information available on the actual cost of recent schemes, together with records about the number, type, and condition of physical assets.

A number of accounting assumptions are implicit in determining the SRN valuation, the validity of which needs keeping under review; for example, whether costing rates for material SRN elements remain a reasonable basis for valuing a modern equivalent asset. In 2017-18, the costing rates affecting the structures element of the SRN were subject to a full revaluation based on the Company's analysis of recent scheme costs, which required special audit consideration.

This is a significant area of judgement. Inappropriate assumptions used in deriving a valuation could result in a material misstatement of the balance reported in the accounts.

How the scope of my audit responded to the risk

My team performed procedures on the SRN valuation, geared towards the reasonableness of management's estimate of its value, to assess: the quality of source data in the underlying databases; the reasonableness of cost indexation factors applied in-year; the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions. I also considered whether any of my findings were indicative of management bias.

In respect of the full revaluation of structures costing rates specifically, my team performed specific procedures including:

- assessing the reasonableness of the revaluation methodologies adopted, including whether the data sourced reflected key accounting policies such as a greenfield construction assumption;
- analysing whether source data on recent schemes had been appropriately extracted from source documents; and
- critically evaluating the application of this information to costing rates for individual structure types (e.g. a bridge in a particular size category). This included confirming that a 'line of best fit' model created by management's experts had been appropriately constructed and applied to the portfolio

Key observations

During the year, the net SRN valuation increased by £1.9 billion. The major driver of this increase is the updating of costing rates both as a result of the full revaluation of structures rates and indexation on other categories.

While I identified some immaterial issues in relation to the structures revaluation, I am satisfied that management's valuation continues to represent a reasonable accounting estimate in respect of this cost-based fair value estimate.

2. Changes affecting HR and Payroll

Description of risk

In 2017-18 there were a number of changes that affected the processes, procedures and controls around staff related costs. Firstly, there was the transfer into the Company of approximately 275 staff who has previously performed asset management functions under contract for the Company in 4 regional areas, under TUPE arrangements; and 174 staff from the Severn River Crossing Plc (SRC), who retained their terms and conditions and pension arrangements. In addition, in February 2018, the Company transferred the HR and payroll responsibilities in-house from a shared service centre arrangement, and simultaneously implemented a new HR module.

These changes cumulatively presented a heightened risk of issues with the accuracy and completeness of staff related expenditure.

How the scope of my audit responded to the risk

I performed procedures to gain assurance over the completeness and accuracy of staff related costs within the accounts. These procedures focussed on two key areas: the transfer of staff to the Company and the Oracle Fusion HR module implementation.

I tested the effects of the transfer in of staff from the 4 areas and the SRC by reviewing contractual transfer documents, and by performing targeted sample testing of staff transferred in to confirm the accuracy of the transfer of data.

In respect of the new system implementation, my work focused on reviewing the data migration, and reviewing the implementation of the new HR module. I have also tested the operational effectiveness of the newly introduced processes and procedures under the new system, and the accuracy of source data supporting my analytical procedures, by sample testing starters, leavers and changes.

Key observations

Gross staff costs have increased from £209 million in 2016-17 to £243 million in 2017-18, reflecting the increase in average full time equivalent staff numbers from 4,122 to 4,911 following the transfers described.

Having evaluated my team's work on the transfers and new system implementation together with analytical procedures and source data testing performed in respect of the payroll as a whole, I am satisfied that staff costs are materially fairly stated.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the Company's financial statements at £1.1 billion, which is approximately 1% of the value of Strategic Road Network (SRN) asset. I chose this benchmark given users' interest in the Company's performance in managing and enhancing the SRN. I have determined that for financial statement components unconnected with the SRN, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given additional user interest in the publicly funded cost of the Company's activities. I have therefore determined that the level to be applied to these components is £54 million, being approximately 1.5% of the Company's total expenditure, excluding non-cash costs such as depreciation and impairment, but including capital additions.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in

Directors' Remuneration Report. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit and Risk Committee would increase net assets by £26,704k and decrease net expenditure by £2,544k.

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Highways England Company Ltd's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Highways England Company Ltd's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement. It was designed to address the key risks and took account of materiality as set out above. I performed detailed testing on all significant balances and movements. In addition to the work I have already highlighted on the Strategic Road Network (SRN) valuation, this included:

- testing of effectiveness of management's corporate controls over in-year expenditure, including the analysis of variance analysis between outturns and budgets at both the corporate and operational unit level;
- sample testing to confirm the valuation and completeness of accrued expenditure, the existence and valuation of non-SRN assets, and the occurrence and accuracy of in-year income and expenditure; and
- analytical procedures providing assurance over, for example, permanent staff costs, using predictions of cost based on datasets

assured as reliable through targeted testing. These procedures complemented my team's targeted work in connection with transfers in under TUPE and HR system changes (see 'key audit matters' above)

This work gave me the evidence I needed for my opinion on the financial statements as a whole.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, other than the parts of the Remuneration Report described in that report as having been audited, the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit and Risk Committee reporting: the section describing the work of the Company's Audit and Risk Committee does not appropriately address matters communicated by me to the Audit and Risk Committee

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration

In my opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year for which the financial statements are prepared are consistent with the financial statements and have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the strategic report or the directors' report.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the corporate governance report, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Guidance and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements

- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees have been complied with

Based on my knowledge and understanding of the Company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the Company

I have nothing to report arising from this duty.

Conclusions relating to principal risks, going concern and viability statement

Under International Standards on Auditing (UK), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

I have nothing material to add, or to draw attention to, on these matters.

Matthew Kay
Senior Statutory Auditor

For and on behalf of the
Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

9 July 2018

Financial statements

Financial statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2018

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Staff costs	4	131,082	120,458
Maintenance and similar activities		455,996	428,796
Interest on PFI finance leases	18	118,530	123,190
PFI service charges	18	323,678	308,005
Depreciation and amortisation	7 and 8	1,429,071	1,185,607
Impairment	7 and 9	1,388	3,280
Loss on sale of assets including detrunking		220,960	12,606
Other expenditure	5	113,968	97,476
Operating income	3	(56,881)	(74,025)
Net expenditure before taxation		**2,737,792**	**2,205,393**
Taxation	6	136	(153)
Net expenditure after taxation		**2,737,928**	**2,205,240**
Other comprehensive net expenditure **Items that will not be reclassified to net expenditure**			
Net (gain)/loss on remeasurement of property, plant and equipment	7.1c	(1,518,192)	(3,410,527)
Total comprehensive net expenditure for the year		**1,219,736**	**(1,205,287)**

The accounting policies and notes on pages 187 to 228 form part of these accounts.

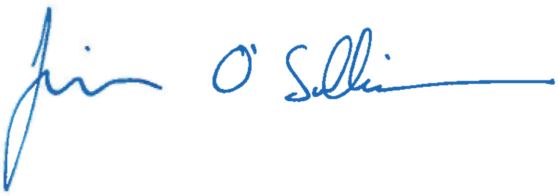
Statement of Financial Position as at 31 March 2018

	Note	31 March 2018 £000	31 March 2017 £000
Non-current assets			
Property, plant and equipment	7	115,268,632	113,080,759
Intangible assets	8	1,176	2,062
Trade and other receivables	11	9,155	19,139
Total non-current assets		**115,278,963**	**113,101,960**
Current assets			
Assets classified as held for sale	9	21,891	16,366
Inventories	10	36,923	35,304
Trade and other receivables	11	227,353	156,656
Cash and cash equivalents	12	18,722	39,446
Total current assets		**304,889**	**247,772**
Total assets		**115,583,852**	**113,349,732**
Current liabilities			
Trade and other payables	13	810,190	766,966
Provisions	14	76,825	54,080
Total current liabilities		**887,015**	**821,046**
Non-current assets less net current liabilities		**114,696,837**	**112,528,686**
Non-current liabilities			
Provisions	14	89,338	105,088
Other payables	13	1,482,798	1,547,161
Total non-current liabilities		**1,572,136**	**1,652,249**
Assets less liabilites		**113,124,701**	**110,876,437**
Taxpayers' equity			
Share capital		-	-
Capital contributions		49,538,620	49,411,478
Retained earnings		2,681,911	1,951,839
Revaluation reserve		60,904,170	59,513,120
Total taxpayers' equity		**113,124,701**	**110,876,437**

The accounting policies and notes on pages 187 to 228 form part of these accounts.

The issued share capital of the company is £10, as detailed in note 21.

These financial statements were approved and authorised for issue by the board of directors on 5 July 2018, and were signed on its behalf by:



Jim O'Sullivan, Chief Executive Officer

Highways England Company Limited registered in England and Wales number 9346363

Statement of Cash Flows for the year ended 31 March 2018

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cash flows from operating activities			
Net operating cost		(2,737,928)	(2,205,240)
Adjustments for non-cash transactions:			
Depreciation and amortisation	7 and 8	1,429,071	1,185,607
Loss/(profit) on sale of fixed assets		220,959	12,606
Net increase in resource provisions	14	6,281	3,343
Programme impairments		1,388	3,278
Increase in inventories	10	(1,619)	(3,706)
Decrease/(increase) in trade and other receivables	11	(60,713)	13,611
Increase/(decrease) in trade and other payables	13	(21,139)	50,150
Use of provisions	14	(62,040)	(38,530)
Adjustment for capital element of PFI payments	18.2	73,975	69,744
Net cash outflow from operating activities		**(1,151,765)**	**(909,137)**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(2,339,129)	(2,105,070)
Purchase of intangible assets – cash additions	8	(272)	-
Proceeds of disposal of assets		13,663	8,221
Capital element of movement in provisions	14	62,754	65,254
Net cash outflow from investing activities		**(2,262,984)**	**(2,031,595)**
Cash flows from financing activities			
Capital contribution from shareholder: current year		3,468,000	3,027,000
Capital element of payments in respect of on balance sheet PFI contracts	18.2	(73,975)	(69,744)
Net financing		**3,394,025**	**2,957,256**
Net (decrease)/increase in cash and cash equivalents in the year	**12**	**(20,724)**	**16,524**
Cash and cash equivalents at the beginning of the year	**12**	**39,446**	**22,922**
Cash and cash equivalents at the end of the year	**12**	**18,722**	**39,446**

Statement of changes in taxpayers' equity for the year ended 31 March 2018

	Note	Capital contributions £000	Retained earnings £000	Revaluation reserve £000	Total equity £000
Balance transferred in at 1 April 2016		**49,204,761**	**1,130,079**	**56,309,310**	**106,644,150**
Changes in taxpayers' equity for 2016-17					
Net loss on remeasurement of property, plant and equipment	7.1c	-	-	3,410,527	3,410,527
Transfers between reserves		206,717	-	(206,717)	-
Net comprehensive (expenditure) for the year		-	(2,205,240)	-	(2,205,240)
Total recognised income and expenditure for year ended 31 March 2017		**49,411,478**	**(1,075,161)**	**59,513,120**	**107,849,437**
Funding from Shareholder		-	3,027,000	-	3,027,000
Balance at 31 March 2017		**49,411,478**	**1,951,839**	**59,513,120**	**110,876,437**
Balance at 1 April 2017		49,411,478	1,951,839	59,513,120	110,876,437
Changes in taxpayers' equity for 2017-18					
Net gain on remeasurement of property, plant and equipment	7.1c	(202,985)	-	1,721,177	1,518,192
Transfers between reserves		330,127	-	(330,127)	-
Net comprehensive (expenditure) for the year		-	(2,737,928)	-	(2,737,928)
Total recognised income and expenditure for year ended 31 March 2018		**49,538,620**	**(786,089)**	**60,904,170**	**109,656,701**
Funding from Shareholder		-	3,468,000	-	3,468,000
Balance at 31 March 2018		**49,538,620**	**2,681,911**	**60,904,170**	**113,124,701**

Notes to the financial statements for the year ended 31 March 2018

1. General information

Highways England Company Limited ("Highways England" or "the Company") is a private company limited by shares and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006.

The Company is wholly owned by the Secretary of State for Transport.

The Company registration number is 9346363. The registered office of the Company is at Bridge House,1 Walnut Tree Close, Guildford, Surrey, GU1 4LZ.

The Company's principal activities are to operate, maintain and modernise the strategic road network (SRN) in the interests of its customers. Highways England was incorporated on 8 December 2014 and commenced trading on 1 April 2015, following the transfer of assets and liabilities from the Highways Agency.

2. Accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

Where IFRS permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Company for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

2.2. Measurement convention

These financial statements have been prepared on the historical cost basis, except where specific departures (including fair value approaches) are described elsewhere in these policies.

2.3. New or amended accounting standards and interpretations

The Company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ending 31 March 2018 to determine the impact on the Company's financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2018, and accordingly have not been applied in preparing these financial statements.

The following are those standards, amendments and interpretations that may need to be adopted in subsequent years:

- IFRS 9 Financial Instruments IFRS 9 will be applied in 2018-19. It is intended to improve and simplify the treatment of financial instruments in financial statements. Although this is expected to have an immaterial effect on the Company's financial statements, financial assets are being reviewed to ensure that we have comparative data ready for the implementation date. The current provision for bad and doubtful debts is £2.8m, however based on initial work the provision rate may be more prudent than required, so the estimated effect will be to reduce the level of bad and doubtful debts by between £0.1m - £0.2m.
- IFRS 15 Revenue from Contracts with Customers comes into effect and will be applied from 1 January 2018. It requires the recognition of revenue as the performance obligations under the contracts are satisfied. Its implementation is expected to have no material impact on the Company. It may have an effect on the Company's supply chain due to when they are able to recognise the income based on the deliverables. This is currently being discussed with the supply chain, and in some cases the impact has already been reflected in their accounts. The Company will continue to consider how we can support them.
- IFRS 16 Leases will be applied from 1 January 2019. It is expected to eliminate off-balance sheet leasing arrangements and require recognition of a single right-of-use asset measured at the present value of lease payments, with a matching liability. The Company has been involved in HMT consultation exercise to ensure that there is a consistent approach for implementation. Work is ongoing to identify the level of off-balance sheet leases and the effect that they will have on the Company's primary statements.
- IFRS 17 insurance contracts requires a discounted cash flow approach to accounting for insurance contracts. It is expected to come into effect from January 2021. Highways England currently has no contracts which meet the definition of insurance contracts, and is not proposing to treat its financial guarantee contracts as insurance contracts rather than financial instruments.

Other changes due to come into effect after 31 March 2018, are considered to have no material impact on the Company.

2.4. Going concern

The Statement of Financial Position (SoFP) as at 31 March 2018 shows net current liabilities of £582.1m. This reflects the inclusion of current liabilities that will be settled post 31 March 2018; largely from grant in aid funding from the Company's sponsoring department – DfT. The 2018-19 grant in aid funding has been included in the Estimates, which have been approved by Parliament.

The Directors have a reasonable expectation that the Company has adequate resources to continue to operate for the foreseeable future. The financial statements are therefore prepared on a going concern basis. In forming this view the Directors/management have:

a) Reviewed the Company's future funding commitments received from the Government through the publication of the Road Investment Strategy (RIS), which sets out capital funding for the Company through to 2020-21

b) Kept the DfT fully aware of commitments made which stretch beyond the period covered by the Roads Investment Strategy;

c) Reviewed the Company's budgets, plans and cash flow forecasts; and

d) Reviewed the DfT's main estimate for 2018-19.

2.5. Critical accounting judgements and key sources of uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The most significant areas involving a higher degree of judgement or complexity are described below:

a) **Property, plant and equipment (PPE)**
The SRN is valued using an approach to determine depreciated replacement cost, which is described more fully in note 2.6. The valuation is built up using, principally: an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. In this context, it is sensitive to a number of significant areas of estimation, including the following:

- **Costing rates** used to inform the valuation of the road and structures elements of the SRN are based on schemes constructed by the Company (and, formerly, the Highways Agency) in recent years. At each full revaluation, costing rates are derived for specific asset types for example, bridges falling into certain classes of width and length according to their function. For some specific asset types there may be a limited number of construction schemes providing a direct costing comparator. In these cases, the Company derives a reasonable costing rate through a line of best fit approach applied to the broader asset type (e.g. bridges) as a whole, using scheme data available and known cost relationships between specific asset types. This provides a complete set of data points based on the best information available.

  The statistical methodology does involve estimation but the Company is satisfied that the approach taken minimises uncertainty by making full use of the data available. Sensitivity of the overall valuation to extrapolations is also limited since the specific asset types most commonly represented in actual schemes tend also to be more commonly represented in the existing network, and therefore representing a large amount of its value. Changes to the costing rates will have an impact on the final valuation within the accounts. A 10% movement in costing rates would impact the valuation by £11,356.6m.

  The Company applies a number of construction related indices to the costing rates for various elements of the SRN, both in updating actual scheme information to current cost as part of the full revaluation exercises described above, and in revaluing overall SRN components in interim valuation years. The Company chooses the indices which it judges most relevant to the replacement costs for the SRN's component parts. Information on specific indices are provided in note 2.6. The valuation is sensitive to indices, particularly ROCOS which is used for annual indexation. An increase of 10 points in the ROCOS index would impact the SRN valuation by £4,560.9m.

- **Road surface condition** – determines the in-year depreciation charge for the roads component of the SRN and therefore the extent to which the depreciated replacement cost reflects a reduction on gross replacement cost. It is analysed using surveys carried out across all lanes of the SRN that measure, at 10 metre intervals, the level of rutting (depressions/grooves in the road surface caused by wear or deformation over time). Rutting measures only the 'black top' of the road surface. The Company uses the rutting level to determine when a road surface requires maintenance intervention, and has therefore determined that this provides a fair approximation for the overall condition of the road surface. The Company currently estimates that the level of rutting that is acceptable before intervention is 15.5mm. At this level it is considered there is no further service potential in the road surface and this triggers the renewals programme.

  Rutting data is used to generate the depreciation charge which is the rutting percentage multiplied by the depreciable element of the road. The Company has calculated that the depreciable element of roads is 17.55% of the total road valuation, based on the proportion of cost related to the elements regularly renewed. The Company judges that the balance of the valuation relates to elements (including sublayers) with useful lives long enough, subject to regular renewal of the top layer, as to require no depreciation charge.

  Any change in the acceptable level of rutting of 15.5mm will impact the SRN valuation. A change of 1mm would result in the valuation changing by £162.8m as at 31 March 2018.

- **Structures condition** (e.g. bridges) is reflected using a depreciation charge based on an asset valuation model. This builds in both the impact of deterioration over time, and periodic renewal, as described in note 2.6 and makes assumptions about the useful economic lives of structures. The Company keeps information on the condition of its structures under regular review to assess whether an adjustment is required for depreciation to reflect an engineering assessment of the current condition point.

- **Useful economic life (UEL)** – the Company makes assumptions about the period of time during which various elements of the SRN will provide service potential. Estimates are made of the UEL of structures, roads and technology equipment, which are based on historic trends and expert knowledge.

b) **Classification of legal claims** as contingent liabilities or provisions and then as current or non-current provisions when the Company occasionally faces legal claims and challenges, which may result in the possible outflow of economic benefits. The treatment of these as contingent liabilities or provisions, their valuation, and presentation as current or non-current is based on legal advice.

c) **PFI** – part of the SRN was constructed under service concession agreements where the Highways Agency entered into a contract with a private sector partner and funded (typically) design, build, financing and (for the contract period) maintenance of an enhancement to the SRN. These arrangements are accounted for as per IFRIC 12 Service Concession Arrangements – in respect of the capital element, a non-current asset is created at inception alongside a liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the network enhancement created.

The asset is subsequently revalued and depreciated in accordance with accounting policies in note 2.6.

The capital value of the earlier PFI schemes was estimated using the public sector comparator (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means).

From 2005-06, the capital value has been based upon a best estimate of capital cost at the time the contract was awarded.

The yearly unitary charge payable under PFI contracts is split to allocate payments between the cost of services under the contract and the interest element on the liability.

d) **Land and property** is acquired as part of improving the network. During the early stages of a project, until the preferred route is announced, acquisitions relating to land and property are treated as contingent liabilities due to the uncertainty over whether the land will need to be acquired. After the preferred route announcement is made and until the purchase they are treated as provisions.

The valuation of these contingent liabilities or provisions is performed by the Valuation Office Agency using their professional expertise to make the relevant estimation.

2.6. Non-Current assets: property, plant and equipment

Property, plant and equipment is sub-categorised into:

- **Strategic road network (SRN)** – this consists of the designated motorways and all-purpose trunk roads in England, which form a single integrated network. The SRN constitutes road, land, structures and technology within the SRN's perimeter
- **Non-network assets** – these include land and buildings outside the SRN's perimeter, plant and machinery, and information technology. All residential properties owned by the Company and not forming part of an existing scheme under construction are reported as dwellings

2.6.1. SRN

a) Capitalisation policy

Expenditure on construction schemes in the course of design or construction is capitalised when it is included in the RIS and reasonably certain the scheme will go ahead. Where a scheme is subsequently withdrawn from the capital programme, cumulative design expenditure is written off, and recognised in net expenditure. Any retained land and property is transferred to surplus land and buildings or dwellings, as appropriate. Surplus land, buildings or dwellings to be sold within one year are valued and reported as assets held for resale where they meet the criteria of IFRS 5.

Internal staff costs that can be attributed directly to the construction of an asset, including capital renewal schemes, are capitalised. Staff costs are capitalised by taking the ratio of capital spend to total programme spend for each division.

The SRN is intended to be maintained at a specific level of service potential by continual replacement and refurbishment. The SRN is inspected regularly to enable maintenance to be planned on a priority basis and ensure the continued use of the road. Work on the SRN is capitalised only for projects which extend the network's service potential, either through enhancement (e.g. road widening schemes, smart motorway upgrades, new roads or structures) or renewal (e.g. surface replacement works which provide additional years of useful life and major bridge refurbishments). Maintenance expenditure which represents day-to-day servicing such as, pothole repairs or drainage clearance is charged to the net operating expenditure as incurred.

Technology equipment is capitalised when the equipment is installed and commissioned on the SRN for the first time. This principally comprises VMS, CCTV and automatic number plate recognition cameras.

All expenditure on SRN is capitalised as summarised below:

Element	Threshold
SRN – new build	No minimum value
SRN – road and structures renewals	No minimum value
SRN – land	No minimum value

b) Valuation

The Company has chosen to value the network at fair value. The SRN is a specialised asset and as such neither a market approach nor an income approach is available. The Company has therefore derived the fair value of the SRN using the depreciated replacement cost approach, which determines the value to a theoretical buyer on the basis of how much it would cost to construct a network of equivalent service potential. Consistent with IFRS 13, this basis represents a reasonable method of estimating fair value, in the absence of other possibilities, since in acquiring the existing network a buyer wishing to acquire equivalent service potential would avoid these replacement costs. At a high level, a depreciated replacement cost estimate involves first creating a gross ('as new') replacement cost based on a modern equivalent asset offering the same function (which the Company takes to include identical routing and capacity) and on a greenfield site, before applying depreciation to reflect the current condition of the network.

c) Revaluation

Highways England surveyors undertake a full valuation of each high-level SRN element at intervals not exceeding five years with support from professional cost estimators and surveyors on a rolling basis. The five yearly valuation is undertaken in accordance with the general principles of the Appraisal and Valuation Manual (Red Book) of the Royal Institution of Chartered Surveyors (RICS). These valuations are not based on the historic actual cost of construction for individual elements of the SRN. Rather, the Company determines standard costing rates for specific asset types making up the SRN on a modern equivalent asset basis. These costing rates support an accounting estimate of fair value, and are based on the best information available on the actual cost of recent schemes. Costing rates are kept up to date in intervening years using indexation, as described below. The road, land and technology elements of the SRN were subject to a valuation at 31 March 2015 as part of the rolling five-year programme. A structures quinquennial revaluation was undertaken in 2017-18 with costing rates updated to reflect the prices being charged on schemes completed in the recent years. During 2018-19 the Company will review the structures depreciation methodology.

d) Costing rates

The SRN valuation is based on a standard cost model, using accounting estimates to determine the valuation.

When calculating the unit rates for the various elements of the SRN, a number of accounting assumptions are implicit in determining the SRN valuation.

These assumptions are reviewed every five years when the Company provides a new valuation of the SRN.

Unit cost	Unit cost determination
Road	The standard costing for roads is based on a series of road types created to identify all roads and determine the unit costs. There are 32 road types. Each road type has: ▪ a standard width for the carriageway, hard-strip or hard-shoulder, central reservations, etc. ▪ a standard unit rate that is applied across the SRN. These rates are generated from suitable schemes constructed by the Company (and, formerly, the Highways Agency) over the recent years that have opened for traffic. Due to a limited number of suitable construction schemes providing a direct costing comparator, the Company makes adjustments to actual scheme data by extrapolation based on reasonable construction assumptions, such as how to extrapolate from small schemes to large ones, in order to ensure a robust valuation of the roads component as a whole based on the best available data.
Land	Land is an integral part of the SRN and forms an important part of the valuation. Although some of the land occupied by the SRN may not actually be owned by the Company, e.g. Crown land, it is considered that, as the Company has an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. Land valuation is based on the following factors: 1. Location – geographical location of land within England 2. Classification – land is classified as either urban or rural dependent on location. 3. Land rates in England from the Valuation Office Agency (VOA).
Structures	Standard structures - Unit rates for bridges, tunnels, gantries and retaining walls are determined for these assets, subdivided as necessary to reflect for example the required scale of certain assets – e.g. the span and width of bridges. The stock of these specific asset types on the network is known, and costing rates for them are based primarily on the financial information supporting recent actual schemes, uplifted to current cost using an appropriate index (see below). The aim for each asset type is to produce a robust valuation of the portfolio. A line of best fit approach is used to normalise actual scheme-derived costing rates based on known costing relationships. This also allows through interpolation and extrapolation for specific asset types (e.g. bridges in a certain span category) to be allocated a rate even when a direct comparator has not been constructed in a recent scheme. Non-standard structures – These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, e.g. the Dartford-Thurrock River Crossing. The valuation for special structures is based on unit rates and actual cost data.

Technology	Technology equipment comprises; VMS, CCTV, automatic number plate recognition cameras, cabling, telephones and signal power supplies etc. Unit costs are developed by the Highways England commercial team, using rates from technology frameworks currently in place between the Company and its contractors and bulk purchase prices for materials procured directly by the Company. The unit costs for technology equipment also includes: the cost of individual components; installation costs; commissioning costs; preparation and supervision costs; and traffic management costs where applicable.

e) Dimensional variance of roads and structures

Data quantifying the extent of the SRN is held on a number of operational asset management systems. Where appropriate, dimensional data is used from these systems to inform the valuation of individual roads and structures. The consistent application of professional judgement by engineers may impact the variability of dimensional data which in turn will impact the valuation of the SRN. Dimensional variance arises as a result of re-measuring the length, width and height etc. of the road and structures by utilising more up to date measuring technology than previously used. Dimensional variance adjustments are charged directly to the revaluation reserve, whereas other revaluations are reflected in the net operating expenditure as a net (gain)/loss on remeasurement of property, plant and equipment.

f) Indexation

Various indices are applied in year between full year valuations of the SRN to ensure the final valuation is at depreciated replacement cost. Indexation of the SRN valuation is applied as follows:

Roads and structures	Road Construction Resource Cost Indices (ROCOS) is the index applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS is published on a quarterly basis by the Building Cost Information Service (BCIS).
Land	Land indexation is determined by the Company in consultation with external consultants and the following external sources: ▪ Urban land indices from the Land Registry House price index ▪ Rural land indices from the RICS and the Royal Agricultural University (RAU) market surveys.
Technology	ROCOS is the index applied to all technology assets.

Indexation based on these indices is applied to all elements of the SRN. However, there may be occasions where the use of indices for particular SRN elements may give an unrealistic outcome. This may happen for example: where there has been substantial technological change; when changes in the cost of specific assets are known to have been significantly different from the changes in the index; or where the historical purchase cost of assets was affected by special circumstances unlikely to be repeated and for which no allowance can be made.

In such circumstances the depreciated replacement cost is based on expert opinion or other evidence of the current cost of assets or groups of assets having a similar service potential.

The SRN is valued on the basis that the replacement will be on a 'greenfield site'. Currently VAT is non-recoverable on 'greenfield site' expenditure. The current non-recoverable VAT rate of 20% is used to reflect the depreciated replacement cost of the SRN. However, certain non-standard structures are valued at historical prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

g) **Assets under construction (AUC)**

Highways England accounts for all new projects in the course of design or construction as AUC at their actual build cost. On completion of a project, the project is transferred out of AUC and into the SRN at the depreciated replacement cost (which will be different from the actual cost). Any impairment loss that arises on the initial capitalisation of the asset will be offset against any existing revaluation reserve. Since there is no distinction between asset 'constructed' and asset 'under construction' for the SRN, there will also be no distinction in the revaluation reserve.

h) **Write-downs of assets under construction**

The Company writes-down the difference between the cost of construction and the depreciated replacement cost. There are a number of reasons for this difference occurring including:

- One of the standard costing assumptions is that all construction is developed on a 'greenfield' site. This is not always the case; therefore the cost of new constructions can be much higher due to additional building costs in urban areas or additional costs of replacing existing roads etc.
- Generally it is cheaper to build a three lane motorway as one project rather than two lanes initially and then to widen at some point thereafter. In a road widening scheme, a significant amount of cost will relate to traffic management, which does not increase the value of the SRN and therefore is written-down.

The Company uses standard write-down percentages for construction projects lasting more than one year. These percentages are based on projects constructed over the previous ten years. This ensures the Company writes down the asset on an on-going basis rather than when the project is opened for traffic. When a project is open for traffic, a formal calculation of the write-down required is completed and compared with the cumulative write-down; adjustments are made as necessary.

The write down of AUC has been charged against the SRN revaluation reserve to the extent there is a reserve. In compliance with IAS 36 and the Companies Act 2006, the company is treating its constructed and under construction SRN projects as one asset for the purpose of revaluation.

i) **Depreciation**

Depreciation is a measure of the book value of an asset that has been consumed during the accounting period. It allocates the cost of utilising the asset over the accounting periods that will benefit from its use and is charged to the net operating expenditure.

The SRN as reported in the financial statements is based on depreciated replacement cost (DRC).

All parts of the SRN, apart from land and the sub-structure of the road which have an unlimited useful life, are depreciated.

Road depreciation

The renewable road element subject to depreciation comprises:

- surface layer
- sub-pavement layer
- drainage, lighting, signage, kerbs, footways
- road markings and studs
- rigid concrete roads

For the purpose of depreciation, the road surface is recognised as a single asset and depreciation on these elements (which are estimated to comprise 17.55% of the gross replacement cost) is calculated in two parts:

1. Capital renewal expenditure on the SRN surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed. The Company performs renewals so as to maintain the road surface in a steady state and therefore uses the renewals charge as an initial basis for the depreciation charge in the net operating expenditure.

2. The condition of the road surface is measured by reference to the extent of rutting and using the Traffic Speed Road Assessment Condition Survey (TRACS). Rutting is a good overall indicator of the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. The condition of the road surface is assessed by condition surveys. Any movement in the condition is taken to the net operating expenditure as a depreciation charge, or conversely an improvement credit, thereby updating the initial renewals based depreciation charge to take account of actual changes in condition.

For the balance of road elements not within the 17.55% subject to depreciation, the Company judges that these elements (including sublayers) have useful lives sufficiently long, subject to regular renewal of the top layer, as to require no depreciation charge. Renewals for these elements are minimal, but when incurred are capitalised then immediately charged to the net operating expenditure via the first element of the depreciation policy reflected above.

For sub-pavement layer of long-life pavements and earthworks – the rate of deterioration on this element of the road takes such a long time that it is considered infinite therefore it is not depreciated.

Structures depreciation

Depreciation for structures is determined in two parts as follows:

1. Structures have a number of definable components with different design lives and are depreciated on a straight-line basis at rates to write off the assets over their economic life as follows:

Structure	Design life in years	Percentage	Description
Bridges and culverts	20-120	20%	Non-renewable elements not depreciated
		12%	Cyclically renewable elements which are depreciated over 20 years
		68%	Non-cyclically renewable elements that are depreciated over the design life of the structure
Gantries	20-120	100%	The non-renewable elements of a gantry are considered to be negligible therefore a straight line depreciation of 100%
Retaining walls	20-120	100%	The non-renewable elements of retaining walls are considered to be negligible therefore a straight line depreciation of 100%

Cyclically renewable elements reflect components of assets which are assessed as renewable at the end of their 20 year design life. The initial depreciation charge in respect of these elements is presented net of a credit reflecting the policy to ensure their regular renewal. This credit is applied on a rolling basis based on the asset's commissioning date.

2. Renewals expenditure on structures is capitalised to the extent that it restores the service potential of the assets that has previously been consumed. The resultant increase in PPE reflects the same increase in value as the regular credit in respect of cyclically renewed structures elements. To ensure a reasonable measure of the deterioration associated with these elements, an additional depreciation charge is included to match the in-year renewals spend.

Road and structures – valuation adjustments

For both road and structures, a valuation adjustment is included for the value of in-year renewals to derecognise the value of aged asset elements which have been replaced through in-year renewal and which are assumed to have nil net book value, thus reducing equally the cost and associated depreciation categories.

Technology depreciation

The depreciation charge for technology assets is based on the linear 'straight line' depreciation method based on an assigned design life. This overall anticipated life span of technology equipment varies according to the type of equipment between 15 and 50 years. The life span of the majority of technology equipment is 15 years. There are a few technology assets with a life of 25 years. Technology assets with a life of 50 years are typically structures built for the asset i.e. MS4 mast.

j) Derecognition and impairment

Elements of the SRN removed from service during the year are treated as derecognition under IAS 16 and charged to net expenditure. Additionally, the road surface and other SRN components are subject to an annual impairment review. Impairments are recognised as required by IAS 36, Impairment of Assets. IAS 36 states that a revalued asset is expenditure operating expenditure to the extent that the impairment loss exceeds the available revaluation surplus for that particular asset.

k) Trunking/detrunking

The Company has responsibility for the maintenance, management and enhancement of the SRN. The value of the SRN can be increased by trunking, which is where a road/route is transferred from a local authority to the Company. Conversely the value of the SRN can be reduced by detrunking which is when the Company transfers a part of the network to another party. This can occur for roads which are superseded as part of the SRN following the construction of a new road, such as a bypass and this is treated accordingly as a partial disposal of the SRN for nil consideration. Trunking and detrunking are shown within the PPE note as additions and derecognitions.

2.6.2. Non-network assets

a) Capitalisation Policy

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

Element	Threshold
Non-network assets	£2,000
Non-network land	No minimum value

Expenditure falling below these values is charged as an expense in the Statement of Comprehensive Net Expenditure (SoCNE) also known as net operating expenditure.

The Company groups assets in relation to bulk purchases of plant and machinery and information technology. This includes the following:

- Plant and machinery resulting from office refurbishments; and
- IT assets resulting from major IT upgrades.

b) Valuation (Land and buildings, including dwellings)

Freehold land and buildings have been valued on the basis of open market value for existing use. External professional surveyors, in accordance with the RICS Appraisal and Valuation Manual, undertake a full valuation of these assets at intervals not exceeding five years.

Between valuations values are adjusted with regional land and building indices calculated by Atkins using RICS Rural Land Market Survey and average house price changes per the Land Registry Office House Price Survey.

Land and buildings include freehold and leasehold properties. Some regional control centres are leasehold properties under 50 years and are defined as short leasehold properties.

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

Asset	Valuation date	Undertaken by
Motorway maintenance compounds	31 March 2016	VOA
Motorway service areas	31 March 2015	VOA
Surplus properties (including dwellings)	31 December 2013	VOA
Regional control centres	31 March 2016	VOA
National traffic operations centre	31 March 2016	VOA

Plant and machinery

Structural steelwork is stated at fair value using the current market value of steel. Other plant and machinery is stated at fair value using yearly plant and equipment indices supplied by the Office for National Statistics (ONS).

Information Technology

Information Technology consists of IT hardware and database development. Other information technology assets are stated at fair value using yearly plant and equipment indices supplied by the ONS.

c) Depreciation

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

Asset	Life in years
Buildings and dwellings	
Freehold buildings	up to 60 years
Leasehold buildings	length of the lease
Dwellings – non-surplus	no depreciation
Plant and machinery	
Winter maintenance equipment	10 to 25 years
Office equipment	5 to 10 years
Vehicles	5 to 10 years
Structural steelwork	10 years
Information Technology	
Technology equipment	3 to 5 years
Test equipment	5 to 10 years
IT equipment	5 years
Database development expenditure	5 years

2.7. Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5 where they are available for sale in their present condition and are being actively marketed. These comprise surplus land, buildings and dwellings (being land and property released from road schemes), plant and machinery and other assets no longer used. These assets are valued at the lower of carrying amount and fair value (market value) less selling costs where material.

2.8. Intangible assets

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

Internally-developed intangible assets, such as software or databases, are recognised as intangible assets if:

- The software or databases are technically feasible
- There is an identifiable asset that will produce future benefits
- The cost can be determined reliably

Intangible assets are amortised over their useful lives, typically on a straight-line basis, which is considered to be 3 to 5 years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period.

2.9. Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is calculated based on the weighted average cost of items acquired over different periods. The cost of inventories comprises all costs incurred in bringing the inventories to their present location and condition. Where excess or obsolete inventory holdings have been identified, the carrying value is reduced to the estimated net realisable value.

2.10. Financial instruments

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

2.10.1. Financial assets and liabilities

The Company classifies its financial assets and liabilities in the following categories: financial assets are assets available for sale and loans and receivables; financial liabilities are any contractual obligations to deliver cash or other financial assets to a third party. Management determines the classification of financial assets and liabilities upon initial recognition.

2.10.2. Cash and cash equivalents

Cash and cash equivalents comprise cash and bank deposits and deposits with corporations. The Company considers all highly liquid investments with a remaining maturity at the date of purchase of three months or less, and that are readily convertible to known amounts of cash to be cash equivalents.

2.10.3. Loans and receivables

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

2.10.4. Financial liabilities

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

2.10.5. Embedded derivatives

The Company has carried out a review of its contracts and has determined that it has no embedded derivatives.

2.10.6. Impairment of financial assets

The Company assesses at each SoFP date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the SoFP date, and that the loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, industry, geographical location, collateral type, overdue status and other relevant factors.

These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

2.11. Provisions

The Company makes provisions for liabilities and charges where, at the balance sheet date, a legal or constructive obligation exists for a future liability in respect of a past event and where the amount of the obligation can be estimated reliably. Where appropriate, this is supported by independent professional advice. Provisions are charged to net operating expenditure unless they relate to capital projects, in which case the provision is added to the asset's carrying amount. Provisions are discounted where the effect is material. Further detail, including on present obligation triggers, is included at Note 19.

2.12. Contingent liabilities

Unless their likelihood is considered to be remote, the Company discloses as contingent liabilities:

- potential future obligations arising from past obligating events, where the existence of such obligations remains uncertain pending the outcome of future events outside of the Company's control
- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability

Where the time value of money is material, contingent liabilities, which are required to be disclosed under IAS 37, are stated at discounted amounts.

2.13. Contingent assets

A contingent asset arises where an event has taken place that gives the Company a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Company.

Contingent assets are not recognised in the SoFP but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits.

2.14. Reserves

As the Company generates minimal income, the DfT provides funds annually in the form of a cash contribution, on behalf of the Secretary of State for Transport in his capacity as the sole shareholder. The funds received are used to finance expenditure that supports the objectives of the Company in accordance with the general service expectation contained in the Company's licensing terms. Consequently, these funds are treated as allocated to the retained earnings reserve, along with the Company's net expenditure.

At the start of its operations on 1 April 2015, the Company received a transfer from the Secretary of State for Transport comprising the assets of the Highways Agency, including the SRN (with the exception of the Severn Bridge and M6 toll road). In accordance with generally accepted practice in respect of common control transactions, the net assets from this transfer were credited at book value to the revaluation reserve to the extent of the revaluation surplus available in the Highways Agency at the point of transfer; and for the balance, to a capital contributions reserve. Intra-reserve transfers relating to revaluation are posted against the capital contributions reserve since they relate in the main to the transferred-in network asset.

All reserves are non-distributable other than to the Secretary of State within the legislative framework and as defined by the Companies Act 2006

2.15. Operating income

Operating income is income that relates directly to the operating activities of the Company.

It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. Operating income is stated net of VAT, and is measured at the fair value of the consideration received or receivable.

2.16. Research and development

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

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

2.17. Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. In making the classification, the Company does not separate the land and buildings elements of arrangements which cover both elements. All other leases are classified as operating leases.

Assets held under finance leases are recorded as property, plant and equipment and a liability to the lessor is recorded as the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the net operating expenditure over the period of the lease at a constant rate in relation to the balance outstanding.

Rentals under operating leases are charged to the net operating expenditure on a straight-line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the related benefits are deferred over the full term of the lease.

2.18. Service concessions – PFI contracts

Under a service concession, a government entity contracts with a private sector entity to develop, build, finance, operate and maintain infrastructure, to deliver services directly or indirectly to the public, but controls or regulates those services and controls any significant residual interest in the infrastructure.

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

The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies. PFI are first recognised once the property comes into use, for example when a road is ready to open for traffic. The capital value of the earlier PFI schemes was estimated using the public sector comparator (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means). From 2005-06, the capital value has been based upon the best estimate of capital cost at the time the contract was awarded.

2.19. Employee benefits

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where considered material, the cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period. In practice, all material short-term employee benefits are settled during the period in which they are earned.

Pensions

There are three main pension schemes: the Principal Civil Service Pension Scheme (PCSPS); the Highways England Personal Pension (Defined Contribution) Scheme (HEPP); and the Federated Pension Plan (FPP). The details below identify why they exist. Due to the nature of the joining criteria, the membership in PCSPS is on the decline, whilst membership in the HEPP scheme is increasing significantly, and FPP is increasing but at a much slower rate.

Employees who transferred from the Highways Agency, as at 31 March 2015, retained access to continued participation in the PCSPS.

The PCSPS is an unfunded multi-employer defined benefit scheme. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19, accounts for the scheme as if it were a defined contribution scheme.

Employees who joined the Company with effect from 1 April 2015 are eligible to participate in the HEPP. The pension scheme came into effect on 1 April 2015 and is managed on the Company's behalf by Legal & General Ltd.

Highways England also has a FPP which is a master-trust defined benefit scheme managed on the Company's behalf by Pan Trustees Limited. The FPP came into effect on 1 July 2016 to accommodate pension benefits protected under TUPE for employees transferring in to Highways England with legacy defined benefit pensions. The FPP currently has a small membership, but may be used to provide comparable pension benefits for future transfers in to Highways England, where protected under TUPE or similar pension legislation.

Under the PCSPS, and the HEPP, pension liabilities do not rest with the Company. For all schemes, employer pension contributions are recognised as they become payable following qualifying service by employees.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Company to terminate employment before the normal retirement date, or a decision by an employee to accept voluntary redundancy. Amounts payable are charged on an accruals basis to staff costs in the net operating expenditure when the Company is demonstrably committed to the termination of the employment of an employee.

2.20. Taxation

VAT

Most of the activities of the Company are non-business in nature and for this reason, outside the scope of VAT. The Company is eligible under s.41 (3) of the VAT Act 1992 to recover input VAT which is recovered under an annual Treasury Direction. Output tax does not apply to activities that are outside the scope of VAT and respective input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

Corporation Tax

The Company is liable for Corporation Tax in relation to income earned from business activities. The vast majority of the Company activity is non-business as it has a statutory obligation to operate and maintain the SRN and is not in competition with the private sector in carrying out this activity, as no one else has a right to maintain the SRN.

Non-business activity is further characterised by the fact the Company does not receive any payment in consideration for operating the SRN; instead it is funded from contribution. Non-business activities are not subject to Corporation Tax.

Business activities for the Company are non-statutory obligations where the Company is in competition with other providers. Income from business activities includes rental income and income from sale of properties.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the net operating expenditure except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The Company is unlikely to have deferred tax as business activity is minimal.

2.21. EU grants

EU grants are not recognised in the accounts until it is certain they will be received. Grants that relate to specific capital expenditure with attached conditions are credited to deferred income on the SoFP and then credited to the net operating expenditure over the asset's construction period. Grants for revenue expenditure are credited to the net operating expenditure.

3. Operating income

Operating income principally arises from:

- recoveries from third parties in respect of claims for damage to the motorways and trunk roads
- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Operating income analysed by classification and activity is as follows:		
Recoveries from third parties for damage to the SRN	8,354	5,845
Fees and charges to external customers	28,488	56,483
Other income	20,039	11,697
Total operating income	**56,881**	**74,025**

The decrease in fees and charges income relates to third party funding of £26.7m in relation to the A5-M1 link (Dunstable Northern Bypass), a 2.8-mile dual carriageway which opened to traffic in May 2017. This funding was received in 2016-17.

Further information and disclosure under HM Treasury Managing Public Money can be found at Annex 1 (ii) of the accounts.

4. Staff numbers and related costs

4.1. Staff costs

	Year to 31 March 2018			Year to 31 March 2017
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	178,986	15,656	194,642	168,513
Social security costs	19,916	-	19,916	15,002
Other pension costs	28,028	-	28,028	25,346
Total gross costs	**226,930**	**15,656**	**242,586**	**208,861**
Capitalised staff costs	(99,176)	(12,314)	(111,490)	(88,367)
Less recoveries in respect of outward secondments	(14)	-	(14)	(36)
Total net costs	**127,740**	**3,342**	**131,082**	**120,458**

Permanent staff are those staff with a permanent employment contract with the Company. Other staff are those employed on temporary or short-term contracts. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, recruitment and retention allowances, ex-gratia payments and any other taxable allowances or payments as well as costs relating to agency, temporary and contract staff engaged by the Company on a contract to undertake a project or task.

Pensions

The Company makes contributions under the Civil Service Pension arrangements, its own Highways England Pension Plan and the Federated Pension Plan (see also note 2.19):

a) **The Principal Civil Service Pension Scheme (PCSPS)** is an unfunded multi-employer defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2012. Details regarding the scheme can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2017-18, employers' contributions of £21.4m (2016-17 £22.6m) were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% (2016-17 20.0% to 24.5%) of pensionable earnings, based on salary bands. The scheme actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2017-18 to be paid when the member retires and not the benefits paid during this year to existing pensioners.

Employer's contributions of £155.6k (2016-17 £173.1k) were payable to one or more of the panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2016-17 8% to 14.75%). The Company also matches employee contributions up to 3% of pensionable earnings. In addition, employer's contributions of £4.2k (2016-17 £5.6k), 0.5% (2016-17 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £12.2k (2016-17 £13.8k). Contributions prepaid at that date were £nil (2016-17 £nil).

b) **The Highways England Pension Plan (HEPP)** is a defined contribution Group Personal Pension Plan administered by a third party provider. Highways England matches employee contributions to personal pension plans on a 2:1 basis, up to a maximum of 10% of gross salary. The default contributions are 5% (employee) and 10% (employer). In addition, life insurance cover is provided for members of the plan at an average cost of 0.55% of gross salary. This meets our statutory obligation to provide a workplace pension under current legislation.

As this is a defined contribution scheme, Highways England incurs no liability for future pension costs of members of the pension plan. For 2017-2018, employer's contributions of £5.9m (2016-17 £2.5m) were payable to the plan.

c) **The Federated Pension Plan (FPP)** is a master-trust defined benefit pension plan, administered by PAN Trustees. Employer contributions are set between 41.0% and 41.5% of pensionable earnings (dependent upon contractual employee contribution rates at the time of transfer). Employer's contributions of £208.1k were paid to the FPP during 2017-18 (2016-17 £111.2k). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

4.2. Average number of persons employed

The average number of full time equivalent persons employed during the year was as follows:

	Year to 31 March 2018			Year to 31 March 2017
	Permanent staff	Other	Total	Total
Traffic officer staff	1,588	-	1,588	1,583
Direct support to front line projects and service delivery	1,207	38	1,245	1,022
Staff engaged on capital projects	2,014	64	2,078	1,517
Average FTE persons employed	**4,809**	**102**	**4,911**	**4,122**

During the year ending 31 March 2018, the actual full time equivalents (FTE) increased from 4,348 to 5,282. The growth has been mainly organic and focused on our key capability areas such as programme and project management, asset management and commercial roles. The Company has also seen an increase in FTE's due to the continued roll out of Asset Delivery throughout the year. Additionally in January 2018, the Company became responsible for the operation and management of M4 and M48 Severn River Crossing resulting in a transfer of employees.

5. Other expenses

	Note	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Information Technology		37,841	33,661
Research and development expenditure		3,146	9,857
Rent, rates and building costs		13,239	10,533
Provisions provided for in year	14	5,084	12,296
Rentals under operating leases		9,507	7,756
Travel and subsistence		4,523	6,655
Traffic management vehicle costs		8,574	5,021
Recruitment and training		5,480	4,635
Consultancy		2,605	2,193
Non-network maintenance		1,885	3,655
Communication		2,969	1,397
Stationery		960	701
Professional fees		528	305
Other		17,627	(1,189)
Total		**113,968**	**97,476**

Excluding VAT the auditor fee of the Comptroller and Auditor General was £255k (2016-17 £225k). In respect of these financial statements, audit costs are included in 'Other' above and also include the costs of the C&AG's audit of the Dartford-Thurrock River Charging Scheme, expected to be £65k for 2017-18. Actual audit costs for the 2016-17 Dartford-Thurrock River Crossing Charging Scheme accounts were £95k.

6. Taxation

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
a) Analysis of the tax charge		
Current taxation		
UK Corporation Tax	89	119
Adjustments in respect of prior years	47	(272)
	136	**(153)**
b) Factors affecting the tax charge for the period		
The effective rate of tax for the period is equal to the standard rate of Corporation tax in the UK of 19% (2016-17 20%)		
The differences are explained below:		
Net expenditure on ordinary activities	(2,737,792)	(2,205,393)
Net expenditure on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19% (2016-17 20%)	(520,180)	(441,079)
Effect of:		
Incomes and expenditure not subject to Corporation tax	520,269	441,198
	89	**119**

From a Corporation Tax perspective, the Company is not trading with a view to a profit and the contributions received from DfT in relation to the Company's principal activity of managing the UK road network are not chargeable to Corporation Tax. The Company's tax liability for the year arises in respect of taxable profit attributable to capital disposals, rental income and interest income received.

At Summer Budget 2015, government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% from 1 April 2017 and at 18% from the 1 April 2020.

At Budget 2016, government annouced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%.

7. Property, plant and equipment (PPE)

2017-18

	SRN £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information Technology £000	Total £000
Cost or valuation								
At 1 April 2017	**126,223,692**	**1,024,028**	**181,415**	**169,276**	**61,283**	**147,684**	**3,349**	**127,810,727**
Capital additions	737,035	1,600,584	-	-	-	1,510	-	2,339,129
Write down	-	(777,868)	-	-	-	-	-	(777,868)
Disposals	-	-	(705)	-	(1,060)	-	-	(1,765)
Revaluation	1,842,900	-	766	51,637	-	3,033	-	1,898,336
Valuation adjustments	(737,035)	-	-	-	-	-	-	(737,035)
Derecognition	(258,095)	(3,253)	-	-	-	-	-	(261,348)
Transfers	489,219	(495,160)	3,364	535	1,259	783	-	-
Reclassifications to assets held for sale	-	-	(3,423)	-	(11,055)	-	-	(14,478)
At 31 March 2018	**128,297,716**	**1,348,331**	**181,417**	**221,448**	**50,427**	**153,010**	**3,349**	**130,255,698**

	SRN £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information Technology £000	Total £000
Depreciation and impairment								
At 1 April 2017	**14,524,452**	**-**	**-**	**92,559**	**-**	**111,193**	**1,764**	**14,729,968**
Charged in year	1,411,732	-	-	2,720	-	12,391	1,070	1,427,913
Valuation adjustments	(737,035)	-	-	-	-	-	-	(737,035)
Derecognition	(36,056)	-	-	-	-	-	-	(36,056)
Revaluation	(431,712)	-	-	30,766	-	3,222	-	(397,724)
At 31 March 2018	**14,731,381**	**-**	**-**	**126,045**	**-**	**126,806**	**2,834**	**14,987,066**
Net book value								
At 1 April 2017	111,699,240	1,024,028	181,415	76,717	61,283	36,491	1,585	113,080,759
At 31 March 2018	**113,566,335**	**1,348,331**	**181,417**	**95,403**	**50,427**	**26,204**	**515**	**115,268,632**

2016-17

	SRN £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information Technology £000	Total £000
Cost or valuation								
At 1 April 2016	**121,156,212**	**595,929**	**177,094**	**188,331**	**51,457**	**133,431**	**2,956**	**122,305,410**
Capital additions	620,255	1,484,815	-	-	-	-	-	2,105,070
Write down	-	(509,672)	-	-	-	-	-	(509,672)
Disposals	-	-	(77)	(920)	(932)	(80)	(1)	(2,010)
Revaluation	4,567,017	-	4,668	(26,066)	15,539	9,287	-	4,570,445
Valuation adjustments	(620,255)	-	21	(261)	-	-	-	(620,495)
Derecognition	(22,185)	-	-	-	-	-	-	(22,185)
Impairment - charged to SOCNE	-	-	(46)	(2,141)	(125)	(152)	-	(2,464)
Transfers	522,648	(547,044)	2,947	10,657	2,263	5,465	394	(2,670)
Reclassifications to assets held for sale	-	-	(3,192)	(324)	(6,919)	(267)	-	(10,702)
At 31 March 2017	**126,223,692**	**1,024,028**	**181,415**	**169,276**	**61,283**	**147,684**	**3,349**	**127,810,727**

	SRN £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information Technology £000	Total £000
Depreciation and impairment								
At 1 April 2016	**13,327,336**	**-**	**-**	**105,118**	**-**	**89,960**	**663**	**13,523,077**
Disposals	-	-	-	(558)	-	(58)	-	(616)
Charged in year	1,163,319	-	-	5,840	-	12,761	1,101	1,183,021
Valuation adjustments	(620,255)	-	-	(199)	-	-	-	(620,454)
Derecognition	(5,306)	-	-	-	-	-	-	(5,306)
Revaluation	659,358	-	-	(17,667)	-	8,555	-	650,246
Reclassification to assets held for sale	-	-	-	25	-	(25)	-	-
At 31 March 2017	**14,524,452**	**-**	**-**	**92,559**	**-**	**111,193**	**1,764**	**14,729,968**
Net book value								
At 1 April 2016	**107,828,876**	**595,929**	**177,094**	**83,213**	**51,457**	**43,471**	**2,293**	**108,782,333**
At 31 March 2017	**111,699,240**	**1,024,028**	**181,415**	**76,717**	**61,283**	**36,491**	**1,585**	**113,080,759**

7.1. SRN

The SRN consists of roads, land, structures, and technology which form a single integrated network. The SRN is unique and a market value is not available, therefore it is valued using depreciated replacement cost.

	Roads £000	Land £000	Structures £000	Technology £000	Total £000
Cost					
At 1 April 2017	**70,327,790**	**12,549,016**	**39,904,711**	**3,442,175**	**126,223,692**
Capital additions	523,684	-	213,351	-	737,035
Valuation adjustments	(523,684)	-	(213,351)	-	(737,035)
Revaluation	2,478,729	364,463	(699,734)	(300,697)	1,842,900
Derecognition	(145,526)	(53,258)	(39,175)	(20,136)	(258,095)
Transfers	226,188	1,431	121,741	139,859	489,219
At 31 March 2018	**72,887,181**	**12,861,791**	**39,287,543**	**3,261,201**	**128,297,716**
Accumulated depreciation					
At 1 April 2017	2,250,584	-	10,447,112	1,826,755	14,524,452
Charged in year	765,666	-	522,849	123,217	1,411,732
Valuation adjustments	(523,684)	-	(213,351)	-	(737,035)
Revaluation	40,917	-	(207,503)	(265,126)	(431,712)
Derecognition	(6,206)	-	(17,872)	(11,978)	(36,056)
At 31 March 2018	**2,527,278**	**-**	**10,531,235**	**1,672,868**	**14,731,381**
Net book value at 1 April 2017	**68,077,205**	**12,549,016**	**29,457,599**	**1,615,420**	**111,699,240**
Net book value at 31 March 2018	**70,359,903**	**12,861,791**	**28,756,308**	**1,588,333**	**113,566,335**

Gross cost

a) Capital additions

The Company has invested £737.0m (2016-17 £620.3m) during the year on capital renewal schemes. Renewal schemes replace the service potential of the SRN and is therefore deemed capital expenditure. Renewal schemes are usually small (less than £10m) and usually completed within 6 to 18 months. Significant additions during the year include the continuing work on the M5 Oldbury waterproofing of £64.1m and £20.6m for the M3 junctions 2-4 smart motorways programme rollout.

b) Valuation adjustments

The valuation adjustments reduction of £737.0m (2016-17 £620.3m) within gross cost and accumulated depreciation is the value of materials that is removed from the SRN when they are replaced as a result of the capital renewal programme. These materials are removed at the end of their service life so are derecognised from the gross cost and the accumulated depreciation of the roads and structures elements of the SRN.

c) Revaluation

The SRN was revalued upwards by £2.3bn (2016-17: £3.9bn upwards revaluation). This comprises:

- Positive ROCOS indexation for the year, together with smaller remeasurement factors and location adjustments reflecting the differing costs of construction within different regions, resulted in a combined £2.4bn upwards revaluation (2016-17: £2.0bn upwards) for the roads and technology categories
- There has also been an increase in the land indices of 2.8% which resulted in an upward revaluation of land amounting to £0.4bn (2016-17 £0.9bn)
- A quinquennial revaluation of structures (QQR) was undertaken during the year. The impact of the revaluation has been to reduce net valuation by £0.5bn (2016-17: indexation-driven increase of £1.0bn)
- The table below covers the net movement on remeasurement of both the SRN and non SRN elements of the Company's PPE

Net gain/(loss) on remeasurement of property, plant and equipment recognised in other comprehensive expenditure	SRN £000	AUC £000	Other £000	Total £000
Revaluation – indexation	2,443,192	-	21,448	2,464,640
AUC writedown	-	(777,868)	-	(777,868)
Revaluation – dimensional variance	(168,580)	-	-	(168,580)
	2,274,612	**(777,868)**	**21,448**	**1,518,192**

d) **Derecognition and disposals**
Derecognition for the year was £222.0m (2016-17 £16.9m). This relates to structures and communications technology removed from the SRN often as a result of the upgrades caused by the smart motorways programme. During the year, the following road sections were detrunked:

Road section	NBV of SRN detrunked £m
A5 - M1 Link Dunstable bypass	120.7
A21 Tonbridge to Pembury	5.4
A556 Knutsford to Bowden	66.5
Total detrunkings	**192.6**

Accumulated depreciation

The depreciation charge over the year to 31 March 2018 was £1.4bn (2016-17 £1.2bn). This consists of:

e) **Road depreciation** – the decrease in the economic value of the road surface was £765.6m (2016-17: £636.5m), made up of:

- Renewals spend of £523.7m (2016-17: £473.4m), is used as the basis of an initial depreciation charge, based on the assumption that the network is maintained in a roughly steady state.
- Analysis of road condition surveys provides evidence on the actual condition of the network, which allows for more precise depreciation of the road surface, leading this year to an additional charge of £241.9m (2016-17: charge of £163.1m)

f) **Structures depreciation** – the SRN structures depreciation charge for the year was £522.8m (2016-17: £390.4m), which consists of:

- £309.4m (2016-17: £243.9m) for the depreciation of the structures element of the SRN in line with the policy in note 2.6;

- £213.4m (2016-17: £146.5m) to reflect more accurately the deterioration associated with those cyclically renewable elements, using the in-year spend on current renewals work on the basis that the network is maintained in a roughly steady state

g) **Technology depreciation** – £123.2m (2016-17: £136.4m) depreciation charge for the economic decrease in value of technology on the SRN.

7.2. Assets under construction (AUC)

Capital expenditure in relation to partly built improvements in the SRN is classified as AUC.

a) **Capital additions**

During the year, the Company invested £1.6bn (2016-17 £1.5bn) in a number of ongoing road schemes. This included £361m for complex schemes, £341m for smart motorway schemes, £180m for SR10 schemes and £104m for SR13 regional investment programme schemes.

During the year, the Company spent money on preparing a number of renewal schemes for later works. These renewal schemes are classified as capital renewal 'pipeline schemes' as the start of works date will not take place until after 31 March 2018. Pipeline scheme expenditure is reported as AUC and not as an addition to in-year SRN valuation.

b) **AUC transfers**

The Company transferred £489.2m (2016-17 £522.6m) of completed roads, structures and technology equipment from AUC to the SRN at replacement cost during the year. Transfers of £6.0m (2016-17 £21.7m) were made to non-network assets.

c) **Write-downs**

As described in note 2.6, the SRN valuation uses a set of costing rates to produce a replacement cost based on a number of assumptions (e.g. greenfield basis, simultaneous build) which tend to produce a lower rate than is achieved in actual construction. Capital additions are recognised at actual cost, but the value of projects in AUC is revised annually with the aim of approximating a depreciated replacement cost basis. Transfers out take place at replacement cost. The valuation differences resulting from these adjustments, both at transfer and for mid-project AUC balances, are defined as write-down. For the year, the write-down was £777.9m (2016-17 £509.7m), which represents 49% (2016-17 34%) of the amount invested for the full year. The write down includes £242m for smart motorway schemes, £135m for SR 2010 schemes and £85m for SR 2013.

7.3. Other property, plant and equipment

a) **Land**

Land consists of surplus land and land reserved for current and future road schemes. As at 31 March 2018, this includes commercial land £38.0m (2016-17 £38.0m); motorway service areas land £78.2m (2016-17 £77.9m) and motorway maintenance compounds land £27.4m (2016-17 £26.9m).

b) **Buildings**

As at 31 March 2018, the net value of buildings includes motorway maintenance compounds £58.3m (2016-17 £52.0m), regional control centres £21.1m (2016-17 £20.2m) and commercial buildings at Dartford £11.3m (2016-17 £10.1m).

	31 March 2018 £000	31 March 2017 £000
Freehold land and buildings	269,695	248,782
Short leasehold buildings (less than 50 years)	7,125	9,350
Total	**276,820**	**258,132**

c) **Dwellings**

As at 31 March 2018, the value of dwellings is £50.4m (2016-17 £61.3m). These are dwellings acquired as part of a scheme to enable construction. This includes dwellings relating to the following schemes:

	31 March 2018 £m	31 March 2017 £m
A6M Stockport North/South Bypass	7.7	9.4
M42 junction 3 A7 widening	6.7	8.2
A57/A6928 Mottram, Hollingworth & Tintwhistle	5.3	5.0
South West Modelling	4.6	4.7
M4 junction 4B-8/9 widening	4.3	4.0

8. Intangible assets

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cost or valuation		
Opening balance	87,132	84,503
Additions	272	-
Disposals	-	(41)
Transfer from AUC	-	2,670
Closing balance	**87,404**	**87,132**
Amortisation		
Opening balance	85,070	82,489
Charged in year	1,158	2,586
Disposals	-	(5)
Closing balance	**86,228**	**85,070**
Net book value at the start of the year	2,062	2,014
Net book value at the end of the year	**1,176**	**2,062**

The Company has a number of bespoke databases that are fully amortised but continue to provide economic benefits. The databases will be updated or replaced at a future date. The significant in-house databases by cost value are: ERP system (based on Oracle) – £26m (2016-17 £26m); ESDAL (abnormal loads management software) – £10m (2016-17 £10m); and HAPMS (pavement management system) – £10m (2016-17 £10m).

9. Assets classified as held for sale

	Land and buildings £000	Dwellings £000	Total £000
Balance at 1 April 2016	**4,531**	**4,424**	**8,955**
Valuation adjustments	42	-	42
Disposals	(609)	(1,908)	(2,517)
Impairment - charged to SOCNE	(381)	(435)	(816)
Reclassifications (to) / from property, plant and equipment	3,783	6,919	10,702
At 31 March 2017	**7,366**	**9,000**	**16,366**
At 1 April 2017	**7,366**	**9,000**	**16,366**
Disposals	(1,844)	(5,721)	(7,565)
Impairment – charged to SOCNE	(214)	(1,174)	(1,388)
Reclassifications (to) / from property, plant and equipment	3,423	11,055	14,478
At 31 March 2018	**8,731**	**13,160**	**21,891**

Disposals in the year ended 31 March 2018 include the following sales:

- The Shieling, Hindhead Road, Hindhead
- Land to the east of Bingley Rd, Hoddesdon
- 5 Mill Barn, Silverhill, Etchingham
- The Corner House, Headley Road, Hindhead, Surrey
- Fir Tree Cottage, Hazel Grove, Hindhead

10. Inventories

	31 March 2018 £000	31 March 2017 £000
Communication/electrical equipment for the SRN	25,719	23,672
Salt	10,448	10,876
Other	756	756
	36,923	**35,304**

The communication/electrical equipment inventory include VMS which are extensively used in the ongoing roll-out of smart motorway schemes across the SRN.

The Company's salt stock includes reserves held for the English local highways authorities. This reserve is only for use as a last resort in the event of normal domestic salt supply channels being unable to meet the demands of local highways authorities. The salt is stored to protect it from leaching from rainfall. However, over time salt deteriorates and therefore the Company's policy is to re-measure the holding each annum, to reflect the loss from deterioration during the year.

11. Trade and other receivables

	31 March 2018 £000	31 March 2017 £000
Amounts falling due within one year		
Trade receivables	19,701	4,526
Deposits and advances	18,453	4,874
VAT	147,849	120,756
Prepayments and accrued income	41,320	26,464
Other receivables	30	36
	227,353	**156,656**
Amounts falling due after more than one year		
Prepayments and accrued income	9,155	19,139
	9,155	**19,139**
Total receivables	**236,508**	**175,795**

The increase in receivables is predominantly linked to an increase in the number and size of capital projects the Company are carrying out. This includes upfront payments to statutory undertakers and increased Section 278 activities on behalf of third parties.

In addition to this, we also have £21m of SRC accrued income relating to the ending of the Severn River crossing concession.

12. Cash

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Balance at the start of the year	**39,446**	**22,922**
Net change in cash	(20,724)	16,524
Balance as at end of the year	**18,722**	**39,446**
The following balances were held at:		
Commercial banks	1,700	1,372
Government Banking Service	17,022	38,074
	18,722	**39,446**

The Company does not hold any cash equivalent balances.

13. Trade and other payables

	Note	31 March 2018 £000	31 March 2017 £000
Amounts falling due within one year			
Taxation and social security		8,696	7,106
Trade payables		38,716	35,819
Accruals and deferred income		614,424	618,226
Capital element under on balance sheet PFI contracts	18	73,713	73,898
Other payables		74,641	31,917
		810,190	**766,966**
Amounts falling after more than one year			
Capital element under on balance sheet PFI contracts	18	1,453,690	1,527,403
Deferred income		28,386	19,611
Retentions		722	147
		1,482,798	**1,547,161**
Total payables		**2,292,988**	**2,314,127**

Included within 'Other payables' is £39m relating to the Severn River crossing. This is vehicle toll charges collected and payable to the DfT.

14. Provisions

	Land and property acquisition £000	Bridge strengthening £000	Tunnels £000	Early retirement pension £000	Other £000	Total £000
At 1 April 2016	**116,848**	**4,115**	**1,342**	**857**	**5,939**	**129,101**
Provided in the year	90,866	7	-	6	3,288	94,167
Provisions not required written back	(23,830)	(7)	(1,121)	(612)	-	(25,570)
Provisions utilised in the year	(31,605)	(3,883)	(221)	(94)	(2,727)	(38,530)
At 31 March 2017	**152,279**	**232**	**-**	**157**	**6,500**	**159,168**
At 1 April 2017	**152,279**	**232**	**-**	**157**	**6,500**	**159,168**
Provided in the year	80,875	165	-	-	6,110	87,150
Provisions not required written back	(18,026)	-	-	(8)	(81)	(18,115)
Provisions utilised in the year	(60,138)	(397)	-	(52)	(1,453)	(62,040)
At 31 March 2018	**154,990**	**-**	**-**	**97**	**11,076**	**166,163**
Analysis of expected timing of flows						
Not later than one year	66,558	-	-	42	10,225	76,825
Later than one year and not later than five years	88,432	-	-	55	591	89,078
Later than five years	-	-	-	-	260	260
	154,990	**-**	**-**	**97**	**11,076**	**166,163**

Provisions provided in year and not required written back reconciles as follows:

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Provisions provided in year	87,150	94,167
Less provisions written back	(18,115)	(25,570)
Net provisions expenditure	**69,035**	**68,597**
Split as follows		
Resource expenditure	6,281	3,343
Capital expenditure	62,754	65,254
	69,035	**68,597**
Provision for doubtful debt	297	1,939
Provision for slow moving stock	(1,494)	7,014
Other provisions provided for in year	6,281	3,343
Total provision charge to the SoCNE	**5,084**	**12,296**

Land and property acquisition

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

Other

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to Highways England for compensation. A provision is made which estimates the value of claims received as at 31 March 2018 that will require settlement by Highways England.

This also includes pension liabilities which relate to former staff that left employment before the formal retirement age of 60. Highways England is responsible for making payments to the pension plan until their retirement age.

15. Financial instruments

IFRS7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Company faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government entities are financed, the Company is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The Company has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Company in undertaking its activities.

Nevertheless, the Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The core operations of the Company are resourced largely from funds voted by Parliament and so has limited dependency on revenues from customers. This substantially reduces many financial risks.

15.1. Credit risk

Credit risk is the risk of suffering financial loss, should any of the Company's customers or counterparties fail to fulfil their contractual obligations to the Company. Some of the Company's customers and counterparties are other public sector organisations. No credit risk arises from these organisations since the receivables are backed by the government. For those customers and counterparties that are not public sector organisations, the Company has policies and procedures in place to ensure credit risk is kept to a minimum.

The carrying amount of financial assets represents the maximum credit risk exposure. Receivables are impaired on the basis of either ageing by receivable type or where a specific receivable is deemed to be recoverable or irrecoverable, based on the information available.

The following table provides an overview of the ageing profile of the financial assets comprising trade and other receivables.

	31 March 2018 £000	31 March 2017 £000
Ageing of financial assets		
Neither past due nor impaired	229,923	173,288
Past due 1-30 days	5,680	817
Past due 31-60 days	5	254
Past due 61-90 days	172	195
Past due >90 days	728	1,241
	236,508	**175,795**

15.2. Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its obligations when they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed condition. The Company's policy is to determine its liquidity requirements by the use of short-term cash flow forecasts. These forecasts are supplemented by government's long-term funding commitment under the RIS.

The Company believes that its contractual obligations, including those shown in commitments and contingencies in notes 16, 17, 18, and 19, can be met in the short term from existing cash and other current assets, and the funding it receives annually that is voted by Parliament. The longer-term needs are met from the funding commitment provided by government through the RIS.

Contractual cash flows	31 March 2018 Not later than one year £000	31 March 2018 Later than one year and not later than five £000	31 March 2018 Later than five years £000	31 March 2018 Total £000	31 March 2017 Total £000
Non-derivative financial liabilities					
Trade payables	661,836	-	-	661,836	661,151
Finance lease liabilities (PFIs)	73,713	345,927	1,107,763	1,527,403	1,601,301
Other non-interest bearing liabilities	74,641	29,108	-	103,749	51,675
	810,190	**375,035**	**1,107,763**	**2,292,988**	**2,314,127**

15.3. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures where these are considered to materially impact the business and operations of the Company.

15.3.1. Interest rate risk

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

15.3.2. Exchange rate risk

This is the risk that the Company will suffer financial loss due to changes in exchange rates. The Company undertakes a small number of foreign currency transactions primarily in Euro and is not exposed to significant exchange risk.

Given the quantum of transactions in foreign currency, the Company has assessed that a strengthening or weakening of Euro will not have any significant impact on the financial statements.

15.3.3. Fair values

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

16. Capital commitments

	31 March 2018 £000	31 March 2017 £000
Contracted capital commitments not otherwise included in these accounts		
Property, plant and equipment	**2,762,410**	**2,450,166**

The Company's capital commitments as at 31 March 2018 include the following significant project commitments:

- £811.1m relating to the A14 Cambridge to Huntingdon. This is a major upgrade to the A14 between the A1 and North Cambridge, which widens the road to three lanes, providing a new bypass around Huntingdon. It will create distributor roads for local traffic and remodelling of key junctions along the route. This scheme supports a number of local developments.
- £744.8m relating to the M4 junctions 3 to 12; upgrading the M4 to a smart motorway between junction 3 (Uxbridge) and junction 12 (west of Reading), linking Reading and Heathrow.
- £246.7m relating to M6 junctions 13 to 15, upgrading the stretch of the M6 between junction 13 at Stafford and junction 15 near Newcastle Under Lyme and Stoke on Trent to make it a smart motorway.
- £176.8m relating to M6 junctions 2 to 4; improving the stretch of the M6 between junction 2 at Coventry and junction 4 near Coleshill by upgrading it to a smart motorway.
- £144.6m relating to the M23 junctions 8 to 10; upgrading the M23 near Gatwick Airport, between junction 8 near Merstham and junction 10 at Copthorne, to a smart motorway.
- £110.7m relating to the M62 junctions 10 to 12; improving the 9.8-miles section of the M62 between junctions 10 and 12 by upgrading it to a smart motorway.

17. Commitments under leases

The Company has the following minimum future lease commitments under non-cancellable operating leases:

	Land and buildings 31 March 2018 £000	Land and buildings 31 March 2017 £000
Obligations under operating leases comprise		
Not later than one year	9,481	8,852
Later than one year and no later than five years	33,222	33,544
Later than five years	27,288	31,001
	69,991	**73,397**

18. Commitments under Private Finance Initiatives

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

The substance of the PFI contract under IFRIC 12 is that the Company has a finance lease, with the asset being recognised as a non-current asset of the Company.

Payments under on-balance sheet PFI contracts comprise: a capital element; imputed finance lease charge; and service charge.

The total payments under on-balance sheet PFI contracts for which the Company is committed are given in the tables below, analysed according to the year in which the commitment expires.

PFI	Contract start date	Duration Years	Initial capital value £m	Closing balance obligation £m	Service charge commitment £m
M40 Denham to Warwick	06/01/1997	30	71.2	31.2	354.8
A19 Dishforth to Tyne Tunnel DBFO	24/02/1997	30	47.8	20.2	349.3
A30/A35 Exeter to Bere Regis	01/10/1996	30	135.1	58.0	11.5
A1 (M) Alconbury to Peterborough	01/04/1996	30	192.3	72.7	105.6
A419/A417 Swindon to Gloucester	01/04/1996	30	104.6	43.6	108.0
A50/A564 Stoke to Derby Link	01/07/1996	30	37.3	15.5	114.7
M1-A1 Yorkshire Link	01/07/1996	30	395.4	164.6	22.6
A69 Carlisle to Newcastle	01/04/1996	30	19.6	8.2	76.0
A1(M) Darrington to Dishforth	07/05/2003	33	236.4	185.2	545.3
A249 Iwade to Queenborough	01/04/2004	30	92.8	70.0	110.1
M25 London Orbital Motorway Contract	01/05/2009	30	906.0	858.3	5,822.7
Total			**2,238.5**	**1,527.4**	**7,620.6**

18.1. Imputed finance lease charges under on balance sheet PFI contracts comprise:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	187,686	192,353
Later than one year and not later than five years	750,745	750,745
Later than five years	2,045,752	2,233,437
	2,984,183	**3,176,535**
Less interest element	(1,456,780)	(1,575,234)
	1,527,403	**1,601,301**

18.2. Capital element under on balance sheet PFI contracts comprise:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	73,713	73,898
Later than one year and not later than five years	345,927	297,516
Later than five years	1,107,763	1,229,887
	1,527,403	**1,601,301**

The total amount charged in the SoCNE in respect of the repayment of the capital element of the PFI transactions for the year to 31 March 2018 was £74.0m (2016-17 £69.7m).

18.3. Interest element under on balance sheet PFI contracts comprise:

	31 March 2018 £000	31 March 2017 £000
Interest commitments		
Not later than one year	113,973	118,454
Later than one year and not later than five years	404,818	425,928
Later than five years	937,989	1,030,852
	1,456,780	**1,575,234**

The total amount charged in the SoCNE in respect of interest on balance sheet PFI transactions for the year to 31 March 2018 was £118.5m (2016-17 £123.2m).

18.4. Details of the minimum PFI service charge to SoCNE:

	31 March 2018 £000	31 March 2017 £000
Not later than one year	300,417	340,702
Later than one year and not later than five years	1,411,896	1,372,667
Later than five years	5,908,268	6,480,025
	7,620,581	**8,193,394**

The total amount charged in the SoCNE in respect of the service element of on balance sheet PFI transactions for the year to 31 March 2018 was £323.7m (2016-17 £308.0m).

19. Contingent liabilities and assets

19.1. Contingent liabilities disclosed under IAS 37

	31 March 2018 £000	31 March 2017 £000
The Company has the following quantifiable contingent liabilities:		
Land and property acquisition	663,590	672,795
Engineering and construction services	3,000	3,000
Other	15,184	7,399
	681,774	**683,194**

19.1.1. Land and property acquisition

Contingent liabilities relating to land and property acquisitions arise from the following sources:

Acquisition and blight

The construction of any major road construction scheme invariably requires the acquisition of property. The Highways Act 1980 gives the Secretary of State for Transport the power to make compulsory purchases. Possible purchases for schemes in the major projects programme are included as contingent liabilities until the point when a preferred route announcement is made and a reliable estimate is available.

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

Compensation for loss after construction

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

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

Claims in dispute

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

19.1.2. Engineering and construction services

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

19.1.3. Other

Other contingent liabilities includes partial claims from third parties who have suffered damage or injury as a result of the SRN being damaged, and a number of arbitration cases in respect of contractual claims for engineering and construction services. These claims are estimated based on prior years' experience. The Historic Estate assets which are held by the Secretary of State for Transport, together with any related contingent liabilities, are included in the DfT's accounts.

19.2. Contingent assets

The Company seeks to dispose of property surplus to requirement promptly at the best price reasonably obtainable in the market.

Sometimes there is uncertainty over potential use of the property and planning permissions, and in these cases the Company may decide to sell the property at the underlying land value.

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

As it is not known for some years after the initial disposal whether any further income will arise, the Company has an unquantified contingent asset relating to future values.

The Company also has a contingent asset with Midland Expressway Ltd (MEL) in relation to refinancing and developments of the M6 toll road. MEL has an obligation to contribute up to a maximum of £70.0m towards a road enhancement project which would provide a link between the M54 to the M6 Toll. The commitment amount is indexed according to the Road and Construction Tender Index from May 2006.

20. Related party transactions

The Company is an arm's length body of the DfT. The DfT is regarded as a controlling related party. The Company's primary source of funding is through the DfT, based on approved expenditure that is voted on by Parliament. The total amount of funding received from the DfT for the year ended 31 March 2018 amounted to £3.5bn (2016-17 £3.0bn). During the year, the Company had a significant number of other transactions with the DfT totalling £190.6m (2016-17 £152.8m). In addition, the Company had transactions with other government departments and agencies, including HM Revenue and Customs, totalling £60.3m (2016-17 £16.7m).

Colin Matthews, the Company's Chairman, was also appointed as the Chairman of EDF Energy Holdings Limited in November 2017. During the year 2017-18, the Company had transactions with EDF Energy totalling £25.2m.

21. Equity shares

	31 March 2018 £	31 March 2017 £
Authorised		
10 Ordinary shares at £1 each	10	10
Allotted, called up and fully paid		
10 Ordinary shares at £1 each	10	10

22. Third party assets

The Company performs some work on the SRN funded by another party, such as a developer, where a development may have an impact on the SRN. Under Section 278 of the Highways Act 1980, the Company receives payment in advance of works. The amounts received are paid into interest bearing Escrow Accounts at Lloyds Bank. Monies are drawn down from the Escrow accounts by the Company as work progresses.

These bank accounts are not Company assets and therefore are not included in the company's SoFP.

	31 March 2018 £000	31 March 2017 £000
Lloyds Bank Escrow Accounts	748	1,103
	748	**1,103**

23. Events after the reporting period

There have been no events since the 31 March 2018 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

International Accounting Standards require Highways England to disclose the date on which the accounts are authorised for issue. This is the date that the certified accounts are dispatched by Highways England's management to the Secretary of State for Transport.

The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

Annexe 1

Highways England Company Limited Government Financial Reporting Manual (FReM) disclosures for the year ending 31 March 2018

(i) Civil service and other compensation schemes – exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure.

Where Highways England has agreed early retirements, the additional costs are met by the Company and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

	Year to 31 March 2018		Year to 31 March 2017	
2017-18 - Mar 17	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
<£10,000	-	-	-	-
£10,000 - £25,000	-	-	-	-
£25,000 - £50,000	-	-	1	-
£50,000 - £100,000	-	-	-	-
£100,000 - £150,000	-	-	-	-
£150,000 - £200,000	-	-	-	-
£200,000 plus	-	-	-	-
Total number of packages	**-**	**-**	**1**	**-**
Total Resource cost (£)	**-**	**-**	**28,819**	**-**

(ii) Operating income

Disclosure under HM Treasury Managing public money

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

	Year to 31 March 2018			Year to 31 March 2017		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Recoveries from third parties for damage to the SRN	8,354	8,359	(5)	5,845	5,912	(67)
Fees and charges for third party schemes	28,488	28,488	-	56,483	56,483	-
National vehicle recovery	4,980	7,270	(2,290)	4,465	5,754	(1,289)
Rental income from properties	3,479	3,616	(137)	3,638	3,053	585
Other income	8,987	8,987	-	2,407	2,407	-
	54,288	**56,720**	**(2,432)**	**72,838**	**73,609**	**(771)**

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury Managing Public Money. In some instances this objective has not been achieved. In particular, full recovery for damage to the SRN has not been possible due to value for money consideration. For national vehicle recovery, full recovery is not possible due to issues around level of information available and ability to enforce repayment.

Operating income analysed by activity is as follows:

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Cost recoveries/rental income	1,495	1,151
Fees and charges to external customers	28,488	56,483
Rental income from properties	3,479	3,638
Recoveries from third parties for damage to the strategic road network	8,354	5,845
Interest receivable	27	9
Recovery of costs incurred on M6 toll scheme	-	26
National vehicle recovery	4,980	4,465
Other	10,058	2,408
Income Totals	**56,881**	**74,025**

(iii) Losses and special payments (audited)

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, extrastatutory and ex-gratia payments and compensation.

a) Losses statement

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Total number of losses		-
Bookkeeping/cash losses	59	-
Claims abandoned	746	869
Store losses	949	429
Total	**1,754**	**1,298**

	Year to 31 March 2018 £000	Year to 31 March 2017 £000
Total value of losses		
Bookkeeping/cash losses	31	-
Claims abandoned	6,208	6,314
Store losses	4,147	1,737
Total	**10,386**	**8,051**

Bookkeeping/cash losses

These losses relate to accounting corrections and losses not considered viable or value for money to pursue.

There are no booking or cash losses greater that £300,000.

Details of cases over £300,000

Claims abandoned

These losses largely relate to damage to the road network and traffic management clean-up costs, where the culprit is unknown and it is not viable to pursue the claim.

There are no abandoned claims greater that £300,000.

Store losses

These losses largely relate to theft or vandalism to SRN equipment where the culprit is unknown. This includes cables, fencing, barriers, communication equipment, signs or lighting.

There are no store losses greater that £300,000.

b) Special payments

	Year to 31 March 2018	Year to 31 March 2017
Total number of special payments		
Ex-gratia payments/compensation	10	14
	Year to 31 March 2018 £000	**Year to 31 March 2017 £000**
Total value of special payments		
Ex-gratia payments/compensation	37	755

Details of cases over £300,000

There are no special payments greater that £300,000.

Dart Charge losses

The 2017-18 losses include £52.7m in relation to 2016-17 Dartford Crossing charges (2016-17, restated: £19.5m in relation to 2015-16). Of this, £48.7m relates to the impairment of receivables for both road user charges and penalty charge notices, which became irrecoverable, and £4.0m relates to penalty charge notices that were not issued (2016-17: £10.7m and £8.8m respectively in relation to 2015-16). This can happen for a number of reasons including vehicle keeper details not being available, poor images, mis-read number plates, system errors and illegal activity/evasion (eg. cloned vehicles).

(iv) Segmental reporting

	Year to 31 March 2018					
	Resource Expenditure £000	Resource Income £000	Resource Total £000	Capital Expenditure £000	Capital Income* £000	Capital Total £000
Total by segment						
Asset renewals	-	-	-	766,629	-	766,629
Asset improvements	-	-	-	1,380,998	(21,115)	1,359,883
Traffic management	-	-	-	9,425	-	9,425
Other	-	-	-	183,052	-	183,052
Maintenance (B3)	271,034	(10,221)	260,813	-	-	-
Renewals (B4)	10,743	-	10,743	-	-	-
Operate: roads PFI (B5)	421,402	-	421,402	-	-	-
Operate: general (B1)	86,766	(26,294)	60,472	-	-	-
Operate: cust ops/traffic man (B2)	113,633	(4,964)	108,669	-	-	-
Support general (C1)	169,900	(7,943)	161,957	-	-	-
Protocols (D)	57,804	(8)	57,796	-	-	-
	1,131,282	**(49,430)**	**1,081,852**	**2,340,104**	**(21,115)**	**2,318,989**
Unallocated Costs:						
Depreciation and impairment	1,430,459	-	1,430,459	-	-	-
New provisions (resource AME)	6,386	-	6,386	-	-	-
New provisions (capital AME)	-	-	-	3,492	-	3,492
Taxation		-				
Other	222,409	-	222,409	1,501	14,594	16,095
Total Budget	**2,790,536**	**(49,430)**	**2,741,106**	**2,345,097**	**(6,521)**	**2,338,576**
Budget to accounts reconciliation						
Resource utilisation	-	(2,625)	(2,625)	-	-	-
Capital income in resource transfer	-	(6,521)	(6,521)	-	6,521	6,521
R&D capital transfer	5,968	-	5,968	(5,968)	-	(5,968)
Segmental total per accounts	**2,796,504**	**(58,576)**	**2,737,928**	**2,339,129**	**-**	**2,339,129**

* Income which relates to capital projects is classified as capital for budgetary purposes; however under IFRS this is treated as operating income in the SoCNE.

	Year to 31 March 2017					
	Resource Expenditure £000	Resource Income £000	Resource Total £000	Capital Expenditure £000	Capital Income* £000	Capital Total £000
Total by Segment						
Asset renewals	-	-	-	619,917	-	619,917
Asset improvements	-	-	-	1,333,354	(54,260)	1,279,094
Traffic management	-	-	-	6,236	-	6,236
Other	-	-	-	115,483	-	115,483
Maintenance (B3)	266,163	(6,538)	259,625	-	-	-
Renewals (B4)	10,130	-	10,130	-	-	-
Operate: roads PFI (B5)	412,123	-	412,123	-	-	-
Operate: general (B1)	79,397	(11,679)	67,718	(415)	-	(415)
Operate: cust ops/traffic man (B2)	112,144	(3,363)	108,781	-	-	-
Support general (C1)	150,365	(5,935)	144,430	-	-	-
Protocols (D)	49,181	(438)	48,743	-	-	-
	1,079,503	**(27,953)**	**1,051,550**	**2,074,575**	**(54,260)**	**2,020,315**
Unallocated Costs						
Depreciation and impairment	1,188,887	-	1,188,887	-	-	-
New provisions (resource AME)	3,562	-	3,562	-	-	-
New provisions (capital AME)	-	-	-	30,495	-	30,495
Taxation	-	-		-		-
Other	10,706	-	10,706	-	-	-
Total Budget	**2,282,658**	**(27,953)**	**2,254,705**	**2,105,070**	**(54,260)**	**2,050,810**
Budget to accounts reconciliation						
Resource utilisation	-	(3,396)	(3,396)	-	-	-
Capital income in resource transfer	-	(46,069)	(46,069)	-	46,069	46,069
R&D capital transfer	-	-	-	-	-	-
Segmental total per accounts	**2,282,658**	**(77,418)**	**2,205,240**	**2,105,070**	**(8,191)**	**2,096,879**

*Income which relates to capital projects is classified as capital for budgetary purposes; however under IFRS this is treated as operating income in the SoCNE.

Segmental expenditure

- The operating segments are business activities that are regularly reviewed by the Company's Board and senior management for decision-making purposes
- Expenditure in the financial statements is split between capital and resource expenditure
- Assets renewals are a programme of SRN renewals expenditure to ensure the infrastructure continues to deliver according to the service potential, including a significant resurfacing programme
- Asset improvements include an agreed programme of major improvements expenditure which contributes significantly to increasing capacity and removing bottlenecks
- Maintenance expenditure relates to lump sum duties including winter maintenance, pothole repairs, drainage clearing and grass cutting
- Operate expenditure includes the costs of strengthening the Company's SRN management function, maximising SRN availability and reducing the impact of incidents and recurrent congestion
- Support expenditure includes the resources to help deliver the programme, including staff costs, IT and research and development

(v) Highways England off payroll appointees, consultancy and temporary staff

1. As part of the Review of tax arrangements of public sector appointees published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on their off payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. This data is shown in the following tables.

For all off payroll engagements as of 31 March 2018, for more than £245 per day and that last for longer than six months

No. of existing engagements as of 31 March 2018	60
Of which	
No. that have existed for less than one year at time of reporting	15
No. that have existed for between one and two years at time of reporting	39
No. that have existed for between two and three years at time of reporting	5
No. that have existed for between three and four years at time of reporting	-
No. that have existed for four or more years at time of reporting	1

2. The Company confirms that all existing off payroll engagements, outlined above, have at some point been subject to a risk-based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that further evidence has been sought.

For all new off payroll engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018, for more than £245 per day and that lasted for longer than six months

No. of new engagements, or those that reached six months in duration, between 1 April 2017 and 31 March 2018	33
Of which	
No. assessed as caught by IR35	31
No. assessed as not caught by IR35	2
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	-
No. of engagements reassessed for consistency /assurance purposes during the year.	5
No. of engagements that saw a change to IR35 status following a consistency review.	1

3. All contracts included contractual clauses giving the Company and the Department the right to request assurance. All engagements were ones where the Department requested tax compliance evidence and there were no contracts where an individual was exempt from this requirement.

For any off payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2017 and 31 March 2018

No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year.	-
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements.	13

4. During the year 2017-18, the Company employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff is shown in the table below.

Expenditure on consultancy and temporary staff

	Consultancy £m	Temporary staff £m	Total £m
Highways England	2.6	15.6	18.2

Consultancy here is the provision of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited. Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

Glossary

All lane running	A type of a road design where there is no dedicated hard shoulder. CCTV cameras and variable message signs are used to regulate speed and close lanes in the event of an incident or congestion
CLEAR	Collision, Lead, Evaluate, Act and Reopen initiative
DartCharge	A cashless payment system for the Dartford Crossing
Designated Funds	The government has created a series of Designated Funds, to address a range of issues over and above the traditional focus of road investment, including: growth and housing, innovation, environment, air quality, and cycling, safety and integration
DfT	Department for Transport
EDI	Equality, Diversity and Inclusion
Expressways	An upgrade for A-roads to provide motorway quality journeys to drivers
GHF	Growth and Housing Fund
KPI	Key performance indicator. A key metric used to define and measure progress towards organisational objectives
Noise important areas	The areas where 1% of the population that are affected by the highest noise levels from major roads in England are located
Office of Rail and Road	The Highways England Monitor, responsible for monitoring the costs, efficiency and performance of the Company
Outturn	Actual financial results at the year-end
PFI	Private finance initiative
RIS	Road Investment Strategy. The £15 billion funding allocated to Highways England includes £11.4 billion relating to the first five-year Road Investment Strategy (2015-20). The remaining funding has been committed to the first year of the next road period (2020-25)
RIS2	Second Road Investment Strategy (2020-2025)
Smart motorway	Smart motorways use technology and active traffic management techniques to enable the hard shoulder to be converted into a running lane at the busiest times
SRN	Strategic road network
Transport Focus	The independent watchdog responsible for gathering the views of SRN users and using these to shape policy and decision-making
VMS	Variable message signs
Vulnerable users	Non-motorised users of the network, including cyclists, pedestrians and horse riders

This document is also available on our website at **www.highwaysengland.co.uk**
For an accessible version of this publication please call **0300 123 5000** and we will help you.

If you have any enquiries about this publication email **info@highwaysengland.co.uk** or call **0300 123 5000***. Please quote the Highways England publications code **PR51/18**.

Highways England creative job number GFD17_0045
*Calls to 03 numbers cost no more than a national rate call to an 01 or 02 number and must count towards any inclusive minutes in the same way as 01 and 02 calls. These rules apply to calls from any type of line including mobile, BT, other fixed line or payphone. Calls may be recorded or monitored.

Printed on paper from well-managed forests and other controlled sources when issued directly by Highways England.

Registered office Bridge House, 1 Walnut Tree Close, Guildford GU1 4LZ
Highways England Company Limited registered in England and Wales number 09346363

CCS0618833468
978-1-5286-0520-5