

Severn Bridges Act 1992 Account 2017-18

Severn Bridges Act 1992 Account 2017-18

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

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Foreword and Management Commentary

Background Information

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

The 1965 Act was repealed by the Severn Bridges Act 1992 (“the 1992 Act”) which provided for the Secretary of State to procure, using private funds, the construction of a second tolled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

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

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

Under section 5.1.1 of the concession agreement, as amended by the supplemental agreements (detailed below), the concession period was to end when SRC achieved a cumulative revenue of £1,028,910,000, expressed in July 1989 prices. Highways England Company Limited (Highways England) reviewed the projected concession end date every six months using data supplied by SRC to gain assurance that the revenue target would be recovered within the concession period. Highways England also obtained assurance on the cumulative level of tolls from SRC’s annual financial statements. The revenue target was achieved on 3 November 2018 – the end of the concession agreement is discussed further below.

The crossing is managed by Highways England on behalf of its legal owner, the Department for Transport, under a protocol agreement with the Secretary of State. The Severn River Crossings and associated balances were excluded from the balances transferred to Highways England under the Infrastructure Act 2015.

End of the Concession Agreement

The concession period ended on 7 January 2018, as agreed between the Secretary of State and the concessionaire (SRC) with the bridges then returning to public ownership. This date was based on the expected point that the cumulative real revenue target, as set by the Concession Agreement and subsequent supplementary agreements, would be achieved by SRC through tolling.

A dispute existed between the Secretary of State and SRC as to whether reductions in the rate of corporation tax, introduced by the Finance Acts 2012 and 2013, constituted a Beneficial Relevant Event (BRE) under the Concession Agreement. Arbitration concluded in the Secretary of State’s favour in January 2018, meaning that the revenue target built into the Concession Agreement was reduced by the value of the cumulative benefit to SRC of the corporation tax changes.

The agreed concession end date of 7 January 2018 was fixed to give certainty to all parties. However, the reduction in the revenue target resulting from the arbitration ruling means that the concession period should have ended on 4 November 2017.

The outcome of arbitration means that the Secretary of State has benefited from £18.2 million payable by SRC plc, representing gross benefits between the revised date on which the concession should have ended under the agreement of 3 November 2017 and the actual end date of 7 January 2018 (the 'transitional period'). This is included as Tolling Income in the Income and Expenditure Account. Costs of £8.5 million were charged on by SRC plc, including the running costs of tolling operations during the Nov-Jan period. The net benefit from the transitional period acts to decrease the amount legally recoverable under the Severn Bridges Act 1992 through future tolling, offset slightly by other costs, principally infrastructure maintenance, as the Department paid to the Consolidated Fund after the year end in respect of the net benefit of the November 2017 to January 2018 tolling, described in Note 9 to the accounts.

Cessation of tolling

The government stopped using its tolling powers under the Severn Bridges Act on 7 January 2018, at the same point as the agreed concession end date. No tolling revenue has been recognised in these accounts since that date.

Charging scheme

Between 8 January 2018 and 17 December 2018 – at which point the bridge became free to use – road users continued to be charged, at a reduced rate. This was under the authority of a separate charging scheme governed by the M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017. Revenue under this scheme was payable to the Secretary of State (Department for Transport) as the charging authority and is not included in these accounts. This income under the charging scheme is reported in the Department for Transport's accounts for 2017-18 and 2018-19. The scheme has ended on 17 December 2018 at which point all charging infrastructure was removed.

Key arrangements during the concession period are described below.

Financing

Under the concession agreement, SRC assumed responsibility for £122 million of the £126 million outstanding debt on the existing bridge. Subsequent agreements provided for interest payable to the Secretary of State on the proportion of this which was not immediately paid off. The final repayment in respect of these financing arrangements was made in 2015-16, so no interest income appears in this set of accounts or the comparative information. Further information is available in previous accounts.

Relevant events

Value Added Tax

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

The Government gave a commitment to offset the cost of VAT and protect the motorist from the impact of the ruling, and agreed to re-finance the Severn River Crossing concession. This was formalised in the second Supplemental Agreement that was signed in December 2002. This increased the revenue target from £976,834,740 to £995,830,000, expressed in July 1989 prices, to fully compensate SRC for the loss of VAT related revenue.

Industrial Buildings Allowance

The Finance Act 2007 contained provisions to abolish Industrial Buildings Allowances (IBAs) over a phased period between 2008 and 2011. Under the terms of the concession agreement SRC notified the Highways Agency on 22 February 2010 that it considered this change to be an Adverse Relevant Event (ARE) which significantly affected the financial viability of the concession.

The Highways Agency England also identified the corporation tax rate reductions over the concession period as a Beneficial Relevant Event (BRE). The Finance (No2) Act 2010 increased the rate of VAT to 20% with effect from 4 January 2011. On 27 August 2010, SRC gave notice of this tax change as a further ARE. The Highways Agency proposed a settlement with SRC in September 2011 as a remedy to these relevant events to enable SRC to complete its obligations under the Concession Agreement. Following detailed negotiations, a Third Supplemental Agreement was signed in June 2012 that increased the value of the cumulative real revenue target by £33.08 million to £1,028,910,000 (all in July 1989 prices). This increase comprised of £23.72 million for the tax changes and £9.36 million for the additional cost associated with toll card payments.

Toll payment methods

On 19 March 2010 The Severn Bridges (Amendment) Regulations 2010 came in to force and permitted the Severn tolls to be paid by "a recognised means of payment" rather than the previous requirement for payment "in cash". SRC introduced facilities for card payments of the tolls in September 2010 and phased in, lane by lane, a system for faster card transactions. The additional costs of implementing and operating the card payment system were included within the settlement outlined above at a value of £9.36 million (in July 1989 prices).

New Facility

To enable SRC to deal with the cash flow changes brought about by the ARE described above and the agreed remedy, a New Facility Consent Letter was agreed pursuant to the Subordinated Loan Agreement between the Secretary of State and SRC. This allowed SRC to obtain a new short term working capital facility to enable the full repayment of debentures when due. In December 2012 SRC obtained a new £30m working capital facility and a new Intercreditor Agreement was put in place.

In October 2015, SRC repaid all the remaining debt and accumulated interest balance against the Subordinated Loan. In order to finance this prepayment, with the Secretary of State's consent, the company entered into an unsecured corporate finance term facility.

Financial Implications of cable corrosions

Significant corrosion of the main suspension cables of the M48 Severn Bridge was identified during an intrusive inspection programme that started in April 2006. Following completion of the special investigations, and the subsequent laboratory wire testing, structural assessment certificates for the Severn Bridge, were signed on 1 April 2008. The assessment certificates have been recertified annually since 2008.

Traffic Management

The M48 Severn Crossing provides a key transportation link supporting the surrounding local economies in England and Wales and Highways England recognises the importance of keeping this route safe and open to traffic. Highways England continues to plan for the long term maintenance of the M48 Severn Bridge. The expenditure included in these accounts reflects the costs incurred by Highways England in pursuit of this objective during the year.

Accounts of the Secretary of State

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

The Severn Bridges Act 1992 Accounts record the cumulative net deficit legally recoverable under the Act, and in case of recovery, payable to the Exchequer. Until the Act is amended or repealed, the Secretary of State could legally recover this deficit through tolling, now that the concession period has ended. Under Section 5 (4) of the 1992 Act the power to levy tolls will cease on 25 April 2027 or such earlier date as may be determined under Section 7 of the 1992 Act when the total receipts accruing to the Secretary of State equal or exceed the cumulative net deficit owed to the Exchequer at the end of the concession period.

Expenditure shown in these accounts is also reflected in Highways England's accounts and reflects the relevant costs over the full year.

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

Recovery through tolling is not now expected to occur following the Secretary of State's decision to cease tolling on 21 July 2017. Following the continuing requirements of the Act and HM Treasury direction, these accounts continue to present the change in the cumulative net deficit legally recoverable under the Act; however, the Statement of Assets and Liabilities reflects an impairment to the asset recognised in respect of this legal right to toll, reflecting the government's intention not to use these powers, now that the toll has been abolished.

The charging scheme referred to above is not within the scope of these accounts due to its separate legal authority. Separate accounts for the charging scheme will be published at a later date. Tolling income within these accounts relates to the amount received under the 1992 Act from the concessionaire as described above.

The accounts have been audited by the Comptroller and Auditor General (C&AG) under the Severn Bridges Act 1992. His audit certificate and report are at pages 10 to 12.

Statement regarding Disclosure of Information to the Auditors

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

Bernadette Kelly
Accounting Officer

19 March 2019

Statement of Secretary of State and Accounting Officer responsibilities

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

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

- Observe the Accounts Direction issued by Secretary of State including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

HM Treasury has appointed the Permanent Secretary for the DfT as the Accounting Officer for the account. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in HM Treasury's *Managing Public Money*.

Governance Statement

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

HM Treasury introduced an updated Corporate Governance Code for central government departments in July 2011 focusing on the role of the board in providing leadership. I have provided details below of how Highways England's system of corporate governance has operated during 2017-18, including any areas where the system has not operated in line with the code.

The protocol agreement between the Secretary of State and Highways England supports me as has allowed the Accounting Officer to discharge my responsibility relating to the Severn River Crossing, as detailed in these accounts.

Role of the Accounting Officer

The Secretary of State has appointed me, as Permanent Secretary for the DfT, as Accounting Officer. I have responsibility for maintaining a sound system of governance that supports the achievement of DfT policies, aims and objectives, whilst safeguarding the public funds and DfT assets for which I am personally responsible, in accordance with the responsibilities assigned to me in HM Treasury's *Managing Public Money*.

Governance Framework

As the concession finished during the year the Severn River Crossing governance framework is largely reliant on Highways England governance arrangement. Both Severn Bridges Act 1992 and the Highways England governance arrangements are set out below.

Severn River Crossing Governance Framework

The Concession Agreement allows for the appointment of a Government's Representative to act as the Secretary of State's agent in connection with the operation and maintenance of the Crossings. The role of the Government's Representative (GR) is to safeguard the Secretary of State's interests in the Crossings during the concession period; this role was undertaken by Atkins Skanska.

Highways England had a team of people who monitored and managed the relationship with SRC and the GR. Regular meetings took place with SRC with additional meetings taking place specifically to plan for the end of the concession agreement.

Twice a year Highways England's finance team undertook a review of SRC's cash flow forecasts to make an assessment of, and gain assurance that SRC would be able to meet its liabilities as they fall due. In addition, SRC engaged independent auditors to confirm that the cash flow forecast was consistent with the accounting records and that it had been prepared in accordance with the Inter-Creditor Agreement. This audit report is submitted to the Secretary of State for DfT.

SRC's internal auditors carried out an annual programme of reviews to provide assurance on the management of key risks. For the year ended 31 March 2018, the internal auditors reviewed the processes and controls relating to toll revenues, non-payment of tolls, toll violations and payroll. The internal audit opinion indicates that no significant weaknesses were identified as part of these reviews.

Highways England's Governance Framework

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

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

The key elements of Highways England governance framework are:

- the Board and Executive Committees;
- Highways England Audit & Risk Committee and its Counter-Fraud Group; and
- a sound system of internal control, including audit and assurance activity and formal risk management processes.

Board and Executive Committee

Highways England is managed by a formal Board and an Executive Committee, supported by a Board Safety Committee, an Audit and Risk Committee, a Nominations Committee, Remuneration Committee and eight sub-groups of the Executive Committee. The Boards and Committees review their own effectiveness annually and identify and take action to improve performance where appropriate.

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

Board

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

Risk management

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

Highways England Audit & Risk Committee delegate responsibility to the Chief Finance Officer (CFO). The CFO reviews the Severn Bridges Accounts and audit recommendations on an annual basis. In addition, the Severn Bridges Accounts are reviewed by the Department for Transport and members of its Audit and Risk Committee.

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

Internal control framework

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

The Board is responsible for ensuring that an effective internal control framework is in place. Such a framework is designed to minimise risks to the achievement of business objectives to a reasonable level, in line with the risk appetite.

Financial management

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

- a mandatory Investment Control Framework to test whether proposed a project or expenditure offers value for money. The arrangements complement larger value approvals required from DfT or Ministers;
- financial propriety and other requirements from HM Treasury's *Managing Public Money*;
- an Executive Finance Group to plan, control and manage resources effectively to support decision making;
- an Oracle financial accounting system with embedded controls;
- asset management procedures to record and account for all assets;
- a Counter-Fraud Group to oversee the handling of any significant issues or allegations; and
- Investors in People accreditation; a proven business improvement framework that significantly improves financial performance.

Management Assurance Reporting

Highways England operates an ongoing management assurance process with quarterly sign offs. Highways England submit formal management assurance returns to DfT twice yearly, after nine months and year-end, in line with the DfT timetable. Management assurance covers a broad range of internal controls and governance. The evidence collated forms part of a corporate assurance process which enables the Accounting Officer of Highways England to sign off the Governance Statement in the Highways England Annual Report and Accounts. The information is used by DfT to support my own governance processes as Permanent Secretary and Accounting Officer of the Department for Transport.

Based on the governance arrangements summarised above, I am satisfied that there was a sound level of internal control throughout the reporting period.

Bernadette Kelly
Accounting Officer

19 March 2019

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

Opinion on financial statements

I certify that I have audited the financial statements of the Severn Bridges Act 1992 Accounts for the year ended 31 March 2018, under the Severn Bridges Act 1992. The financial statements comprise: the income and expenditure account, the statement of assets and liabilities, and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of the assets and liabilities of the Secretary of State in relation to his responsibilities under the Severn Bridges Act 1992 as at 31 March 2018 and of the income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Severn Bridges Act 1992 and HM Treasury directions issued thereunder.

Emphasis of Matter in respect of the post-year end decision to cease tolling

Without qualifying my opinion I draw attention to the disclosures made in the Income and Expenditure Account, which describes the impairment of amounts expected to be recovered and paid to the Consolidated Fund as a result of the Government's decision to cease tolling, as well as the disclosure in note 9 to the financial statements that the Department for Transport does not expect to make further payments under the Severn Bridges Act to the Consolidated Fund in future years.

Opinion on regularity

In my opinion, in all material respects 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.

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 certificate. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the preparing authority for the Severn Bridges Act 1992 accounts, the Department for Transport, 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.

Responsibilities of the Secretary of State and Accounting Officer for the financial statements

As explained more fully in the Statement of Secretary of State and Accounting Officer Responsibilities, the Secretary of State and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit, certify and report on the financial statements in accordance with the Severn Bridges Act 1992.

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 internal controls.
- 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 the reasonableness of the use of this basis of accounting for these financial statements, in the context of the requirements of the Severn Bridges Act 1992. 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 consolidated 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 reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Other Information

The Secretary of State and the Accounting Officer are responsible for the other information. The other information comprises information included in the Foreword and Management Commentary, Statement of Secretary of State and Accounting Officer responsibilities and Governance Statement. 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.

Opinion on other matters

In my opinion:

- in the light of the knowledge and understanding of the Severn Bridges Act 1992 Accounts and the relevant environment obtained in the course of the audit, I have not identified any material misstatements in the Foreword and Management Commentary, Statement of Secretary of State and Accounting Officer responsibilities and Governance Statement; and
- the information given in the Foreword and Management Commentary, Statement of Secretary of State and Accounting Officer responsibilities and Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

26 March 2019

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

Income and Expenditure Account for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Income			
Tolling income		18,234	–
Total income		18,234	–
Expenditure			
Operations	2	(988)	(4,121)
Administration	3	(1,215)	(805)
Transitional costs	4	(8,519)	–
Notional Interest	5	(1,936)	(1,685)
Total Expenditure		(12,658)	(6,611)
(Deficit)/surplus for the year		5,576	(6,611)
Deficit brought forward		(94,122)	(87,511)
Total accumulated deficit legally recoverable through tolling and due to the Consolidated Fund in case of recovery		(88,546)	(94,122)
Impairment of amount expected to be recovered and paid to Consolidated Fund following decision to cease tolling	7	78,831	–
Total accumulated deficit expected to be recovered and paid to the Consolidated Fund	9	(9,715)	(94,122)

The accumulated deficit represents the cumulative net costs to the Exchequer in relation to the operation and maintenance of the Severn River crossings, not borne by the Concessionaire. This amount remains legally recoverable through tolling until the Act is repealed or amended and is presented here in accordance with the Act and accounts direction; however, recovery is not expected following the Government's decision during the year to end the tolling scheme on the Severn Bridge. Note 9 explains the basis of payment made to the Consolidated Fund following the year end.

The notes on pages 15 to 18 form part of these accounts.

Statement of Assets and Liabilities as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Non-current assets			
Accumulated deficit legally recoverable through tolling		88,546	94,122
Impairment reflecting cessation of tolling scheme		(78,831)	–
		9,715	94,122
Current liabilities			
Trade and other payables	6	–	(437)
Total assets less liabilities		9,715	93,685
Amounts due to the Consolidated Fund	7	9,715	93,685

Bernadette Kelly
Accounting Officer

19 March 2019

The notes on pages 15 to 18 form part of these accounts

Notes to the Accounts

1 Statement of Accounting Policies

Accounting Convention

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

These accounts have been prepared in accordance with the 2017-18 Financial Reporting Manual (FRM) issued by HM Treasury.

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

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

2 Operations

	2017-18	2016-17
	£000	£000
Ancillary works; repairs and strengthening; and structural maintenance*	988	4,121
	988	4,121

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

3 Administration

	2017-18	2016-17
	£000	£000
Administration expenditure comprises:		
Legal and professional*	66	15
Consulting engineers	941	683
Other Administration	208	107
	1,215	805

*This includes the auditors' remuneration of £15,000 (2016-17: £15,000) and was for the audit of the 2017-18 Severn Bridges Act 1992 Accounts. During the year Highways England and the Department for Transport did not purchase any non-audit services from its auditors, the National Audit Office.

4 Transitional expenditure

	2017-18	2016-17
	£000	£000
Purchase of assets	2,317	–
Transition running costs	5,598	–
Other transition costs	604	–
	<u>8,519</u>	<u>–</u>

The expenditure above was agreed as part of the final completion statement relating to the end of the concession. Transitional expenditure refers to costs incurred between the date of the revenue target being met and date of the agreed end of the concession period. These costs are deductible from the tolling income payable to the Consolidated Fund.

5 Notional Interest

	2017-18	2016-17
	£000	£000
Notional Interest on:		
Amount owed to Consolidated Fund at 26 April 1992	734	734
Receipt and payment transactions	16	26
Accumulated annual deficits	1,186	925
	<u>1,936</u>	<u>1,685</u>

In accordance with the Accounts Direction issued by HM Treasury, notional interest continues to accrue even though all loan amounts have been repaid.

6 Trade and other payables

	2017-18	2016-17
	£000	£000
Accruals:		
Operations	–	245
Administration	–	192
	<u>–</u>	<u>437</u>

7 Amount due to the Consolidated Fund

	2017-18	2016-17
	£000	£000
Debt due to the Consolidated Fund at 1 April	93,685	87,384
Notional Interest	1,936	1,685
Audit Fee	15	15
Net cash advances*	11,144	4,601
Tolls received	(18,234)	–
Gross amount legally due to the Consolidated Fund at 31 March	88,546	93,685
Impairment of amount expected to be recovered and paid to Consolidated Fund following decision to cease tolling	(78,831)	–
Debt due to the Consolidated Fund at 31 March	9,715	93,685

	2017-18	2016-17
	£000	£000
* Net cash advances		
In-year cash expenditure	11,156	4,613
Recoveries from Severn River Crossing	(12)	(12)
	11,144	4,601

8 Financial Instruments

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

Liquidity risk

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

Credit risk

Highways England does not consider there is significant credit risk, as these Severn Bridges Act accounts do not record routine financial asset balances which would be subject to normal credit risk.

Interest Rate Risk

This is the risk that Highways England will suffer financial loss due to interest rate fluctuation. The majority of Highways England's financial assets and its financial liabilities carry nil or fixed rates of interest, however the notional interest on the accumulated annual deficits is calculated on the appropriate National Loans Fund maturity rate which has seen small fluctuations in recent years. The overall assessment is that Highways England is not exposed to significant interest rate risk. These accounts also record notional interest in accordance with the accounts direction. Such notional interest expenditure is sensitive to movements in interest rates. As tolling has now ceased, there is minimal prospect that such expenditures will be recovered through tolling, and so the accumulated deficit recorded in respect of these notional interest costs is impaired to nil in these accounts.

9 Events after the reporting period

These financial statements are laid before the Houses of Parliament by the Secretary of State for DfT.

On 8 January 2018 tolling under the Severn Bridges Act 1992 ceased and the M4 and M48 Motorways Order 2017 came into force, introducing a charging scheme for the Severn Bridges. Charging ceased entirely on 17 December 2018.

In August 2018, the DfT paid the amounts due to the Consolidated Fund from this account. At that date, VAT was considered recoverable on transitional costs, which were deductible from tolling income due to the Consolidated Fund. This resulted in a final payment to the Consolidated Fund of £11,033k made in August. Subsequently, DfT and Highways England confirmed that VAT is not recoverable on such transitional costs. Transitional costs in these accounts are therefore stated gross of VAT, resulting in an expected balance due to the Consolidated Fund of £9,715,000. Since the Department's primary funding source is the Consolidated Fund, the excess paid back to the Consolidated Fund from this account does not represent any overall gain or loss to the Exchequer.

As tolling has now ended, the Department does not expect to make further payments from these Severn Bridges Act accounts to the Consolidated Fund in future years.

The Accounting Officer authorised these financial statements for issue on the date of the Comptroller and Auditor General's certification.

Appendix A

Accounts direction given by the Treasury

Severn Bridges Act 1992

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

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

F Martin
Treasury Officer of Accounts

27 July 1994

Appendix B

Rates of interest direction given by the Treasury

Severn Bridges Act 1992

- 1 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are applicable to the accounts for the period 26 April 1992 to 31 March 1993 which were prepared in accordance with Section 28 of the Severn Bridges Act 1992:
 - a for subordinated debt and the opening balance due to the Consolidated Fund the average National Loans Fund ER 10 to 15 year interest rate and
 - b the average National Loans Fund 1 year Maturity rate in respect of receipts and payments.

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

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

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

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