

Highways Agency Annual Report and Accounts

2010-11



The Highways Agency
Annual Report and Accounts 2010-2011

Presented to the House of Commons pursuant to Section 7
of the Government Resources and Accounts Act 2000
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TO J3A (FOR M40)
9 MILES
9 MINS

Improving journey reliability

Foreword by the Chairman



Alan Cook

I was delighted to be appointed, in January 2011, as the first Non Executive Chairman of the Highways Agency Board, by the Secretary of State for Transport.

This is an important and significant change for the organisation. It signals a determined commitment to improve, still further, the levels of independent governance in place for an organisation that will spend in excess of £3 billion of public money operating, maintaining and enhancing the crucially important strategic road network in 2011-12.

In my opening months I have focussed my attention on two key areas: firstly I am visiting many parts of the organisation and have been very impressed with the high levels of commitment and dedication that I have found – both from our own staff and the teams of contractors working with us; secondly, I have been working on improving the levels of governance by the Board and am delighted to welcome Tim Walton as a new non-executive director. Tim is a board member of NHS Direct and the Accent Group, and brings valuable expertise in ICT and strategic information systems. He will be working alongside our existing and experienced non-executive directors David Hughes and Tracey Barlow, both of whom have agreed to serve on the Agency's Board for a further 2 years and 1 year respectively.

My attention is now turning to leading an independent review, commissioned by the Secretary of State for Transport, to determine the most appropriate approach to operating, maintaining and enhancing the strategic road network. This **Strategic Roads Review** is now fully underway and I am anticipating delivering recommendations to the Secretary of State in the autumn of 2011.

A handwritten signature in black ink, appearing to read 'Alan Cook', with a long horizontal flourish extending to the right.

Alan Cook CBE



Maintaining the Strategic Road Network

Chief Executive's Report



Graham Dalton

During 2010-11 the Highways Agency focussed on the task of operating and maintaining England's Motorway and Trunk Road network, whilst preparing the Agency and our suppliers for reductions in funding in the next few years. The strategic road network plays a vital role in supporting the national economy, and we have continued our efforts to reduce delays arising from incidents and congestion whilst continuing a programme of asset renewal and improvement that will ensure the network continues to serve all types of road user.

Following the General Election in May 2010 we implemented the Coalition Government's controls on discretionary expenditure, and reviewed our programme of major projects. We maintained progress on key improvement schemes, including completion of the A421 widening to dual carriageway in Bedfordshire and widening of the M1 in Nottinghamshire. A revised programme of major projects was announced with the Government's spending review in October, and work commenced immediately on preparations to start construction on 14 projects over the next 4 years.

Within the Agency, we have sought ways of streamlining how we work and in doing so have reduced our civil servant headcount by approximately 8%. A significant contribution towards this reduction was made by the release of the majority of our consultancy and temporary staff, many of whom had helped us to deliver the increased volume of investment under the fiscal stimulus programme in 2009-10. The Agency is now a leaner organisation ready to work within the reduced funding of the next few years.



Part of our cost reduction planning has been to fundamentally reassess our requirements for maintenance and renewal of the network, and we have developed a new maintenance specification and contract. In due course this will form the basis for all our maintenance contracts, with the first two expected to be tendered and awarded in 2011-12.

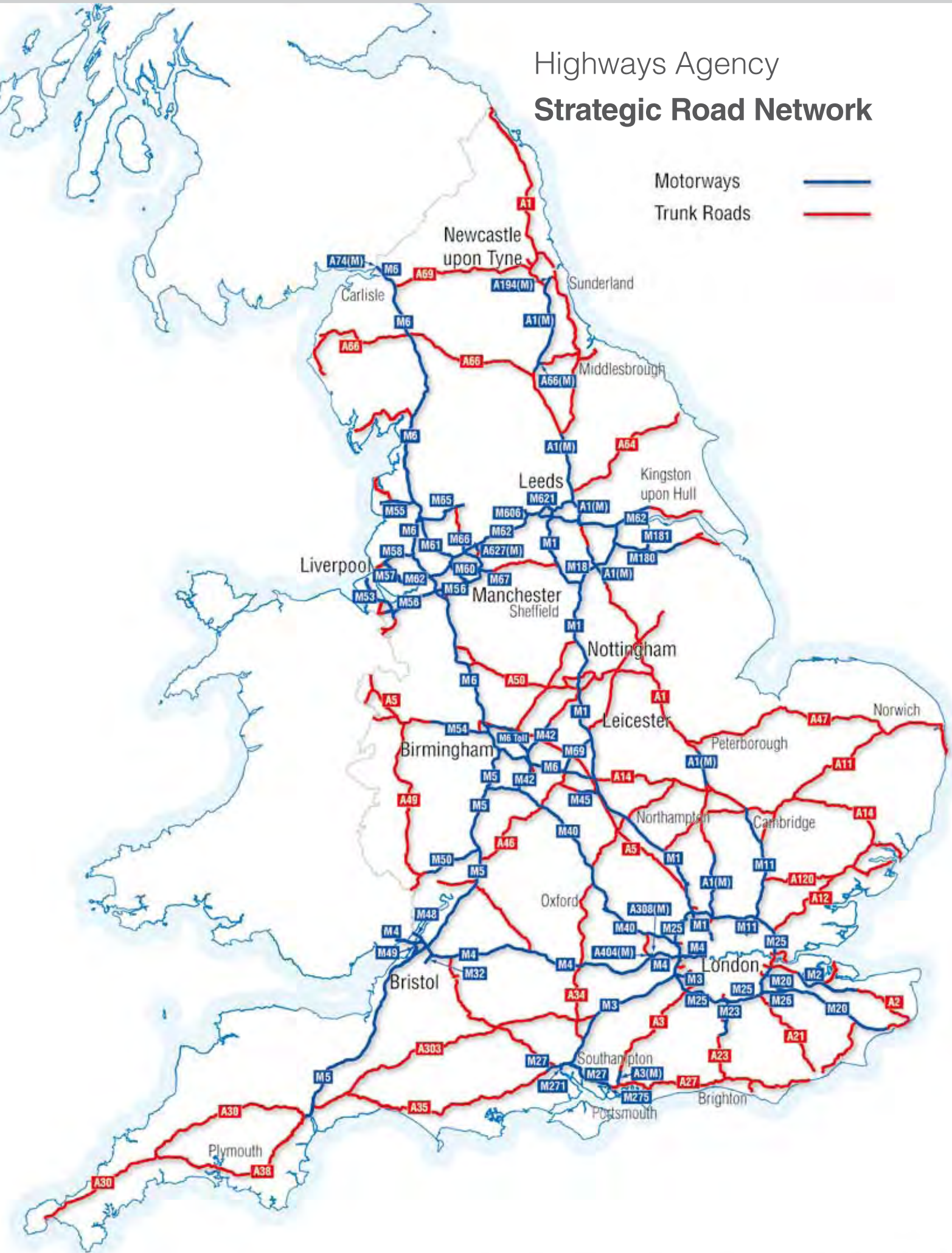
Whilst 2010-11 did see many successes for the Agency, it was overshadowed by the loss of 5 roadworkers' lives in separate incidents – two in incidents involving heavy construction plant and three in incidents on the carriageway. All of us across the Agency and our suppliers have been shocked by this series of incidents, and are doing all we can to ensure that our people have a safe working environment.

My thanks go to all those who have moved on from the Highways Agency for their contribution, in particular to Andrea Gregory who served as a non-executive director for five years, and to Steve Williams who retired in May 2011 after 10 years as an executive director. But above all, I would like to thank staff, both at the Agency and at our suppliers. When I visit our offices, control centres and outstations, I continue to be impressed by their enthusiasm to do the job efficiently and to do it effectively. Their continued dedication and commitment to rise to the challenges ahead is what makes the Highways Agency the innovative and effective organisation that it is today.

Graham Dalton

Highways Agency Strategic Road Network

Motorways 
Trunk Roads 



Section 1: About us

Our role

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

The Agency is managed by a formal board as shown in **Annex A**. Our role is laid down by the DfT in our Framework Document which is published on our website.

Vision and goals

The Agency's Strategic Plan 2010-15 set a bold vision for us to be **'The world's leading road operator'**. This aspiration is essential to drive business improvement and strengthen our contribution to Government goals.

We have five strategic goals that support our vision:

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

We support the DfT's vision for a transport system that is an engine for economic growth but one that is also greener and safer and improves quality of life in our communities.

Reviewing our approach

Ministers commissioned an independent review of the Agency to determine whether the government has the most appropriate approach to the operation, maintenance and enhancement of the strategic road network. It is due to report in October 2011. This is a good opportunity for the Government to set out with absolute clarity what it expects of us, and the funding and the wider resources allocated to achieve those objectives.



Four lane section of the M1 – part of the strategic road network

Section 2: A summary of our performance in 2010-11

How the Agency used resources in 2010-11

The Agency's Business Plan 2010-11, which was agreed with the DfT, set 12 key performance improvements for the Agency including:

- network reliability;
- road safety, measured through the reduction in number of people killed or seriously injured on the network;
- development and construction of major roads projects;
- customer satisfaction, measured through comprehensive road user surveys;
- reduction in carbon emissions and delivery of environmental improvements;
- maintenance of the condition of the road network;

- delivery of efficiency savings across specific spending areas, in particular, maintenance and administration

As at the date of preparing this report, eleven have been confirmed as achieved, full details of which can be found at **Annex B**. Results for the twelfth area, covering road safety, are undergoing statistical analysis and verification and are due for release in July 2011, after publication of this report. Results of performance in this area will be published on the Agency's website.

The Agency's budget for 2010-11

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

- DEL budgets (resource and capital) are firm plans

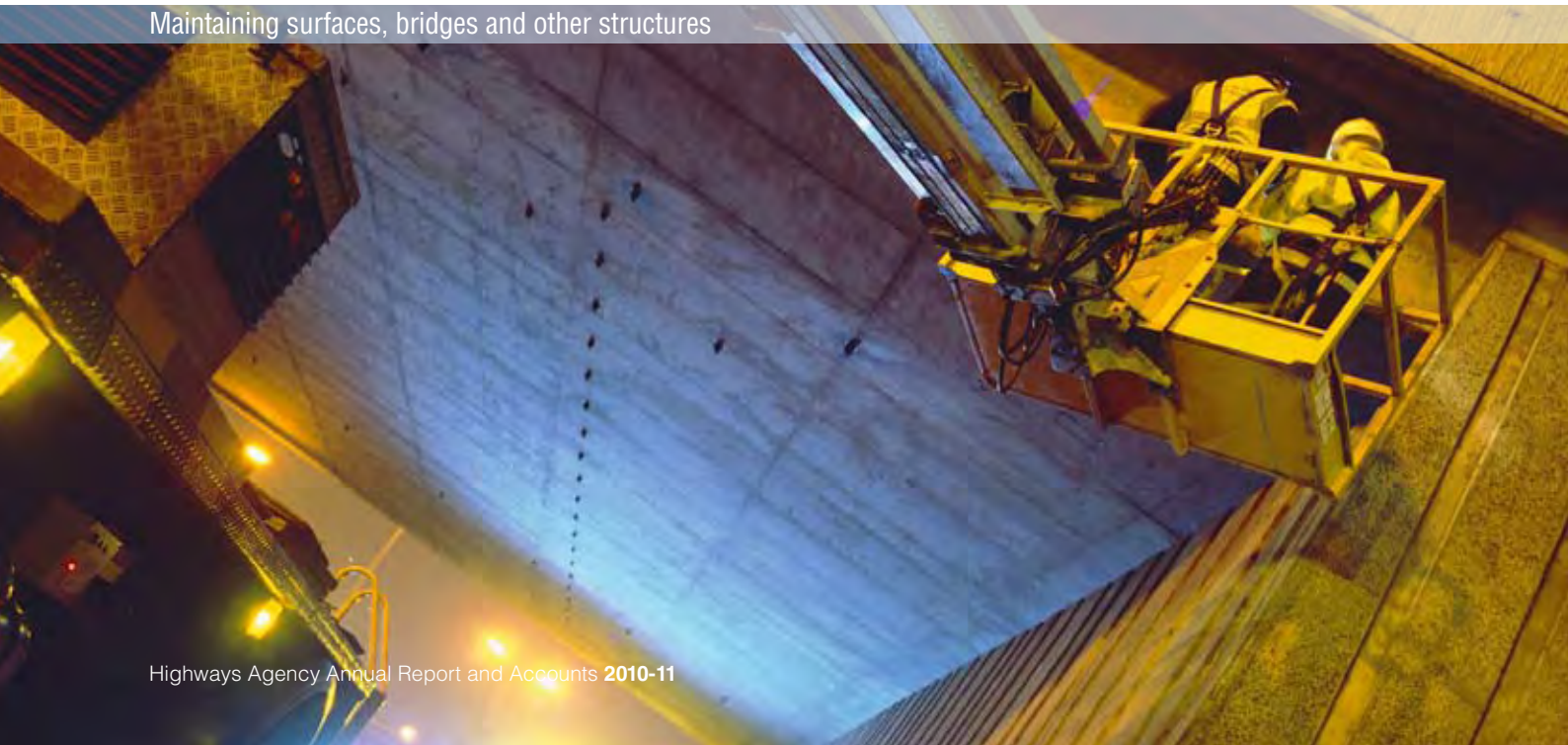
which were set in the 2007 Spending Review covering the three years to 2010-11.

- AME budgets apply to items that are demand-led or exceptionally volatile, where the Agency could not be expected to absorb the effects of volatility in its DEL.

The presentation of budgets has changed since the 2007 Spending Review to reflect the impact of implementation of International Financial Reporting Standards (IFRS) from 2009-10.

The Agency's 2011 Request for Resources voted by Parliament was £4,857m (2009-10 £5,037m). The Agency's total budget, which can include items not voted by Parliament, was the same as the RfR at £4,857m (2009-10 £5,022m). It should be noted that, for comparative purposes, both amounts quoted for 2009-10 exclude the cost

Maintaining surfaces, bridges and other structures



of capital charge (£3,012m) which, from 2010-11, is no longer a component in central Government accounts.

The accounts included in this report have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A segmental analysis of the Agency's 2010-11 expenditure is included at Note 2 to the accounts, the majority of which is maintenance and capital investment as follows:

Maintenance: The infrastructure of the strategic road network is one of the most valuable single public assets in the UK, and maintenance of it consumed a high proportion (over 29%), of the Agency's total resource and capital expenditure in 2010-11. The work undertaken includes replacing and maintaining surfaces, bridges and other structures. It also includes the associated upkeep of fencing, drainage, lighting

and signage, and the cost of keeping the network available in winter.

Public Finance Initiative (PFI): The Agency has entered into 13 PFI contracts for the design, build, finance and operation of sections of the network ranging from that to widen the M25 and maintain the motorway for 30 years through to the operation of the National Traffic Control Centre. Details of these are included in Note 18 of the accounts. Approximately 31% of the Agency's Resource DEL budget relates to the

service payments for these contracts.

Capital Investment:

During 2010-11 £1,608m (2009-10 £1,932m) was invested in the strategic road network. This expenditure was across some 900 (2009-10 1,040) maintenance renewal schemes as well as 50 (2009-10 60) major road schemes. The 50 highest value schemes accounted for capital investment of £1,046m (2009-10 £946m). The seven largest major road schemes in construction accounted for more than half of the overall spend:

Scheme	Expenditure in 2010-11 (£m)
M25 Design, Build, Finance and Operate (DBFO) Junctions 16-23	276
A46 Newark to Widmerpool	128
M25 DBFO contract Junctions 27-30	113
M1 Junctions 10-13	105
A1 Dishforth to Leeming	95
A421 M1 Junction 13 to Bedford	58
A3 Hindhead	56



A421 M1 Junction 13 to Bedford

The outturn against the budget can be summarised as follows:

Budgetary Performance 2010-11	Actual £m	Budget £m	Variance £m
Resource DEL (excluding depreciation)	1,056	1,214	158
Resource DEL depreciation	575	775	200
Resource AME	628	1,213	585
Total Net Operating Cost	2,259	3,202	943
Capital DEL	1,602	1,654	52
Total Budget	3,861	4,857	994

Resource DEL (excluding depreciation) variance

The positive variance reflects three main factors:

- i. higher income than budgeted
- ii. changes to programme expenditure arising post election, particularly of additional spending controls, and the re-assessment of specific projects, which had the impact of delaying or cancelling expenditure
- iii. lower use of existing provisions

Resource DEL depreciation variance

The final depreciation charge against the infrastructure asset was less than budgeted. The depreciation charge is impacted by the condition of road surfaces as well as the impact of inflation on the network valuation. Both of these factors are difficult to predict accurately in advance and both have been better than assumed at the time of setting the budget.

Resource AME variance

This resource expenditure represents the value of the write-down of the infrastructure asset to reflect the difference between the actual cost of construction and the current standard replacement cost. Further details of this can be found in Note 1.4 to the accounts. The significant under spend reflects changes to the investment programme made since the budget was set at the time of the 2007 Spending Review, in particular the move away from motorway widening to the development of Managed Motorways.

Capital DEL variance

Capital expenditure in the year has been impacted by the full review of all major projects in the immediate post-election period. This resulted in the rationalisation of the programme including cancellation of some schemes and confirmation of which new schemes will be started during the Spending Review 2010 period.

Resurfacing at night



Spending Plans for 2011-12

The Spending Review 2010 (SR10) settlement reduces the Agency's budget over the four years to 2014-15. However, having the certainty of knowing what money we have over the next four years allows us to plan ahead clearly, prioritise our activity and achieve the required efficiencies. Within the constraints of a tight public spending settlement, the Government has prioritised investment in infrastructure such as transport that supports economic growth. The settlement means we will manage an affordable programme of road schemes with 14 new schemes due to start over the next four years. These improvements will bring public benefits many times greater than the cost of the schemes.

In the year ahead, the Agency will continue to employ initiatives that make the best use of the network by providing additional capacity and

improving the use of existing road space to reduce congestion whilst maintaining the high standards of safety. Full details for 2011-12, including the budget, can be found in the Highways Agency 2011-12 Business Plan (<http://www.highways.gov.uk/businessplan>).

2011-12 Budget	Resource £m	Capital £m	Total £m
Road PFI Service Payments	394	-	394
Major Schemes	-	797	797
Network Management (incl. staff costs)	103	14	117
Traffic Officer Service (incl. staff costs)	90	5	95
Technology PFI Service Payments	66	-	66
Technology Projects	9	-	9
Maintenance (incl. renewals)	417	416	833
Smaller Schemes and R&D	45	31	76
Other (incl. other income)	(6)	-	(6)
Capitalised staff and Office Estate	-	25	25
Depreciation and impairment	868	-	868
Administration	83	-	83
Total DEL Budget	2,069	1,288	3,357

Planned administrative spending continues to reduce with a challenging target to reduce this by one third over the SR10 period.

Active Traffic Management – improving the use of the existing road space



Section 3: Operating the network

Making journeys more reliable

We understand that our road users need to know when they can expect to arrive at their destinations. Improving journey reliability has been one of our main aims in recent years. As a result of our work in the three years to March 2011 journey time reliability on the strategic road network has improved by 13%. This measure was replaced in April 2011 with a new, 'on time' reliability measure which is based on the percentage of journeys that are on time on the strategic road network.

Our traffic officers

Traffic officers play an important role on motorways and trunk roads across England, making our roads safer and ensuring disruption to customers as a result of incidents, such as breakdowns or debris, is minimised. They also free up valuable police

resources. The majority of traffic officer patrols are undertaken on motorways, but coverage extends to certain A roads in some regions. Traffic officers attended approximately 27,000 incidents each month in the last year.

Traffic officers operate in a challenging and dynamic working environment that has significant risks. In carrying out their duties they enhance the safety of all our road users – but it is a priority for us to ensure that, in doing so, their safety is not compromised. In October 2010 we published the Traffic Officer Health &

Safety Strategy which, together with a subsequent action plan, describes how we intend to meet the Agency's 'Aiming for Zero' vision that nobody comes to harm as a result of their work for us.

Providing information to road users

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

Our customers have wide ranging needs for information about our network – the real-time traffic information we provide both directly and through other service providers, enables all road users to make better journey planning decisions. Quality information is also needed for our own operational requirements, such

Daily Mail online:
Website Of The Week:
www.trafficengland.com

- July 2010

Ratings

Inspiring: 1/5

Useful: 5/5

Easy to use: 5/5

Rating: ★★★★★ (5*)

Tackling disruption caused by incidents

Congestion caused by motorway closures is estimated to cost the economy £1 billion each year. When incidents occur roads may need to be closed, in part or completely, to allow the emergency services to safely treat those who may be injured and for the police to collect data at the scene. To tackle congestion and drive down these costs, the DfT, working in partnership with the Home Office, the

Association of Chief Police Officers and the Agency, undertook a review of the management of incidents involving closures on motorways. The review was completed in January 2011, with a 10 point action plan announced by the Roads Minister in May 2011. The plan will help to ensure that closures take place only when they are absolutely necessary and for the minimum amount of time. The majority of the recommendations will be delivered by the end of 2011, with the remainder by the end of 2012.



as facilitating our traffic officers to quickly attend and clear incidents.

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

- Traffic England website www.highways.gov.uk/traffic
- HA iPhone app
- Traffic England mobile website
- HA traffic data on Google Maps
- HA traffic data on TomTom satellite navigation devices (from Spring 2011)
- ATLAS traffic service to media traffic information providers
- Variable message signs on the strategic road network
- 100 Highways Agency Information Points at motorway service areas
- Highways Agency Information Line (HAIL) 0300 123 5000
- Regional RSS feeds re current incidents
- Regional Twitter feeds automated from RSS feeds

Following a value for money review we have decided to withdraw two other services: our automated telephone information service ceased at the end of March 2011, and our Traffic Radio service on DAB and Internet will cease in August 2011.

From September 2011 the contract for NTCC services will be replaced by a National Traffic Information Service

Our customers appreciate:	Our customers tell us they dislike:
<ul style="list-style-type: none"> • Almost nine out of ten respondents say that the role of our traffic officers on the network is important • Over 60% think that managed motorways improve traffic flow, and over half (53%) say that the measures will contribute to safer journeys • The vast majority consider motorways (90%) and trunk roads (86%) to be generally free from litter. • Over eight out of ten find travel time messages on variable message signs helpful and 93% find the delay messages helpful. 	<ul style="list-style-type: none"> • Being delayed unexpectedly • Lack of information about planned closures and roadworks • Potholes and uneven road surfaces • Over half of road users experienced bad driving by others on their last journey on the network

arrangement. Much of the preparatory work has been undertaken during 2010-11. The new service will improve the way in which traffic data is

collected and processed, and support greater use of the data by others.

Listening to our customers

We seek feedback from our customers through national and area road users' satisfaction surveys, carried out throughout the year. In 2010-11 we met our performance target to improve satisfaction in our National

Road Users' Satisfaction Survey with a 2.2% improvement compared with 2009-10.

New technology on the network

During the year we have been piloting alternative technology to support our existing Motorway Incident Detection and Automated Signalling (MIDAS) system. Our new detector, Magnetic Anomaly Detection, uses a technology which detects disturbances to the Earth's magnetic field.

MIDAS works by using 'loops' in the road to detect traffic, and utilising this data to control the information displayed on our variable message signs. This helps to regulate traffic

flows and reduces the build up of long queues. However, being buried just beneath the carriageway surface, the loops require closures for maintenance and are not suited for bridges and viaducts, whereas our new technology can be used in these circumstances. The magnetic detectors are cheaper and more reliable than MIDAS loops on elevated sections of road, and are a suitable vehicle detector option to supersede MIDAS loops in new build sections.

So far we have successfully trialled the new detector on elevated sections of the A282 at Dartford and M5 near Birmingham.

M4 bus lane suspended

In November 2010 the M4 Bus Lane near Heathrow Airport was opened to all motorists travelling towards the capital - not just licensed black taxis, motorcycles and buses.

Analysis showed that journey times at peak periods would be reduced for car drivers and hauliers without significantly affecting vehicles currently allowed to use the lane.

The suspension will remain in place until June 2012 when the lane becomes part of the Olympic Route Network, after which the intention is to remove the lane restriction permanently.

Section 4: Maintaining the network

Maintaining our network to an optimum condition

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



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

being experienced across the whole of our network.

Exceptionally low temperatures and heavy widespread snowfall tested our winter service to the full, as we battled the elements to keep the network open and safe for use through the worst of the winter weather. The improvements we made to our winter service as a result of lessons learned from the last two severe winters served us well and, despite the wide coverage and severity of conditions, we managed to keep the whole of our network open almost continuously throughout the winter.

Following recommendations made by the Independent Winter Resilience Review last summer, we established a national salt reserve of 250,000 tonnes of salt, to support local authorities should demand during prolonged severe winter weather again outstrip domestic

Dealing with winter – business as usual

The recent trend for severe winter weather continued in 2010-11 with harsh conditions

Business as usual – loading a spreader from one of our salt depots





salt supply. We increased this salt reserve by an additional 250,000 tonnes, when the early onset of severe winter weather prompted the Secretary of State for Transport to further increase the country's salt stock resilience.

The subsequent distribution of nearly 100,000 tonnes of the national salt reserve to local authorities in most critical need helped to ensure that the country did not face the salt shortage issues that have been experienced over the last two seasons.

Building on our experience we took measures to reduce our salt usage, updating guidance so that our contractors used up to 30% less salt than traditional spreaders, as well as using our fleet of pre-wet salt spreaders, which require around 25% less salt. Pre-wet salt gets to work faster on the road surface to prevent ice formation, with smaller salt volumes benefiting the roadside environment and reducing structural and corrosion damage to the road itself.

Our role in infrastructure planning

We continue to exercise the Secretary of State's statutory

responsibilities for providing substantive responses to planning applications that impact on the strategic road network.

Our regional teams participate at all stages of the planning process to support national and regional economic performance. We seek to work with local authorities in the operation of an efficient planning system to support economic development while at the same time aiming to minimise the generation of additional traffic. As a result of this role we have this year supported the creation of over 6,000 new jobs and 2,000 new homes.

Looking ahead - new Asset Support Contracts

Beginning in July 2012, we will see the first of our new contracts become operational as part of the programme for replacing the existing Managing Agent Contractor (MAC) contracts – which currently form the basis of service delivery on most parts of our network – with new asset support contracts (ASC). The weighting between quality and cost has been adjusted making it clear where we want contractors to focus their efforts. Bids that are excessive in quality are not required. Other aspects of ASCs aimed at driving down costs include a move away from pricing derived from external factors, replaced with a schedule of rates, subject to year-on-year cost reductions.



These changes are expected to deliver substantial savings over the current arrangements and will help to achieve the government's commitment to reducing the budget deficit over the lifetime of this parliament.

This is not just a case of making modifications to the existing contracts, but will include significant new requirements focused on delivering real cost savings, rather than just efficiency, and concentrating on our key priorities, such as safety and winter service. It will be supported by new technical guidelines which will focus on the outcomes we need to achieve.

Section 5: Improving the network



Managed motorways – using technology to improve reliability

We recognise that we need to think innovatively about how we make better use of our network. Our **managed motorways** concept through which we dynamically manage the existing road space and actively control traffic is now

our standard approach to motorway improvement. To keep traffic moving, the hard shoulder is opened to traffic at peak times, reducing congestion and delivering safer journeys. Speed limits can be varied by the control centre in line with traffic flows, which are monitored by electronic loops under the road surface. Drivers are kept informed by means of overhead signals and gantry mounted signs. Closed circuit television (CCTV) monitoring of the hard shoulder and emergency refuge areas, which are provided at frequent intervals, mean that road users in difficulties can be assisted rapidly.

Managed motorways deliver additional capacity on average 40% more cheaply than conventional road widening. Evidence from the M42 pilot has demonstrated significant safety benefits from dynamic

Making better use of the network

In March 2011 our M6 J8 to 10A Birmingham Box Managed Motorways scheme was opened following the successful testing of signs and signals that help manage congestion and smooth traffic flows. The scheme was delivered to programme and within the £150 million budget.

This is the third Managed Motorways scheme with hard shoulder running to be delivered on our network, following the pilot on the M42 and the completion of the M6 Junction 4-5 scheme.

Evidence shows that road users say hard shoulder running has improved these sections of the 'Birmingham Box' motorways.

Excavation of the tunnels at Hindhead



hard shoulder running. Research published in March 2011 shows that accidents more than halved since the first-ever UK scheme was introduced on 10.5 miles of M42 (junctions 3a to 7), to the east of Birmingham.

Over the course of the year we have developed a programme of schemes involving dynamic use of the hard shoulder for use during the busiest periods. Innovative communications play a crucial role in making the strategic road network a dynamic asset. Variable message signs (VMS), closed circuit television (CCTV), and motorway incident detection and signalling systems (MIDAS) all contribute directly to the improved reliability of journey times. We continue to

Countries whose traffic authorities have visited us to find out about Managed Motorways include USA, France, Hong Kong, Japan, Belgium, Ireland, Spain and the United Arab Emirates.

achieve efficiencies in their delivery, and in 2010-11 we equipped a further 32 miles of motorway with MIDAS.

Traditional road improvements

As well as managed motorways other traditional road improvement activities continue and in 2010-11 we completed:

- **A421** – the missing 8 mile link of dual carriageway between the A1 and M1 was opened a month ahead of schedule in December 2010.
- **M40 Junction 15 – Longbridge roundabout** – the improvement of this strategic junction between the M40 and A46 was completed on time in June 2010.
- **M1 J25-28 Widening** – approximately 14 miles of motorway hard shoulder between Sandiacre (Junction 25) and Pinxton (Junction 28) was converted into an additional running lane to create 4 running

lanes, with a new hard shoulder built where possible. The scheme was completed in May 2010.

- 87 smaller local network management schemes (LNMS), each costing less than £10 million, to improve traffic flows and increase safety.

Looking ahead, in support of the Government objective of prioritising capital investment in economic infrastructure that supports growth, we have been funded to complete the seven major schemes currently under construction, and to start a further 14 by 2015.

Safety

We expect to achieve our 2010-11 Business Plan commitment of continuing to reduce the number of people killed or seriously injured on our network. The result for the year will be published in July 2011, following statistical verification. Over the last ten years we have achieved a 42% reduction in

Continued on next page ►

Hindhead – inside the tunnel

Award win for A3 Hindhead Tunnel

Our A3 Hindhead tunnel in Surrey has been recognised as the best of its type in the world, winning **best in class** at the *New Civil Engineer International Tunnelling Awards*.

The project to build a four mile bypass on the A3 at Hindhead opens in 2011 and will include the UK's longest under land road tunnel.

In total, more than three quarters of a million cubic metres of earth have been moved to create the new road, and more than three million man hours have been worked on the project.

Section 5: Improving the network - *continued*

the number of people killed or seriously injured on the network. The majority of the small engineering schemes, generally costing less than £5 million, are designed with the aim of improving safety.

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

- **Influencing improved road user behaviour**

- We worked with our customers directly, providing information and supporting and delivering road safety education to encourage more responsible driver behaviour. This helps to reduce personal injury accidents, and makes a contribution to casualty reductions country wide, not just on our network.

- **Partnership-working**

- Many measures that we take impact on local road networks. We therefore work closely with our partners, including local highway authorities, Casualty Reduction Partnerships and other road safety stakeholder groups, providing them with information about what we are doing, and working together to achieve common goals and outcomes.

- **Applying robust procedures**

- We have developed and implemented an integrated method of examining, assessing and managing the safety of routes using a combination of accident analysis, visual inspection, hazard identification and risk management.

Influencing road users to drive safely

The road worker safety strategy 2009-11 seeks to influence driver behaviour, for their own safety as well as for that of roadworkers. Changing the public's attitude to roadworks is a major challenge and will take time. We have made a start, working with the Chartered Institution of Highways and Transportation and the Driving Standards Agency, to encourage drivers to drive carefully through roadworks by updating the driving theory test, and have developed other training material to engage drivers with the need to take extra care in roadworks.

Road workers installing safety barriers





Ensuring the safety of our road workers

During 2010-11 the Agency experienced its highest casualty level on the network since 2005, with five roadworkers losing their lives in incidents involving either heavy construction plant, or while working on the carriageway. Working near moving traffic is a high risk occupation for our staff, construction workers, vehicle recovery operators, emergency services personnel, and those who undertake maintenance on the network.

The Agency is committed to doing all it can to ensure that our people have a safe working environment.

To help monitor and control accidents and injuries to the workforce the Agency records Accident Frequency Rates (AFR), an industry-recognised measure, which compares the numbers of incidents with hours worked. In the last three years the AFRs in our two main operational directorates have been reduced by more than half.

Aiming for Zero - Our road worker strategy and action plan, introduced with the aim of eliminating all fatalities and serious injuries to road workers, was launched in November 2009, and forms a key part of Aiming for Zero, our vision for health and safety performance for road workers, construction workers, traffic officers and office-based staff across the Agency, introduced in spring 2010.

Health and safety toolkit promotes good practice across our network

In June 2010 the Highways Agency launched a health and safety toolkit to promote good practice in construction and maintenance across our network. Designed to share ideas among Agency colleagues and the supply chain, the toolkit covers the four key project stages: design, construction, maintenance and demolition.

Good practice examples include a breakfast safety club where workers can have frank conversations about safety, and the provision of an on-site occupational health nurse tasked with keeping workers on major projects healthy and productive.

Aiming for Zero - eliminating all fatalities and serious injuries to road workers



Section 6: Being more Sustainable

Our 2010-11 Sustainability Report

Our key role is to support the sustainability of the UK's economy by operating, maintaining and improving the strategic road network in England. We recognise that, in performing this role, we need to develop and implement more sustainable ways of carrying out our business.

The purpose of this section is to explain our performance in this area. The format conforms to new sustainability reporting requirements being piloted by HM Treasury for 2010-11 annual reports. Further details about our sustainability performance can be found in our annual progress reports against commitments in our annual Sustainable Development Action Plan (SDAP), which we publish on our website.

Summary of Performance

We have continued to make good progress in delivering our sustainability commitments. In 2010-11 we met all our Business Plan commitments to reduce our greenhouse gas emissions and to deliver actions against our Environmental Action Plan.

An overview of our performance in relation to HM Treasury measures is shown in the table below:

Details of performance metrics in these areas are shown in the table on pages 24 and 25.

Our 2010-11 SDAP contained 26 actions owned across the business, only two of which have not been completed. One of these is thought to be recoverable in 2011-12.

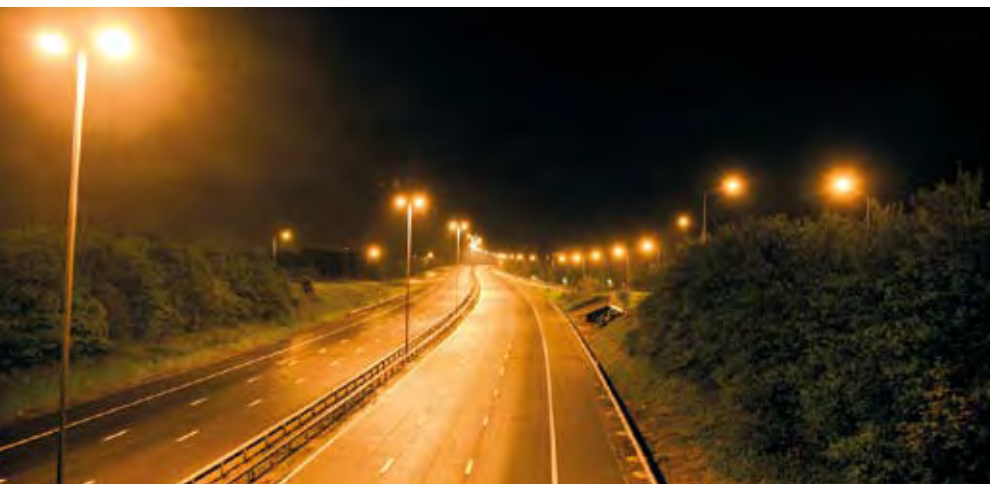
We also:

- supported the national noise action plans by reviewing and validating the priority noise locations on our network as identified in the draft noise action plans produced by Defra;
- supported the national air quality strategy by examining a selection of air quality exceedances on our network, and worked with

Sustainability Performance Overview	Performance 2010-11	
	Actual	Target
Greenhouse Gas Emissions (tCO ₂ e – Scopes 1,2 & 3 Business Travel)	127,310	137,000
Business Travel (tCO ₂ e)	1,200	1,820
Business Travel (£m)	£2.520m	£3.940m
Office Estates Waste (tonnes)	287	N/A
Office Estates Water consumption (M ³)	13,900	N/A

Recycling waste material – innovative use of tyre bales in the A421 scheme





stakeholders to identify potential ways to mitigate these problems;

- formalised our working relations with Natural England through a Memorandum of Understanding – supporting a more efficient approach to working together; and
- updated our environmental guidance to reflect changes in legislation and good practice, and to support more efficient approaches – this guidance is used when developing major projects or conducting road maintenance operations.

Greenhouse Gas Emissions

Over the year we have continued to implement measures to reduce our emissions on both the strategic road network and our office estates. This is also having a beneficial impact on our related energy and travel costs.

- We switched lighting off between the hours of midnight and 5am on a further eight carefully selected stretches of motorways during 2010-11, bringing the total to some

fourteen sections with a total length of 62 miles. In addition we have commenced permanent removal of road lighting where, under revised guidelines, we would not consider installing lighting.

- We published our Energy Strategy for Roadside Equipment to address issues associated with the supply of electricity to roadside equipment.
- We reduced energy consumption on our office estate by some 16% in 2009-10 against the 2008-09 baseline, and in 2010-11 we achieved a further saving of 7%. Savings were generated by measures such as relocating to more efficient office space, making more efficient use of the office space we already have, replacing essential lighting with more efficient models, and opening a reduced number of floors in most offices during the Christmas holidays.

Continued on next page ►

Innovative use of tyre bales in A421 scheme

The A421 scheme to build eight miles of new dual carriageway between the M1 and Bedford was opened in December 2010. Some 350,000 old tyres were used in bales to form an embankment to carry a section of realigned local road over soft ground at Brogborough Lake, a backfilled clay pit. This is the first time that

this approach has been used for a UK public road, making good use of old tyres which otherwise would have been sent for incineration.

The scheme will be completed during 2011 with the planting of some 210,000 trees to cover around 240 acres of new woodland and grassland.

The project team, which included the Highways Agency, contractor Balfour Beatty and designer URS/Scott Wilson, has won the Fleming Award for geotechnical excellence.

- We significantly decreased our business travel during 2010-11, making better use of electronic communications and conferencing facilities.

Continuous improvement to our carbon calculation framework, first introduced in 2008-09, has provided us with better data and more information about our carbon footprint. This includes emissions we directly control such as our offices and network energy consumption as well as those produced by our supply chain who carry out maintenance and construction work on our behalf. The increased confidence in supply chain data (the dominant component of the Agency's footprint overall) presents a huge opportunity for both raising awareness and future performance management.

Office Waste

This year we have been working to improve the process of collecting and measuring data on waste across our office estate. We now have accurate, established, processes in

Sustainability success at Considerate Constructors Awards



The Agency enjoyed success at the Considerate Constructors Awards ceremonies, picking up 16 awards in total with three major schemes winning gold. The Considerate Constructors Scheme is an independent, non-profit making organisation founded by the industry to improve the image of construction. The three Gold Award winners included:

A421 improvements:
 'Environmental Observation' cards encouraging active participation in improving the site's environmental performance issued to operatives.

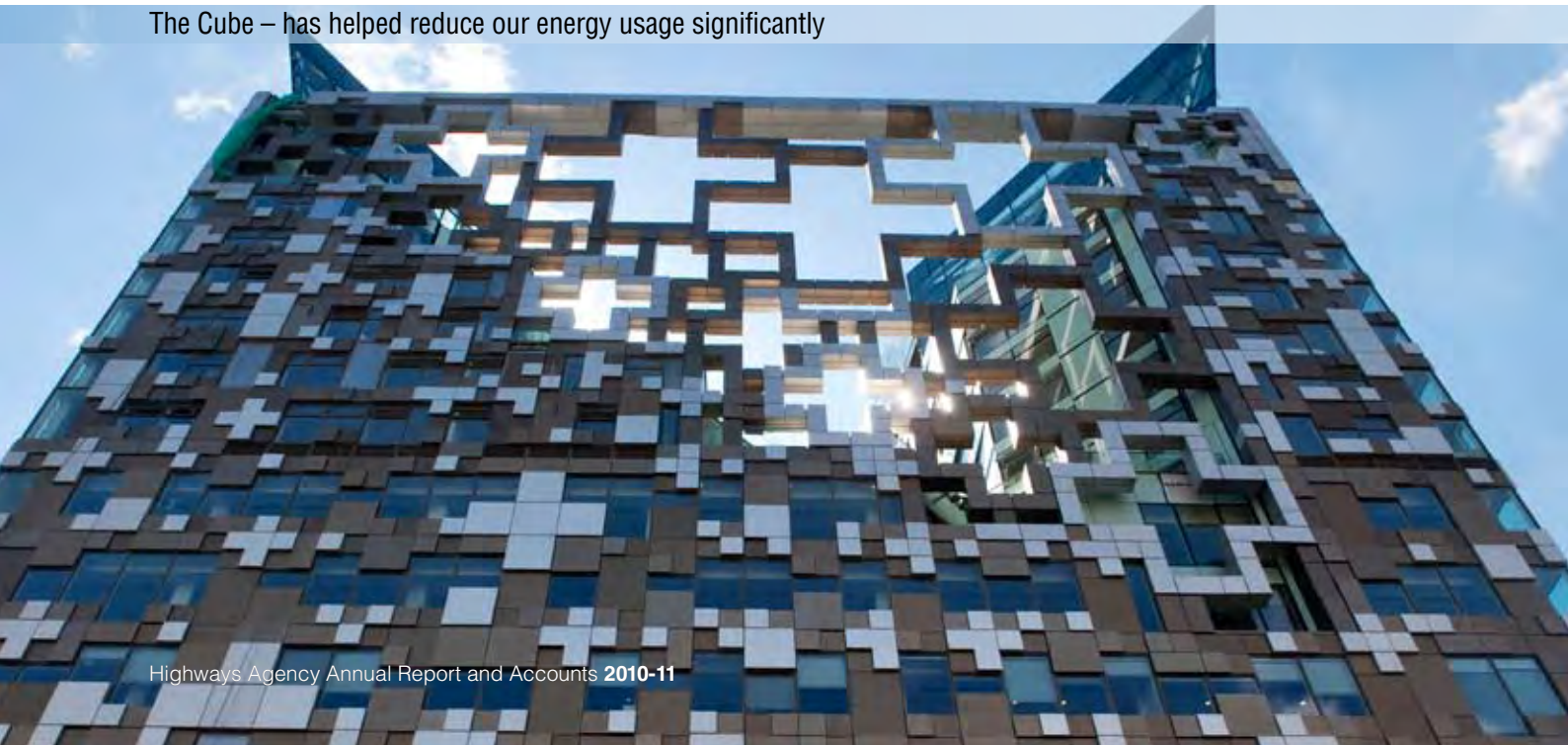


A34 Wolvercote Viaduct Replacement:
 Support for the neighbouring community included sponsorship for local causes, new fencing and raised flower beds for a school playground.

M27 Junction 3-4 widening:
 'Exceptional' communication with the local population.



The Cube – has helped reduce our energy usage significantly



place. We have provided clearer guidance, to colleagues and visitors, which helped us to increase our office recycling rate to 63% this year.

Biodiversity

During the year, as part of our existing Biodiversity Action Plan, we identified and treated locations on the network that protect and enhance plant and animal species and habitats. We also made significant progress in producing a new action plan.



We undertook appropriate management work to ensure we play our part in preserving biodiversity and geodiversity. In particular, we have made a significant contribution by

ensuring that our Sites of Special Scientific Interest (SSSIs) are now in favourable or recovering condition.

We regularly include mammal crossings during road constructions, helping wildlife to safely move underneath the carriageway and reducing the safety threat to animals and road users.

Adaptation to Climate Change

The Highways Agency was highlighted as having a key role to play in ensuring the UK's infrastructure is ready to adapt to the impacts of a changing climate. We volunteered to report under the Climate Change Act, and provided Defra with an interim bench marker report.

Our climate change risk assessment approach is about understanding the possible implications of climate change so we can plan for timely interventions to protect the highway asset and contribute to safe and reliable journeys.



Our Sustainable Development Action Plan (SDAP)

Continued on next page ►

Bat bridges – helping bats find their way across a new road



2010-11 Highways Agency Sustainability Report

	GREENHOUSE GAS (GHG) EMISSIONS (CO ₂ e tonnes)	2008-09	2009-10	2010-11	
Gross Emissions (tonne CO₂e)	Scope 1: Direct	10,000	7,000	7,110	Greenhouse Gas Emissions 2010-11
	Scope 2: Indirect emissions from network and estates electricity consumption	130,000	124,000	119,000	
	Scope 3 item: Business Travel	2,000	1,500	1,200	
	Scope 3 items: Suppliers' emissions	408,000	561,236*	505,700	
	Total	550,000	700,000	634,310	
Related Consumption Data	Estates (HA Offices and Regional Control Centres) Electricity (kWh)	3,108,225	2,616,372	3,543,898	Business Travel expenditure
	kWh Per head	1,782	1,383	1,774	
	Estates (HA Offices and Regional Control Centres) Gas (kWh)	1,968,312	1,646,612	1,512,680	
	kWh Per head	1,964	1,193	1,421	
	Private Car Fuel (Measured by Vehicle Mileage – Million road miles)	2.00	1.68	1.25	
	Hire Car Fuel (Measured by Vehicle Mileage – Million road miles)	2.12	1.75	1.25	
Financial Indicators	Total Energy Expenditure (roadside lighting and equipment, offices, RCCs and outstations)	Not Available		£20.300m	
	CRC Related Expenditure (Registration fee etc)	Not Applicable		£2,240	
	Expenditure on business travel	N/A	£4.150m	£2.520m	

PERFORMANCE COMMENTARY AND TARGETS

In 2010-11 the Agency met its Business Plan target to achieve a 3% reduction in carbon emissions from our direct energy and fuel usage, network energy and business travel when compared with 2008-09. Overall our gross emissions have reduced by 9% compared to 2009-10.

The dominant figure is Scope 3 supplier emissions in maintaining and improving the strategic road network. As levels of understanding and data availability increased through 2009-10, we saw an increase in the level of emissions being reported by suppliers. The footprint was further inflated in 2008-09 due to additional workload. We reduced our emissions due to our business travel by some 20% in 2010-11. The corresponding decrease in expenditure was some 39% and was largely due to travel policy changes in line with new spending controls.

* 2009-10 Scope 3 Supplier figure adjusted since publication of 2009-10 Annual Report to exclude employee commuting figures.

DIRECT IMPACTS

Scope 1 – This includes direct consumption of gas and, predominantly, fuel consumption by Agency-owned Traffic Officer patrol vehicles. The office gas usage for 2008-09 and 2009-10 relate to our offices at Leeds, Bedford, Exeter and Dorking. The 2010-11 figures include data for our Bristol office. Without this additional data, our offices achieved an 11% reduction in gas use in 2010-11 compared to 2009-10. Gas consumption data is not included for our Manchester office (we relocated to a new building in 2010-11 from one which had no gas supply - we have begun collecting data for next year's report), our London office (information only reported annually and not expected until later in 2011) and Birmingham (no gas supply).

Scope 2 – This covers electricity supplies to our buildings, our surplus property portfolio and the strategic road network (lighting, signs and signals). The office data for 2008-09 and 2009-10 relate to our offices in Leeds, Birmingham, Bedford, Exeter and Dorking. The 2010-11 figure has increased because we are now able to report data for our 3 remaining offices; Bristol, London (estimate) and Manchester (estimate). Without this additional data, our offices achieved a 7% reduction in 2010-11 compared to 2009-10. Where facilities are shared, agreements are in place to specify apportionment - usually based on occupied space. Our Network Energy Strategy is delivering energy reductions through efficiency programmes such as midnight switch off, lamp changes and changes to tunnel lighting and traffic signals.

Scope 3 Business Travel – Business travel undertaken by Highways Agency staff using 3rd party transport (including hire car use).

Scope 3 Suppliers Emissions – Supply-chain emissions (MAC, DBFO, Major Projects - 80%) and other transport i.e couriers, caterers, cleaners etc. This does not include any emissions related to embodied carbon for the Highways Agency administrative use of water. The supply chain emissions include energy & utilities, materials, transport and waste - embodied energy in materials purchased is the dominant emission source. Some suppliers have not included some information in reporting but this is not thought to be material and no estimate has been included to cover this missing data.

INDIRECT IMPACTS

Our work indirectly impacts on emissions made by road users and staff commuting - both of which fall outside of the accounting boundary of our footprint above. We undertake a considerably amount of work in encouraging road users to make better decisions about use of our network. Over the past year we have promoted active use of social media for journey planning and more effective use of variable message signs to influence and sometimes directly control (i.e. through speed/diversions) driver behaviour.

The Agency also influenced employee commuting by actively encouraging car sharing through Smart Travel and travel to work co-ordinators. Flexible and home working also contribute. It is estimated staff commuting generated 5,054 tonnes CO₂e in 2010-11. Due to the changes in the review of information, and recent office moves (Manchester & Birmingham), these emissions are not directly comparable to 2009-10 figures (6,264 tonnes CO₂e). However the Agency has made significant steps forward to reduce emissions through office locations, reduced parking, and other travel planning initiatives. 2010-11 employee commuting emissions for MACs, DBFOs and Major Projects was 12,688 tCO₂e.

WASTE		2008-09	2009-10	2010-11	Graphical Analysis
Non - Financial Indicators	Total Admin waste (tonnes)	183	189	287	
	Recycled waste (tonnes)	103	124	155	
	Kg per FTE	100	95	184	
	Percentage recycled	56%	66%	54%	

PERFORMANCE COMMENTARY AND TARGETS

The waste data for 2008-09 and 2009-10 relate to our offices in Leeds, Birmingham, Bedford, Exeter, Dorking and London. In the Bristol and Manchester office, the landlord is responsible for the building waste contracts. We were not able to obtain sufficient data to include in this year's annual report.

The 2010-11 figure includes the RCC's, which was included in prior years. We produced 287 tonnes of office (172 tonnes) and RCC (115 tonnes) waste during 2010-11 and recycled 155 tonnes or 54% of this. During 2010-11, the Agency moved offices in Birmingham and this relocation had a significant impact on the amount of waste we produced. Data collection methods to capture information about the Agency's construction waste are currently being considered for inclusion in future years.

FINITE RESOURCE CONSUMPTION: WATER		2008-09	2009-10	2010-11	Graphical Analysis
Non-Financial Indicators	Estates Water m ³	5,811	5,882	13,900	
	Estates Water tonnes (tonne CO ₂ e)	1.7	1.8	4.2	
	Per head m ³	5.8	5.4	13.1	

PERFORMANCE COMMENTARY AND TARGETS

The office water usage for 2008-09 and 2009-10 relates to offices in Leeds, Bedford (estimate based on information from our Landlord), Exeter and Dorking. The 2010-11 figure includes usage for our Bristol office and the RCC's, not included in previous years. When taken account of this additional data, we achieved a 17% reduction in water usage in 2010-11 when compared to 2008-09. In the Manchester, Birmingham and London offices the landlord is responsible for the water supply and we were not able to obtain Agency-specific data to include in this report.

DIRECT AND INDIRECT IMPACTS

The Highways Agency interacts with water in different ways – as a direct and indirect consumer, and through its highway drainage provisions. Water related to operational use including Major Projects has not been included. Currently focus has been on administrative function, however work will be underway on finite resource consumption such as metals and bitumen. Data on our National Traffic Control Centre and expenditure data for waste and water has not been included within this report but it is work in progress and we are looking to include it in future reports.

NOTES TO THE TABLE ABOVE:

Note 1: The above report has been prepared in accordance with guidelines laid down by HM Treasury in 'Public Sector Sustainability Reporting' published at www.financial-reporting.gov.uk.

Note 2: Defra conversion factors have been used to account for GHG Emissions. Scope 3 Supplier emissions calculations have also used the following; Environment Agency - Carbon Calculator for Construction Activities, Ofwat (2007) Security of Supply Report, Bath Inventory, Capita Symonds - Carbon Footprint of Motorway Electrical Equipment, Environment & Heritage Service - Municipal Waste Data Monitoring and Reporting, Department of Environment (1997). Energy Efficiency in Hotels, Defra / DECC National Energy Statistics and CIBSE (2004) - Guide G: Public Health Engineering.

Note 3: Electricity consumption figures for road lighting and roadside equipment is not included above due to the estimation methodology associated with unmetered supplies. Whilst this is used for carbon emissions to indicate the trend in performance, further work will be undertaken to ensure that consumption is robustly reflected in the report in future.

Note 4: At present estimation methodologies in relation to utilities is considered separately by different responsible unit. Consideration will be given over the coming year to developing a consistent cross-Agency methodology future reporting purposes.

Note 5: Financial information around the removal of waste and the consumption of water is not yet robust. Further work will be undertaken in the coming year to develop this information for inclusion in future reports.

Continued on next page ►

Section 6: Being more Sustainable - *continued*



Sustainable Procurement

The Agency's 2009 Procurement Strategy set out priorities for us and our supply chain partners on sustainable consumption and production, climate change, natural resources and sustainable communities.

We have taken practical steps with our suppliers to raise their awareness and ensure appropriate actions. Sustainability measures are now included in the pre-qualification stage of the procurement cycle via the Strategic Alignment Review Tool (StART). Contracts include requirements to monitor

sustainable development performance post-award by means of Sustainability Action Plans agreed between suppliers and the Agency. One procurement strategy priority is the participation of our key suppliers in the Carbon Disclosure Project for their corporate operations, and more than 70% of our suppliers have signed up to this so far.

Governance

We monitor our sustainability performance as part of our monthly performance management regime. Data is collected from internal estates, network managers and from our supply chain. Internal Audit undertake reviews of internal performance reporting information, and will also be focussing on energy data validation in support of our CRC Energy Efficiency Scheme reporting.

Sustainable use of waste materials from local sources in construction



Section 7: Managing our Business



Our Staff

We want our staff to feel engaged in the workplace and to receive the right recognition for doing things well. Our annual People Survey had a record participation rate of 78% and our overall engagement score, which measures the degree of attachment and commitment to the Agency, also increased. We engage our people directly

through regular monthly briefing sessions, and also through new channels like the Chief Executive's weekly blog that prompts a two way dialogue with a comment facility at the end of each entry. We also have regular meetings with our recognised trade unions.

In addition to regular on-the-job recognition, we run an annual "You Make it Happen" awards scheme. This recognises individuals who particularly live our values in delivering their activity. We also have a Staff Appreciation and Recognition Scheme (STARS) that recognises and commends staff who have demonstrated a special achievement by going beyond their normal duties

Details of the numbers and types of staff we employ, along with a breakdown of salaries and pensions paid can be found in note 3 to the accounts.

Flexibility and Productivity

We continue to focus on ensuring that, within a flatter and more flexible organisational structure, we have the right people in the roles key to our business success. Each of our office locations has a Resourcing Sub Group that identifies key business roles, and ensures that such roles are resourced from within the location. This locational rather than Directorate focus ensures a flexible approach is taken.

Although in 2010-11 the rolling sick leave was 8.5 days-per-person compared to the 2009-10 figure of 7.3 days-per-person, and a civil service position of 8.7 days-per-person, absence over the latter part of the year has reduced. A number of steps have been taken to achieve this, for example, providing managers with more focused

The Agency is committed to being an equal opportunities employer



management information, regular discussions at Directorate team meetings, and re-publicising of how managers need to address the issues.

Meeting the needs of our diverse customer base

We strive to deliver services that all our customers can access. The Equality Act 2010 requires us to provide our services in a way that ensures all groups across society can use them and that people with a protected characteristic do not receive an inferior service. We have made good progress in implementing our Single Equality Plan, published in January 2010, which outlined how we intend to promote equality of opportunity and eliminate discrimination both as a service provider and as an employer.

The Agency is committed to being an equal opportunities employer, and we endeavour to recruit and retain a workforce

that is representative of the diverse society we serve. We have invested in diversity training that has not only been positively received, but has also changed people's perception around the diversity agenda. This has reinforced a common commitment to working together to create an inclusive working environment in which difference is respected and valued.

Our Suppliers

95% of the Agency's budget is spent through an extensive supply chain. Innovation has been key in delivering savings and we are determined to continue this in areas such as procurement and contract management. We have applied strong management of our suppliers to achieve the best possible outcomes. We have selected the most capable and best performing suppliers through competitive and effective commercial procurement.

Our work is delivered through a tiered relationship

with our supply chain. Our procurement strategy, published in 2009, positions us to deliver a first class and consistent approach to procurement, based on the three key themes of value-for-money, delivery and sustainability. We are determined that the procurement function should develop beyond delivering a process, into a position where the Agency is actively encouraging and demanding best practice and innovation to fulfil these aims.

The Transport Learning Group (TLG) has been set up in the Highways Agency as a learning and development centre of expertise for the Department for Transport and all its agencies.

By removing duplication and streamlining processes, we are supporting the department's wider efforts to improve efficiency, quality and consistency.

Installation of a pre-fabricated steel composite bridge deck





We issued an online progress update in September 2010 explaining how we are implementing the strategy.

Payments to suppliers

The Agency is committed to the prompt payment of bills for goods and services received and aims to settle 98% of undisputed invoices within contract terms (over 99% achieved in 2009-10 and 2010-11). No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

In addition to the above target, in May 2010 the Government introduced a requirement for public sector bodies to pay suppliers where possible within 5 days. This measure is intended to help reduce financial pressures on companies by improving cash flows. We met the target each month after it was introduced part way through the financial year.

The Agency is also implementing Project Bank Accounts, (commended by the National Audit Office), for use by our major contractors, as part of our adoption of 'Fair Payment' principles and practices. Initially adopted by our two largest directorates, Major Projects and Network Delivery and Development, the aim is to accelerate payments to second and third tiers of the supply chain, providing greater certainty on payment, making the delivery process more efficient and minimising financing charges. Project Bank Accounts will provide surety of payment and a reduction of the payment cycle by an estimated 18 days.

Our finances

The Agency has played its part in cutting public expenditure to assist in reducing the deficit, making substantial savings on the budgets originally set for the year. Controls over spend on ICT, advertising and marketing, and consultancies have contributed towards savings, coupled with a robust system for challenging all proposed expenditure. Greater efficiencies have been driven out of the procurement process by centralising procurement of commodity goods, and renegotiating contracts, and seeking savings from major suppliers. Other priority cost cutting initiatives have been introduced such as reducing the use of temporary staff, introducing a pay freeze and tightening controls on property leases.

Estates efficiency

During 2010 we restructured our Bedford office and vacated 1,300m² of office space, saving the Agency in excess of £1m over the next four years. Vacant space has been rented out where possible to generate income. In our new Birmingham office there has been a change in culture which embraces open plan working, flexible workstation provision and the use of varied meeting areas.

Research and development

The Agency's Knowledge Programme of research plays a key role in delivering part of wider DfT research strategy by focusing on how innovation and new techniques can be applied to the strategic road network. The Knowledge Programme is guided by our four-year research strategy and has delivered a better targeted approach to the Agency's investment in research.

Reporting of personal data related incidents

The Highways Agency notifies any incidents involving the loss of personal data to the DfT which publishes a consolidated report detailing the number and nature of personal data related incidents in the Departmental Resource Accounts. Incidents are recorded when electronic equipment or documents are lost or stolen. No such incidents were reported by the Agency during the year.

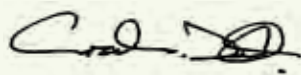
Financial Statements

The statements cover the period 1 April 2010 to 31 March 2011 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at www.hm-treasury.gov.uk. The financial statements of the Agency are audited by the Comptroller and Auditor General (C&AG), head of the National Audit Office. The financial statements have been prepared in accordance with the 2010-11 Financial Reporting Manual (FReM) issued by HM Treasury.

Auditors

In so far as the Accounting Officer (AO) is aware, there is no relevant audit information of which the entity's auditors are unaware, and the AO has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and cost £275,000 (2009-10 £300,000). In addition £13,500 plus VAT (2009-10 £14,000) was paid to the NAO in respect of the audit of the 2009-10 Dartford-Thurrock Road User Charging Scheme account, and a notional charge of £14,000 (2009-10 £13,000) was made for the audit of the 2009-10 Severn Bridges account.



Graham Dalton
Accounting Officer
4 July 2011

Section 8: Financial review

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Remuneration Report for the year ended 31 March 2011

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

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

Remuneration Committee

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

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

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

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

Pay System and Performance Management

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

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

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

SCS in the Agency have objectives in the following categories:

- Leadership Objectives:- the DfT common leadership objective plus leadership behaviours and providing direction for the organisation; delivering results; and building capability in the organisation to address current and future challenges.
- Business Delivery Objectives:- defining business outcomes for the specific post, reflecting business priorities and including a focus on value for money commitments for the year ahead.
- Corporate Objectives:- Leadership activity that contributes to the effective corporate management and coherence of the Department and/or the civil service as a whole.
- Capability Objectives:- ensuring that individuals, the Department and civil service have the right capability to deliver business outcomes now and in the future.

- Personal Development Objectives:- Emphasis on the importance of continuous personal development and an individual's growth in competence.

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

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

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

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

The annual value of non-consolidated performance pay and base pay is set by the government's response to the recommendations of the Review Body on Senior Salaries.

Performance Group is the starting point for non-consolidated performance pay determination. For 2010-11 only the top 25% of performers, those in Performance Group 1, will receive an award.

In 2010-11 no base pay increases were available for members of the SCS.

Remuneration Policy for Non-Executive Directors

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

Service Contracts

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

Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

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

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

Details of the service contract for each senior manager and letters of appointment for the non-executive directors who served during the year are:

	Date of initial appointment	Unexpired term 31/3/11 (months)
Executive Directors serving at 31/03/11		
Graham Dalton	30/06/2008	Open-ended
Ginny Clarke	02/07/2001	Open-ended
Stephen Dauncey	02/02/2009	Open-ended
Nirmal Kotecha ¹	14/04/2008	-
Simon Sheldon-Wilson	01/02/2010	Open-ended
Derek Turner ²	07/03/2005	2
Steve Williams ³	12/03/2001	Open-ended
Non-executive Directors serving at 31/03/11		
Alan Cook ⁴	01/01/2011	9
Tracey Barlow ⁵	01/08/2007	4
David Hughes ⁶	15/07/2009	3
Tim Walton ⁷	10/01/2011	21
Non-executive Directors leaving before 31/03/11:		
Andrea Gregory ⁸	01/09/2005	-

¹ Nirmal Kotecha became a permanent member of staff from 14 April 2011 and has an open ended contract.

² Since the end of the financial year Derek Turner's contract has been extended to 5 June 2013.

³ Steve Williams retired from the Agency on 6 May 2011.

⁴ Alan Cook, a non-executive director of the DfT, joined the Agency on 1 January 2011 on a 12 month contract.

⁵ Tracey Barlow's contract is proposed to be extended by 1 year.

⁶ David Hughes' contract is proposed to be extended by 2 years.

⁷ Tim Walton was appointed from 10 January 2011.

⁸ Andrea Gregory left the Agency on 31 August 2010.

Salary and Pension Entitlements (Audited)

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

	2010-11		2009-10	
	Salary £000	Bonus Payments £000	Salary £000	Bonus Payments £000
Graham Dalton	145-150	5-10	145-150	10-15
Ginny Clarke	105-110	5-10	105-110	10-15
Stephen Dauncey	115-120	5-10	110-115	5-10
Nirmal Kotecha	150-155	65-70	150-155	65-70
Simon Sheldon-Wilson ¹	90-95	5-10	10-15	5-10
			<i>FYE 80-85</i>	
Derek Turner	140-145	20-25	140-145	25-30
Steve Williams	105-110	5-10	105-110	10-15
Denise Plumpton ²	-	15-20	105-110	20-25
			<i>FYE 120-125</i>	

Full-year equivalent (*FYE*) salaries are included for those directors appointed or standing down part way through the year.

¹ Simon Sheldon-Wilson joined the Board on 1 February 2010.

² Denise Plumpton left the Agency on 16 January 2010.

No directors in either 2009-10 or 2010-11 were in receipt of any benefits in kind.

Salary

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

Bonus Payments

Bonus payments relate to performance in the preceding year and are in line with contractual conditions.

Benefits in kind

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

Pension Benefits (Audited)

Pension benefits are provided through the Civil Service pension arrangements for which details are given in Note 3 to the Financial Statements.

	Accrued pension at pension age as at 31 March 2011 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2011 £000	CETV at 31 March 2010* £000	Real increase in CETV £000	Employer contribution to partnership pension account £
Graham Dalton	20-25 no lump sum	0-5 no lump sum	281	240	15-20	-
Ginny Clarke	45-50 plus 135-140 lump sum	-5-0 plus -5-0 lump sum	936	866	-5-0	-
Stephen Dauncey	5-10 no lump sum	0-5 no lump sum	160	122	20-25	-
Nirmal Kotecha	10-15 no lump sum	0-5 no lump sum	110	67	30-35	-
Simon Sheldon-Wilson	-	-	-	-	-	9,040
Derek Turner	10-15 no lump sum	0-5 no lump sum	224	179	25-30	-
Steve Williams	45-50 plus 140-145 lump sum	-0-5 plus -5-0 lump sum	1,089	1,039	-5-0	-

* The actuarial factors used to calculate CETVs were changed in 2010-11. The CETVs at 31/3/10 and 31/3/11 have both been calculated using the new factors, for consistency. The CETV at 31/3/10 therefore differs from the corresponding figure in last year's report which was calculated using the previous factors. Taking account of inflation, the CETV funded by the employer has decreased in real terms.

The Cash Equivalent Transfer Value (CETV)

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

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

Real increase in the value of the CETV

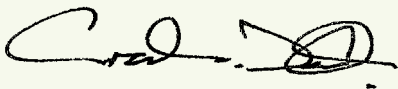
This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the Board member (including the value of any benefits transferred from another pension scheme or arrangement) and is calculated using common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

Remuneration of Non-Executive Directors (Audited)

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2011:

	£000's
Alan Cook	5-10
Tracey Barlow	10-15
David Hughes	25-30
Tim Walton	0-5
Andrea Gregory	5-10

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



Graham Dalton
Accounting Officer

4 July 2011

Statement of Highways Agency and Accounting Officer's Responsibility

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Highways Agency to prepare for each financial year, a statement of accounts in the form and on the basis set out in the Accounts Direction.

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

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

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

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

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

Statement on Internal Control (SIC)

Scope of Responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Agency's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

Highways Agency Board

The Secretary of State appointed Mr Alan Cook as an Independent Chairman of the Highways Agency in January 2011. This allowed a clear separation between the activities of my Executive team and the governance exercised by the Board. I remain Accounting Officer but the challenge and governance arrangements are made clearer by this appointment.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Highways Agency for the year ended 31 March 2011 and up to the date of approval of this annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

I have established a framework of responsibility for risk management and control, with appropriate support, guidance and procedures in all parts of the Agency's business. This comprises two parts; Risk Management arrangements and a Control Framework.

Risk Management

The Agency's Directors and other senior managers are responsible for risk management in their commands. Risk management guidance

is available to all staff. The guidance outlines key aspects of the risk management process and identifies the main reporting procedures. Senior managers have received training in risk management tailored to their responsibilities and concerns.

Staff and managers are required to identify new or increased risks and opportunities as part of the routine performance reporting process. Risk is a standard agenda item in team meetings in many areas of the Agency.

Risks are reviewed, the effectiveness of mitigating actions and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners include reports on their handling of operational risk as part of their wider stewardship reports. The Board allocates the management of strategic risks to nominated directors who report back as appropriate through the year.

My staff work closely with their counterparts in the DfT to ensure that risk management systems are compatible, there is clear accountability for managing risks, joint action is taken where appropriate to manage risks, and the Department is kept informed of risks as appropriate.

The Highways Agency Board sets the Agency's risk appetite in line with that of the DfT Roads Board. The Board remains committed to good risk management in the interests of improved delivery.

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

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

The Board identifies and manages strategic risks to the Agency's business and these are shown elsewhere in this report. The Board receives the Agency's corporate risk register as part of the monthly performance report and specifically reviews the risk register in depth every four

months, considering changes to the operating environment as part of this review.

Over the last twelve months the severe winter weather concerns resulted in mitigating actions being taken, specifically in relation to the holding of a national strategic salt stock on behalf of the Secretary of State. In addition, the Board has regularly refined risks and mitigating actions in the light of the change in Government and the outcome of the Spending Review.

I hold regular meetings with Ministers when operational risks are discussed. Ministers receive reports either directly or through the DfT reporting process about risks to key initiatives as well as to delivery of the Agency's objectives.

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

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

This is supplemented by the introduction of our 'Aiming for Zero' strategy, which has a goal of zero accidents and ill-health for our workforce. Legal compliance is seen as the minimum standard of health and safety. The strategy covers both our own staff in the Traffic Officer Service and our people who work in and from our offices. It also applies to our supply chain of operatives working on our network.

Various significant risks have been or continue to be managed. These include:

- A terrorist incident on the network results in serious disruption.
- The Agency is unable to operate and maintain the network in its current state.
- Loss, irregular disclosure or corruption of important data.
- Failure to be ready for the additional pressures of the London Olympics 2012.

Control Framework

- **Objectives and Targets** - We have clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning.
- **Public Funds & Assets** - We ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place through a variety of control systems including;
 1. A mandatory Investment Control Framework which encompasses HM Treasury Green Book and DfT investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers affordability, prioritisation, risk and strategy. These arrangements dovetail with those of our parent Department for larger investments that require approval from DfT or Ministers.
 2. The Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's *Managing Public Money*, the *Green Book* and other requirements.
 3. An Oracle financial accounting system with embedded controls.
 4. Asset Management procedures to record and account for all assets.
 5. An officer coordinates action on fraud related matters and a Fraud Committee meets regularly to oversee the handling of any significant issues or allegations, all of which are taken very seriously by the Agency and fully investigated. The Fraud Committee is a sub-committee of the Agency's Audit Committee and provides regular updates to them on anti-fraud measures and any investigations undertaken. A non-executive director is a member of the Fraud Committee
 6. The Agency is Investors in People (IiP) accredited. This is a proven business improvement framework that significantly improves financial performance, productivity and employee involvement and focus.

- **Project & Contract Management** - We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality. Control systems include;
 1. A Project Control Framework which specifies the detailed governance processes and procedures that major projects must follow to ensure they deliver the required outputs of each project phase on time and to budget. The framework also defines the project lifecycle, roles and responsibilities and project deliverables.
 2. Use of the OGC Gateway Review method of providing project assurance. Competent Programme and Project management ensures that issues are not overlooked, time and money is not wasted, and resources are effectively deployed.
 3. Single tender action can only be approved by certain staff authorised for such procurement purposes.
 4. Use of Earned Value Management on all key investments to inform and enable meaningful challenge.
 5. Compliance by Managing Agents to their contracts is checked by an external team of auditors under a Performance Audit Function Framework.
- **Compliance with Standards & Requirements** - Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements. The Agency's arrangements include:
 1. A dedicated team deals with compliance with the statutory processes for the acquisition, management and disposal of land and property in connection with the Agency's activities. Other teams deal with the statutory requirements concerning road building, and the management and maintenance of the strategic road network.
 2. Technical governance procedures to ensure that the Agency conducts its business in accordance with the appropriate technical standards, and includes measures to govern any necessary departure from engineering standards.
 3. Compliance with European Union legislation and standards where appropriate regarding several areas including procurement and health and safety.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Key elements

The **Highways Agency Board** (which comprises a non-executive chairman, the Chief Executive, six Executive Board Directors (to 31 March 2011; five subsequently) and three independent non-executive directors) meets frequently to consider the plans, performance and strategic direction of the Agency, the most important risks to successful delivery of those plans and the Agency's stewardship of public assets. Disclosures about how the Board and its sub committees operate and the independence of non-executive directors are detailed elsewhere in this annual report.

The **Audit Committee** is made up of the Agency's three non-executive directors, one of whom chairs it. The Chair of the Agency's Audit Committee also sits on the DfT Audit Committee and meets with his fellow audit committee chairmen. I, my Head of Internal Audit, Finance Director and representatives from the DfT and National Audit Office attend meetings of the Audit Committee but have no vote. The independent Chairman of the Audit Committee advises as appropriate on key risk and control issues. The Audit Committee meets approximately every quarter and reviews the Agency's assessment of corporate risk, considering wider Departmental risk as appropriate. In addition, it considers reports from the Agency's Fraud Committee and monitors progress with the internal audit programme, health and safety audits and other

assurance processes operating across the Agency, ensuring recommendations arising are implemented. During 2010-11, the Audit Committee specifically reviewed or considered various topics including the:

- 2009-10 Highways Agency Annual Report & Accounts
- 2009-10 Internal Audit Annual Report & opinion
- 2009-10 Highways Agency Stewardship Report
- The Highways Agency's Corporate Risk Register
- Reporting of fraud to the Audit Committee and the frequency and nature of reports
- Internal Audit and NAO audit strategies and progress for providing assurance to the Chief Executive as Accounting Officer
- NAO Value for Money work
- Dartford River Crossing and Severn Bridge Accounts 2009-10
- Planning and accounting policy updates for 2011 including network valuation and depreciation
- Health and Safety audit programme
- Audit Committee's terms of reference and related matters.

My **Head of Internal Audit** provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Standards, and an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. The implementation of recommendations is monitored closely by the Agency Board and is included on the performance scorecard. The Head of Internal Audit's opinion for the year 2010-11 is that on the basis of the evidence obtained during the year sound systems of corporate governance, risk management and internal control are established and found to be operating effectively with some minor exceptions. In their opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control.

During the year the Agency continued to comply with the Cabinet Office guidance on information risk management. My **Senior Information Risk Officer's** assessment of information risk performance is that the Agency's information assets held on the Agency's business IT infrastructure are being managed effectively and appropriate risk controls are in place. All existing staff including executive and non-executive Board members have been trained in **data handling** and new staff are required to complete the training and pass a test of their knowledge in their first week of employment. We continue to pursue a policy of continuous improvement in our controls and have no personal data related incidents to report. There have been a small number of cases of non compliance with processes (comparable with "near misses") which have resulted in disciplinary action but no loss.

The Information Commissioner's Office, (ICO), the independent body responsible for the regulation of the Data Protection Act 1998, recently undertook a data protection audit of the Agency. During the three day audit the ICO visited a number of Agency sites, paying particular attention to data protection governance, records management, IT and information security, HR processes and the Agency's use of CCTV and Automatic Number Plate Recognition (ANPR) systems. The ICO has provided initial comments, and is satisfied that:

- the Agency's CCTV and ANPR systems are low risk with regard to privacy issues
- Agency staff are aware of the importance of privacy and security issues when handling personal and protectively marked information
- the Agency's clear desk policy is being observed.

The ICO has also made several recommendations for improving IT security and data management. An executive summary of the final report will be published later in 2011 on the ICO website - www.ico.gov.uk

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

During 2010-11 the NAO undertook a review of **Performance Frameworks and Board Reporting** across government. The aim of the review was to promote learning from good practices, and so to improve Board monitoring and decision-making. The NAO reported that their assessment of the Agency against other organisations compared favourably.

Other explicit reviews/assurance mechanisms

- Twice a year Agency Board Directors provide **Stewardship Reports** that take account of assurances from Divisional Directors and others who report on the full range of delegations, policies and procedures laid down by the Agency. The output from this exercise is included in the Statement on Internal Control where appropriate.

Directors report on;

1. Compliance within their division.
2. The adequacy of the arrangements within their division.
3. What remedial action is being taken where assurance cannot be provided.

The Agency has benefited this year through the application of more stringent evidence requirements, the review of directorate responses by relevant internal process owners, and the implementation of action plans to address deficiencies in compliance.

- This year work has been undertaken, instigated by the Agency Board, and led by the Finance Director, to develop and establish a Strategic Process Map (SPM), to work in conjunction with the Agency's existing Process Management System. The Strategic Process Map graphically represents key processes that operate within this organisation to deliver its strategic goals. The aim of the SPM is to provide a cross-functional snapshot of our key processes to drive consistency in approach and ensure good internal control. It supports internal control by facilitating the identification of key processes within the Agency and the recognition of process ownership and accountability.

The NAO completed a review of process maturity across 12 Government organisations in the year. The Agency was included in this review and the NAO's findings were favourable,

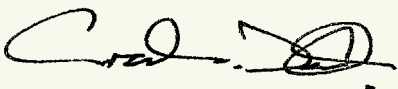
particularly in response to the questions asked on organisational maturity. In the area of operational process maturity, the Agency's performance was mixed and fell in line with the majority of other organisations.

Since the review the Agency has begun raising awareness amongst staff of the benefits of good process management and internal control, identifying key strategic processes and developing process health measures to facilitate and ensure effective internal control and compliance.

- The Agency is actively engaged through the DfT with the **National Fraud Authority's** network of Counter Fraud Champions, established to strengthen the fight against fraud and error in the public sector.
- The 2010 report from the **Public Sector Fraud Taskforce 'A Fresh Approach to Combating Fraud in the Public Sector'** was considered by the Agency and actions appropriate to the Highways Agency identified and undertaken. This Taskforce was established as a cross-Government initiative to make recommendations on ways to reduce fraud against the public sector, drawing particularly from best practice within the private sector. The report makes a range of recommendations to combat fraud in the public sector.
- The Ministry of Justice published guidance on the **Bribery Act 2010** in March 2011, to be implemented in July 2011. The legislation and draft guidance has been considered by the Agency and action plans have been developed to develop the processes and procedures to ensure that the Agency complies with the Act.
- **Managing the risk of financial loss** – In October 2010, following a cross-Government Financial Systems Risk Review, the Treasury introduced new guidance and tools to support a review of organisations/processes which have an associated risk of financial loss. A 'financial loss' in the context of this work is defined as a loss of monetary assets in relation to deliberate or accidental errors during the processing of financial transactions. In line with other Government Departments the Agency has commenced a review of all relevant processes to be completed by 31 March 2012 to ensure

that risk controls have been assessed. This work will build on the process maps and development discussed above.

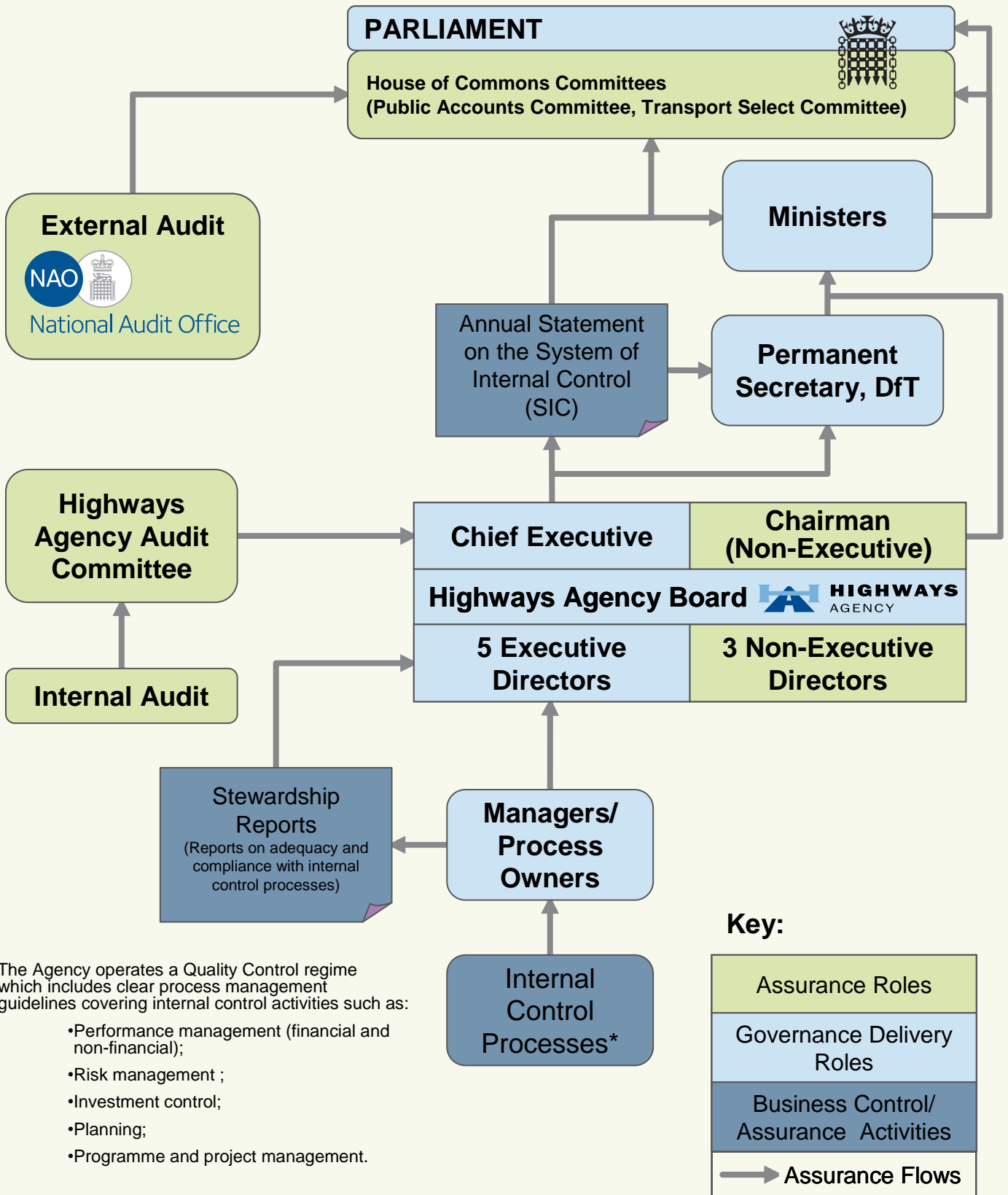
- As part of the DfT initiative to transfer functions to the **Shared Service Centre** (SSC) the Agency transferred its Payroll and Human Resource services to the SSC in April 2009. Finance services have remained within the Agency. The development of the SSC is to drive greater efficiency and effectiveness in the functions transferred. The Department has considered options in relation to the future of the SSC and has decided that divestment is the preferred option. The Agency is fully engaged with the Department in this Shared Service Future Programme.
- **NAO report on the procurement of the M25 private finance initiative.** The NAO concluded a review of the procurement of the M25 Private Finance contract and this was considered by the Public Accounts Committee (PAC) in December 2010. The PAC disagreed with the Agency's view that the private finance contract to widen, operate and maintain the M25 represents value for money.
- The PAC made a number of recommendations which the Agency has accepted and action plans are being developed. The contract is one of the largest and most complex private finance contracts undertaken by Government. As at 31 March 2011, 15 miles of the M25 have been widened and the maintenance of the M25 is being delivered effectively.



Graham Dalton
Accounting Officer

4 July 2011

Highways Agency governance framework



* The Agency operates a Quality Control regime which includes clear process management guidelines covering internal control activities such as:

- Performance management (financial and non-financial);
- Risk management ;
- Investment control;
- Planning;
- Programme and project management.

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

I certify that I have audited the financial statements of the Highways Agency for the year ended 31st March 2011 under the Government Resources and Accounts Act 2000. These comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditor

As explained more fully in the Statement of Highways Agency and Accounting Officer's Responsibilities, the Chief Executive is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with the Government Resources and Accounts Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

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

Opinion on Regularity

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

Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31st March 2011, and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and
- the information given in Sections 1, 2, 6 and 7 of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse

Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

5 July 2011

Statement of Comprehensive Net Expenditure for the year ended 31 March 2011

	Note	Staff Costs £000	Other Costs £000	Income £000	Restated 2009-10 Total £000
Administration Costs					
Staff costs	3	53,833			56,762
Other administration costs	4a		26,241		27,099
Operating income	5			(1,416)	(1,681)
Programme Costs					
Staff costs	3	70,177			68,803
Programme costs	4b		2,204,341		2,513,463
Income	5			(90,937)	(71,803)
EU income				(3,291)	(1,702)
Totals		124,010	2,230,582	(95,644)	2,590,941
Net Operating Cost				2,258,948	2,590,941

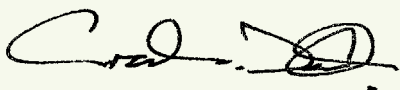
Other Comprehensive Expenditure

	Note	2010-11 Total £000	2009-10 Total £000
Net (gain)/loss on revaluation of Property, Plant & Equipment	6	(10,783,151)	145,650
Total comprehensive (income)/expenditure for year ended 31 March 2011		(8,524,203)	2,736,591

All income and expenditure is derived from continuing activities. The notes on pages 51 - 87 form part of these accounts.

Statement of Financial Position as at 31 March 2011

	Note	31 March 2011 £000	Restated 31 March 2010 £000
Non-current assets			
Property, plant and equipment	6	99,934,613	87,851,223
Intangible assets	7	10,437	16,442
Trade and other receivables	11	313,488	285,973
Total non-current assets		100,258,538	88,153,638
Current assets			
Assets classified as held for sale	9	12,519	8,062
Inventories	10	88,754	90,188
Trade and other receivables	11	133,959	144,058
Cash and cash equivalents	12	-	30,499
Total current assets		235,232	272,807
Total assets		100,493,770	88,426,445
Current liabilities			
Trade and other payables	13	592,640	727,948
Provisions	14	159,541	139,556
Total current liabilities		752,181	867,504
Non current assets less net current liabilities		99,741,589	87,558,941
Non-current liabilities			
Provisions	14	145,271	270,150
Other payables	13	1,730,935	1,367,639
Total non-current liabilities		1,876,206	1,637,789
Assets less liabilities		97,865,383	85,921,152
Taxpayers' equity			
General Fund		39,722,005	38,858,408
Revaluation Reserve		58,131,655	47,055,430
Grant Reserve		11,723	7,314
Total taxpayers' equity		97,865,383	85,921,152



Graham Dalton
Accounting Officer

4 July 2011

The notes on pages 51 - 87 form part of these accounts

Statement of Cash Flows for the year ended 31 March 2011

	Note	2010-11 £000	Restated 2009-10 £000
Cash flows from operating activities			
Net operating cost		(2,258,948)	(2,590,941)
Adjustment for non-cash transactions	4,5	1,213,243	1,409,599
Decrease/(Increase) in Inventories		1,434	(62,071)
Decrease/(Increase) in trade and other receivables <i>less movement in receivables relating to items not passing through the SCNE</i>		(17,416)	(44,992)
		(25,988)	(5,268)
Increase in trade and other payables <i>less movement in payables relating to items not passing through the SCNE</i>		209,334	151,950
		(26,134)	8,767
Use of provisions		(139,547)	(170,758)
Non-cash movement in classification of provision	14	(4,760)	-
Adjustment for capital and interest element of PFI payments		58,856	52,970
Net cash outflow from operating activities		(989,926)	(1,250,744)
Cash flows from investing activities			
Purchase of property, plant and equipment	6(a)	(1,608,348)	(1,931,718)
Purchase on intangible assets - cash additions	7	(26)	-
Proceeds of disposal of assets held for sale		6,519	4,719
Capital element of movement in provisions	14	86,109	9,127
Net cash outflow from investing activities		(1,515,746)	(1,917,872)
Cash flows from financing activities			
From Consolidated Fund (Supply): Current year		2,502,720	3,190,257
From Consolidated Fund (Supply): Prior year		16,280	25,068
Capital element of payments in respect of on balance sheet PFI contracts		(58,856)	(52,970)
Net Financing		2,460,144	3,162,355
Net (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund			
		(45,528)	(6,261)
Payments of amounts due to Consolidated Fund		(3,626)	(12,223)
Net (decrease) in cash and cash equivalents in the period		(49,154)	(18,484)
Cash and cash equivalents at the beginning of the period	12	30,499	48,983
Cash and cash equivalents at the end of the period	12	(18,655)	30,499

The notes on pages 51 - 87 form part of these accounts

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2011

	Note	General Fund £000	Revaluation Reserve £000	Grant Reserve £000	Total Reserves £000
Balance at 31 March 2009		38,545,549	47,389,778	-	85,935,327
Changes in taxpayers' equity for 2009-10					
Net gain on revaluation of property, plant & equipment					
Release of reserves to the Statement of Comprehensive Net Expenditure		-	(145,650)	-	(145,650)
Adjustments to non-current assets		(268,887)	(137,139)	-	(406,026)
Reversionary interest on M6 toll road		(4,288)	-	-	(4,288)
Non-cash charges - auditors' remuneration	4	300	-	-	300
Transfers between reserves		22,661	(22,661)	-	-
Net comprehensive expenditure for the year		(2,590,941)	-	-	(2,590,941)
Total recognised income and expenses for 2009-10		(2,841,155)	(305,450)	-	(3,146,605)
Funding from Department for Transport		3,224,113	-	-	3,224,113
CFERs payable to the Consolidated Fund		(19,541)	-	-	(19,541)
Movement on EU grant		-	-	7,314	7,314
Balance at 31 March 2010		38,908,966	47,084,328	7,314	86,000,608
Detrunckings		(50,558)	(28,898)	-	(79,456)
Restated Balance at 31 March 2010		38,858,408	47,055,430	7,314	85,921,152
Changes in taxpayers' equity for 2010-11					
Net gain on revaluation of property, plant and equipment		-	10,783,151	-	10,783,151
Adjustments to non-current assets		559,046	322,821	-	881,867
Reversionary interest on M6 toll road		48,645	-	-	48,645
Non-cash charges - auditors' remuneration		275	-	-	275
Transfers between reserves		29,747	(29,747)	-	-
Net comprehensive expenditure for the year		(2,258,948)	-	-	(2,258,948)
Total recognised income and expenses for 2010-11		(1,621,235)	11,076,225	-	9,454,990
Funding from Department for Transport		2,519,000	-	-	2,519,000
CFERs payable to the Consolidated Fund		(34,168)	-	-	(34,168)
Movement on EU grant		-	-	4,409	4,409
Balance at 31 March 2011		39,722,005	58,131,655	11,723	97,865,383

The notes on pages 51 - 87 form part of these accounts

Notes to the Agency's Accounts

1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2010-11 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits the choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material to the accounts.

1.1 Accounting Convention

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

1.2 Other recent accounting developments Standards

As at 31 March 2011, the following Standards and Interpretations have been issued but are not yet effective (and in some cases not yet adopted by the EU):

- IAS 24 Related party disclosures (amended), effective for annual periods beginning on or after 1 January 2011.
- IFRS 7 Financial Instruments Disclosure (amended) effective for annual periods beginning on or after 1 July 2011. This standard was amended to improve understanding of transfer transactions of financial assets.
- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2013. However, this can be adopted in phases. Phase 1 was on or after 1 January 2009. This is a new standard on classification and measurement of financial assets that will replace IAS39.

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

FReM

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

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

1.3 Prior Period Adjustments

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

The removal of the notional Cost of Capital charge of £2,995,413,000 is considered as a change in accounting policy and which requires the inclusion of prior period adjustments. The charge has been removed from the prior period Statement of Comprehensive Net Expenditure and Statement of Changes in Taxpayers' Equity. There was no net impact on the prior year Statement of Financial Position. Detrunkings of £79,455,883 have also been treated as prior year adjustments.

	Note	As previously stated £000	Adjustment £000	As restated £000
Infrastructure assets: cost	6	100,811,794	(91,324)	100,720,470
Infrastructure assets: depreciation	6	(13,895,319)	11,868	(13,883,451)
		86,916,475	(79,456)	86,837,019
General Fund	SOCE	38,908,966	(50,558)	38,858,408
Revaluation Reserve	SOCE	47,084,328	(28,898)	47,055,430

(SOCE: Statement of changes in Taxpayers' equity)

1.4 Non-Current Assets: Property, Plant and Equipment

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

Capitalisation Policy

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

Non-network assets (excluding Land)	£2,000
Land	No minimum value
Network Infrastructure – new build	£100,000
Road & Structures renewals	£100,000

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

Expenditure on construction schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will go ahead. Where a scheme is subsequently withdrawn from the capital programme, cumulative design expenditure is written-off to the Statement of Comprehensive 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 1 year are valued and reported as assets held for sale.

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

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

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

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

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

Valuation

Infrastructure Assets

The network infrastructure asset consists of carriageways, structures, land and communications equipment which form a single integrated network. The network infrastructure is intended to be maintained at a specific level of service potential by continual replacement and refurbishment.

The network infrastructure assets are specialised (i.e. a market value is not available) and therefore must be valued using Gross Replacement Cost (GRC) in accordance with HM Treasury Financial Reporting Manual (FRM), before applying depreciation.

The purpose of the road valuation is to provide an asset value of the road network, including all classes of roads, structures, and land, for which the Agency is responsible. This is to ensure the inclusion of all asset classes in the annual accounts.

The infrastructure asset valuation is based on a standard cost model. The gross replacement cost is calculated as if providing a replacement asset, on a 'green-field' site, constructed to modern build standards and then depreciated to take account of the condition of the network. This approach is undertaken in accordance with the general principles of the 'Appraisal and Valuation Manual' (Red Book) of the Royal Institution of Chartered Surveyors (RICS).

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using recent schemes actual cost and physical assets records to provide unit rates for all elements and components of the network.

Unit rates are determined for the following elements of the network infrastructure: road, structures, technology equipment and land. When calculating the unit rates for the various elements of the network, a number of assumptions are implicit in determining the network valuation. These assumptions are reviewed only once every five years when the Agency seeks to provide a new valuation of the network.

Determining unit rates for valuation

Unit Cost	Unit cost determination
Road	The standard costing for roads has a series of road types created to identify all roads and determine the unit costs. Each road type will have a width for the carriageway, hard-strip or hard-shoulder, central reservations etc.
Structures	The HA developed unit cost rates for all bridges, tunnels, gantries (excluding Special), based on number of criteria such as spans, deck areas etc. Special structures are structures that, due to a combination of their size, construction, character or some or all of these, cannot be quantified and valued in the same manner as other structures. e.g. Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.
Land	Land is an integral part of the road network and forms an important part of the valuation. Although some of the land occupied by the network may not actually be owned by the Agency, it is considered that, as the Agency has an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. The unit cost rates for land is determined by a series of rates calculations based on Valuation Office indices.
Technology	Technology equipment unit costs are developed using rates from technology frameworks currently in place between the Agency and their contractors and bulk purchase prices for materials procured direct by the Agency. The unit costs also include a percentage of the subcontractors' preliminaries and other on-costs where applied to construction works.

Information on infrastructure assets 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. Data held on individual assets is continually improving through ongoing surveys and other activities and this, together with the application of professional judgement by engineers will impact the variability of dimensional data which in turn will impact the valuation of the infrastructure asset.

Indexation

Indexation		
Roads and structures	Five year revaluation	Unit rates are calculated from projects opened to traffic over the last 5 years to value carriageways, structures and technology. Unit rates from projects with different opening dates are brought to a common baseline using Roadcon, a construction industry index. This index is calculated from tenders for highway works and reflects contractor's output costs.
Roads and structures	Year end revaluation	ROCOS is the index applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS (resource cost index of road construction); published on a quarterly basis by the Department for Business, Innovation and Skills (BIS).
Land		Land indices published twice yearly by the Valuation Office Agency (VOA).
Technology		BEAMA (British Electrotechnical & Allied Manufacturers) index sourced from its website

Various indices are applied to the valuation of the network to ensure the final valuation is at current replacement cost. Indexation of network valuation is set out in the table above.

Indexation based on indices is applied to all elements of the network. However there may be occasions where the use of indices for particular network assets 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 gross current 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 valuation of the network is based upon a non-recoverable VAT rate of 20% which reflects a consistent long-term approach to valuing the network. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

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

Assets Under Construction

All new projects in the course of design or construction are accounted for as assets under construction (AUC) at their actual build cost. On completion of a project, the project is transferred out of AUC and into Infrastructure Assets at the current standard replacement cost (which will be different from the actual cost).

The difference between a project's actual cost of construction and the current standard replacement cost is treated as a write down which is charged to the Statement of Comprehensive Net Expenditure (SCNE).

Write-downs

Write-downs arise due to the difference between the cost of construction and the current standard replacement costs. There are a number of reasons for this difference in cost including:

- i) One of the assumptions in the standard cost is that all construction is new build on a 'green-field' site. This is not always the case, therefore the cost of new constructions can be much higher due to building in non-rural areas or replacing existing roads etc.
- ii) Generally it is cheaper to build a three lane motorway in the first instance rather than two lanes initially and then to widen at some point thereafter. In a road widening scheme, a significant amount of cost will be in traffic management and therefore will be written-down.

The Agency uses standard write-down percentages for different types of projects. These percentages are based on projects constructed over the previous 5 years. The write down percentages are applied to construction projects lasting more than one year, this ensures the Agency writes-down the asset on an on-going basis rather than when the project is opened for traffic.

Land and Buildings, including Dwellings

Freehold land and buildings have been valued on the basis of open market value for existing use. External professional surveyors, in accordance with the RICS Appraisal and Valuation Manual, undertake a full valuation of these assets at intervals not exceeding five years. Between valuations values are adjusted using regional land and building indices published twice yearly by the Valuation Office Agency (VOA).

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

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

Asset:	Valuation Date:	Undertaken By:
Federated House	17 March 2010	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2006	VOA
Motorway Service Areas	31 March 2010	VOA
Surplus properties (including dwellings)	31 Dec 2010	VOA
Regional Control Centres	31 March 2011	VOA
National Traffic Control Centre	31 March 2011	VOA

Plant and Equipment

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

Information Technology

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

Assets Held for Sale

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

1.5 Depreciation

Infrastructure Assets

Depreciation is a measure of the book value of an asset that has been consumed during the accounting period. It attempts to allocate the cost of the asset over the accounting periods that will benefit from its use, it is charged each year to the Statement of Comprehensive Net Expenditure.

The network infrastructure asset as reported in the annual accounts, is based on depreciated replacement cost (DRC), as required by the FReM.

All parts of the network infrastructure consisting of motorways and all-purpose trunk road (APTR), structures, lands and communications are depreciated. However, the land element of the network infrastructure is not depreciated as land has an unlimited useful life.

Road Depreciation

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

1. Capital renewal maintenance expenditure on network road surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation. The value of materials replaced by subsequent expenditure is derecognised from gross book and accumulated depreciation values.
2. The condition of the road surface is measured by rutting, obtained from TRACS surveys. Rutting is a good overall indicator for the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. The condition of the road surface, as

assessed by condition surveys, is undertaken and any movement in the condition is taken to the Statement of Comprehensive Net Expenditure as a depreciation charge or conversely an improvement credit.

Road surface assets comprise: -

- i. Surface layer of flexible pavements
- ii. Sub pavement layer of determinate life pavements
- iii. Fencing, drainage, lighting, signage, kerbs, footways
- iv. Road markings and studs
- v. Rigid concrete pavements

Structures

Depreciation for structures is determined in two parts as follows:

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

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

	Life in years
i. Road bridges, tunnels and underpasses	20 to 120
ii. Road culverts	20 to 120
iii. Retaining walls	20 to 120
iv. Gantries	20 to 120

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

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

Technology

Depreciation for technology assets cover the following:

1. Calculation of depreciation for technology assets is based on the linear 'straight line' depreciation method based on different technology assets being assigned different design life;
2. The overall anticipated life span of technology equipment varies according to the type of equipment;
3. Technology equipment economic life is between 15 to 50 years.

Impairment

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

Non-Network Assets

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

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

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

1.6 Non-current assets: Assets held for sale

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

1.7 Non-Current Assets: Intangible Assets

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

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

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

1.8 Inventories

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

1.9 Research and Development

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

1.10 Operating Income

Operating income is income that relates directly to the operating activities of the Agency.

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

1.11 Administration and Programme Expenditure

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

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

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

1.12 Pensions and other employee benefits

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 3. The defined schemes are unfunded and are mostly non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

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

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

1.13 Leases

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

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

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

1.14 Service Concessions

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

The Agency recognises the infrastructure associated with service concessions as an asset and recognises the related liability. The asset is accounted for in a manner consistent with other assets of that type. Interest on the liability and expenditure on services provided under the service concession are recognised in the Statement of Comprehensive Net 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.

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

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

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

1.15 Provisions and financial liabilities

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

1.16 Contingent Liabilities

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

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

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

1.17 Financial Instruments

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

1.17.1 Financial assets and liabilities

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

1.17.2 Loans and receivables

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

1.17.3 Available for sale financial assets

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

1.17.4 Financial liabilities

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

1.17.5 Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and reported at fair value with gains and losses being recognised in the Statement of Comprehensive Net Expenditure. The Agency has carried out a review of its contracts and has determined that, as at 31 March 2011, it had no arrangements meeting the criteria to require separation.

1.17.6 Impairment of financial assets

The Agency assesses at each Statement of Financial Position date whether there is objective evidence that financial assets are impaired as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Statement of Financial Position date, and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

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

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

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

1.18 VAT

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

1.19 Estimation Techniques

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

1.20 EU grants

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

1.21 Segmental Reporting

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

1.22 Trunkings/Detrunkings

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

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

2(a) Segmental Reporting 2010-11

	2010-11					
	Resource Expenditure	Resource Income	Resource Total	Capital Expenditure	Capital Income	Capital Total
Total by Segment	£000	£000	£000	£000	£000	£000
Major Improvements	364,999	(48,751)	316,248	987,745	(6,519)	981,226
Maintaining the Network	417,895	(20,096)	397,799	374,259	-	374,259
Technology Improvements	76,673	(1,031)	75,642	128,212	-	128,212
Traffic Management	51,892	(2,143)	49,749	12,554	-	12,554
Smaller Schemes, Research and Development, IT	81,440	(928)	80,512	72,761	-	72,761
Running Costs - Programme	74,648	-	74,648	-	-	-
Running Costs - Admin	74,505	(1,368)	73,137	24,007	-	24,007
Other	204	(21,327)	(21,123)	8,836	-	8,836
	1,142,256	(95,644)	1,046,612	1,608,374	(6,519)	1,601,855
Unallocated Costs						
Depreciation and write downs	1,212,336	-	1,212,336	-	-	-
Agency total	2,354,592	(95,644)	2,258,948	1,608,374	(6,519)	1,601,855

2(b) Segmental Reporting 2009-10

Restated	2009-10					
	Resource Expenditure	Resource Income	Resource Total	Capital Expenditure	Capital Income	Capital Total
Total by Segment	£000	£000	£000	£000	£000	£000
Major Improvements	242,786	(32,794)	209,992	719,836	(4,719)	715,117
Maintaining the Network	531,129	(17,282)	513,847	793,411	-	793,411
Technology Improvements	69,535	(630)	68,905	241,560	-	241,560
Traffic Management	83,558	(2,452)	81,106	37,882	-	37,882
Smaller Schemes, Research and Development, IT	123,545	(812)	122,733	105,634	-	105,634
Running Costs - Programme	77,755	-	77,755	-	-	-
Running Costs - Admin	81,517	(1,674)	79,843	24,228	-	24,228
Other	(9,615)	(19,542)	(29,157)	9,167	-	9,167
	1,200,210	(75,186)	1,125,024	1,931,718	(4,719)	1,926,999
Unallocated Costs						
Depreciation and write downs	1,465,917	-	1,465,917	-	-	-
Agency total	2,666,127	(75,186)	2,590,941	1,931,718	(4,719)	1,926,999

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

Segmental Income

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

3(a) Staff costs

Staff costs comprise:

	2010-11			2009-10
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	111,569	3,756	115,325	113,914
Social Security costs	8,390	-	8,390	8,058
Other pension costs	20,610	-	20,610	19,671
Total gross costs	140,569	3,756	144,325	141,643
Capitalised staff costs	(20,258)	-	(20,258)	(16,078)
Less recoveries in respect of outward secondments	(57)	-	(57)	-
Total net costs	120,254	3,756	124,010	125,565

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

Pension costs

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

For 2010-11, employers' contributions of £19,928,976 were payable to the PCSPS (2009-10 £19,127,650) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. In addition employers' contributions of £560,362 (2009-10 £444,152) were paid in respect of staff who transferred in to the Agency during 2010-11 and remained in their existing pension scheme. 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 2010-11 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £112,810 (2009-10 £92,976) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £7,852 (2009-10 £6,702) were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £14,574. Contributions prepaid at that date were £nil.

No individuals retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil.

3(b) Average Number of Persons Employed

	2010-11			2009-10
	Permanent Staff	Others	Total	Total
Staff funded from administration budgets	1,103	34	1,137	1,363
Staff funded from programme budgets				
Traffic Officer staff	1,739	3	1,742	1,721
Direct support to front line projects and service delivery	392	6	398	357
Staff engaged on capital projects	453	12	465	313
Average FTE persons employed	3,687	55	3,742	3,754

Over the course of the financial year, the actual full time equivalents (FTE) reduced from 3,877 to 3,567.

3(c) Civil Service and other compensation schemes – exit packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
1 <£10,000	-	16	16
2 £10,000 - £25,000	-	16	16
3 £25,000 - £50,000	-	32	32
4 £50,000 - £100,000	-	29	29
5 £100,000 - £150,000	-	5	5
6 £150,000 - £200,000	-	1	1
Total number of exit packages	-	99	99
Total resource cost (£000)	-	4,270	4,270

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 the Agency has agreed early retirements, the additional costs are met by the Agency 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.

4(a) Other Administration Costs

	Note	2010-11 £000	Restated 2009-10 £000
Communication		1,268	1,526
Consultancy		261	1,197
Information technology		24	399
Maintenance		507	1,683
Professional services		416	406
Recruitment and training		1,233	2,671
Rent, rates and building costs		5,660	3,732
Stationery, postage and printing		818	592
Travel and subsistence		1,678	2,669
Other administration costs		2,072	2,421
		13,937	17,296
Rentals under operating leases:			
Hire of plant and machinery		143	226
Other operating leases		6,314	4,874
		6,457	5,100
Non-cash items:			
<i>Depreciation</i>			
property, plant and equipment	6	1,921	1,120
<i>Amortisation</i>			
Intangible fixed assets	7	237	1,224
Loss on disposal of property, plant and equipment		-	-
<i>Notional Costs</i>			
Auditors' remuneration and expenses			
Annual Audit		275	275
IFRS Trigger point 4		-	25
Provision for doubtful debt		3	16
Provisions provided for in year	14	3,411	2,043
Total: non-cash items		5,847	4,703
Total: other administration costs		26,241	27,099

Rent and related costs increased in 2010-11 due in part to the move from our offices in Birmingham and Manchester to new premises in 2010. During the transitional period the Agency incurred dual running costs.

4(b) Programme Costs

	Note	2010-11 £000	Restated 2009-10 £000
Research and development expenditure		7,970	9,969
Current maintenance		549,283	712,788
Interest on PFI finance leases		105,331	78,822
PFI service charges		289,346	241,613
Information technology		19,779	22,887
Traffic Management vehicle costs		4,872	8,722
Other programme costs		19,871	33,381
		996,452	1,108,182
Non-cash items:			
<i>Depreciation:</i>			
property, plant and equipment	6	379,652	817,724
property, plant and equipment held under PFI leases	6	44,992	(949)
Impairment of non-current assets	8	73,469	41,029
<i>Amortisation</i>			
intangible fixed assets	7	5,794	6,325
Write down of network assets	6	724,717	599,695
Loss on disposal of property, plant and equipment		3,387	3,823
Provision for doubtful debt		1,886	1,543
Provision for slow moving stock		24,099	3,724
Provisions provided for in year	14	(50,107)	(67,633)
Total: non-cash items		1,207,889	1,405,281
Total: Programme Costs		2,204,341	2,513,463

5 Operating Income

Operating income principally arises from:

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

Operating income analysed by classification and activity is as follows:	2010-11			2009-10
	Appropriated in aid £000	Not Appropriated in aid £000	Total £000	Total £000
Administration income				
Fees and charges to external customers	911	-	911	1,414
Cost recoveries/rental income	326	-	326	14
Other income	131	48	179	253
	1,368	48	1,416	1,681
Programme income				
Fees and charges to external customers	26,688	-	26,688	18,960
Rental income from properties	3,545	-	3,545	4,060
Claims for damage to Network	12,949	-	12,949	15,204
Interest receivable	-	18,034	18,034	16,139
Recovery of costs incurred on M6 toll scheme	10,484	-	10,484	6,227
National Vehicle Recovery	1,868	-	1,868	2,168
Sales of strategic salt stock	5,602	-	5,602	-
Other	8,027	3,246	11,274	8,660
Profit on sale of assets	493	-	493	385
	69,656	21,280	90,937	71,803

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

Disclosure under the HM Treasury Fees and Charges Guide

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

	2010-11			2009-10		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	27,600	27,600	-	20,374	20,374	-
Cost recoveries/rental income administration	326	326	-	14	14	-
Rental income from programme properties	3,545	6,112	(2,567)	4,060	5,145	(1,085)
Claims for damage to network	12,949	13,630	(681)	15,204	16,004	(800)
Interest receivable, of which:						
Severn River Crossing Plc loan	8,720	-	8,720	8,033	-	8,033
Midland Expressway Ltd debtor	9,302	-	9,302	8,077	-	8,077
Other	12	-	12	30	-	30
National vehicle recovery	1,868	5,457	(3,589)	2,168	5,575	(3,407)
Retail price index on:						
Midland Expressway Ltd (MEL) debt	6,976	-	6,976	(1,692)	-	(1,692)
Recovery of other costs from MEL	3,614	3,402	212	8,161	8,161	-
Recovery of costs incurred from schemes	5,477	5,477	-	3,388	3,388	-
Profit on sale of assets	493	-	493	385	-	385
Sales of Strategic salt stock	5,602	5,278	324	-	-	-
Other income	5,869	2,843	3,026	5,282	2,328	2,954
	92,353	70,125	22,228	73,484	60,989	12,495

When the Agency undertakes a service on behalf of another organisation, it undertakes work to ensure full recovery of costs in accordance with HM Treasury's 'Managing Public Money'. The table above shows any deviation from this principle, as part of disclosure requirements laid down by HM Treasury.

The National Vehicle Recovery Manager (NRVM) service was set up by the Highways Agency to deal with vehicles that are abandoned, broken down or damaged on the strategic road network. The Agency operates this service via a NVRM contract which has been held by FMG Support since 1 October 2008. This includes all aspects of recovery and the removal of vehicles and their loads from the network, both on scene and subsequent vehicle case management.

Charges are collected from owners of recovered vehicles on behalf of the Secretary of State for Transport. The charges applied are limited by statute and do not necessarily recover the full costs of operating the service. Any statutory charge collected by the NVRM is passed in full to the Highways Agency and used to offset the full cost of operating the service.

6(a) Property, plant and equipment 2010-11

	Infrastructure Assets	Assets under construction	Land	Buildings	Dwellings	Plant & Machinery	Information Technology	Total
Cost or valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2010	100,811,794	710,963	137,369	99,817	38,494	114,477	54,694	101,967,608
Detrunking	(91,324)	-	-	-	-	-	-	(91,324)
Restated Sub-total	100,720,470	710,963	137,369	99,817	38,494	114,477	54,694	101,876,284
Adjustment to opening position	968,758	48,645	796	77	2,404	-	-	1,020,680
Capital additions	335,813	1,254,767	8	820	613	16,327	-	1,608,348
Valuation adjustments	(335,813)	(724,717)	-	-	-	-	-	(1,060,530)
Disposals	-	-	-	(47)	-	-	-	(47)
Revaluation	12,573,556	-	1,204	(4,099)	4,342	7,407	(2,538)	12,579,872
Impairments	(118,253)	-	(86)	(19,405)	(284)	(7)	(7)	(138,042)
Transfers	313,838	(346,089)	1,915	7,372	17,363	5,508	93	-
Reclassifications to Assets held for sale	-	-	(11,900)	4,933	(5,872)	(20,102)	-	(32,941)
At 31 March 2011	114,458,369	943,569	129,306	89,468	57,060	123,610	52,242	115,853,624
Depreciation								
At 1 April 2010	13,895,319	-	-	24,772	-	65,256	51,582	14,036,929
Detrunking	(11,868)	-	-	-	-	-	-	(11,868)
Restated Sub-total	13,883,451	-	-	24,772	-	65,256	51,582	14,025,061
Adjustment to opening position	90,169	-	-	-	-	-	-	90,169
Valuation adjustments	(335,813)	-	-	-	-	-	-	(335,813)
Impairment	(64,536)	-	-	(37)	-	-	-	(64,573)
Charged in year	411,703	-	-	2,458	-	9,883	2,520	426,564
Disposals	-	-	-	(47)	-	-	-	(47)
Revaluation	1,799,218	-	-	(3,817)	-	3,761	(2,441)	1,796,721
Reclassifications to Assets held for sale	-	-	-	(98)	-	(18,973)	-	(19,071)
At 31 March 2011	15,784,192	-	-	23,231	-	59,927	51,661	15,919,011
Net book value at 31 March 2011	98,674,177	943,569	129,306	66,237	57,060	63,683	581	99,934,613
Net book value at 31 March 2010	86,837,019	710,963	137,369	75,045	38,494	49,221	3,112	87,851,223
Asset financing								
Owned	96,342,243	761,573	129,306	63,437	57,060	63,121	81	97,416,821
Finance leased	-	-	-	-	-	562	500	1,062
On-balance sheet PFI contracts	2,331,934	-	-	2,800	-	-	-	2,334,734
M6 reversionary interest	-	181,996	-	-	-	-	-	181,996
Net book value 31 March 2011	98,674,177	943,569	129,306	66,237	57,060	63,683	581	99,934,613

6(b) Property, plant and equipment 2009-10

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

Network Assets

The opening position for network assets as at 1 April 2010 was restated to include amendments to the network asset databases. The amendments are not corrections to the existing data due to fundamental errors but are adjusted for the following reasons:

- Dimensional variance - an adjustment of £814,730,000 was made due to improved dimensional measurements for individual bridges and structures.
- Re-referencing variance – an adjustment of £63,859,000 to reflect changes in the asset databases from a number of schemes capitalised in prior year.

Valuation Adjustments

The Agency spends capital on a wide range of infrastructure renewal schemes each year. In 2010-11 the Agency spent £335,813,000 on capital renewal. The above amount represents the gross value of materials replaced by the capital renewal expenditure and is therefore de-recognised from the books of account.

Write-down

This adjustment arises because of the difference between the actual cost of construction and the current replacement standard cost method in the valuation of the network infrastructure. The write-down of £724,717,000 in 2010-11 was impacted by the type of capital schemes undertaken during the year.

The write-down also includes £42,142,300 for a number of capital schemes that were cancelled due to change in Government policy.

Depreciation

Network depreciation was £411,703,000, this included a credit of £44,220,000 for condition variance reflecting an improvement in the road condition rutting measurement. The condition of the road surface is measured by rutting which is a good overall proxy for the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. Rutting data, collected from road surveys, acts as a condition indicator for the road network and is the measure against which the Agency determines the calculation for the condition variance of the road surface.

Revaluation

The network infrastructure valuation increased by £10,774,000,000 during the year due to the following reasons:

- The change of VAT rate from 17.5% to 20% on 4 January 2011 increased the valuation of the network.
- Indexation rates increases were applied to the annual revaluation of the network to ensure the valuation reflects movement in current prices.

Assets under Construction

The balance as at 1 April 2010 has been adjusted to include an additional £48,645,000 of reversionary interest for the M6 toll road.

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

Analysis of land and buildings	2010-11 £000	2009-10 £000
Freehold buildings	186,087	202,612
Long leasehold buildings (50+ years)	-	-
Short leasehold buildings (less than 50 years)	9,456	9,802
Total	195,543	212,414

7 Intangible assets

	Software Licences £000	Development Costs £000	Total £000
Cost or valuation			
Balance at 1 April 2009	6,391	76,088	82,479
Additions	-	-	-
Disposals	-	-	-
Transfers & reclassifications	-	-	-
Balance at 1 April 2010	6,391	76,088	82,479
Additions	26	-	26
Disposals	-	-	-
Transfers & reclassifications	-	-	-
At 31 March 2011	6,417	76,088	82,505
Amortisation			
Balance at 1 April 2009	5,460	53,028	58,488
Charged in year	643	6,906	7,549
Disposals	-	-	-
Balance at 1 April 2010	6,103	59,934	66,037
Charged in year	237	5,794	6,031
Disposals	-	-	-
At 31 March 2011	6,340	65,728	72,068
Net book value at 31 March 2011	77	10,360	10,437
Net book value at 31 March 2010	288	16,154	16,442

8 Impairment

	2010-11 £000	2009-10 £000
Impairment charge through Statement of Net Comprehensive Expenditure	73,469	41,029
Total Impairment charge for the year	73,469	41,029

The impairment charge for 2010-11 mainly comprises £50,694,000 of technology assets impairment, £19,221,000 is associated with the revaluation of Regional Control Centres and £3,023,000 attributable to an impairment of a bridge on the strategic road network.

9 Assets classified as held for sale

	Land and Buildings £000	Dwellings £000	Plant & Machinery £000	Total £000
Balance at 1 April 2009	6,237	4,750	754	11,741
Disposals	(1,565)	(3,740)	(931)	(6,236)
Revaluation	(275)	-	-	(275)
Reclassifications from property plant and equipment	(500)	3,155	177	2,832
Balance at 1 April 2010	3,897	4,165	-	8,062
Disposals	(2,901)	(5,383)	(1,129)	(9,413)
Revaluation	-	-	-	-
Reclassifications from property plant and equipment	6,869	5,872	1,129	13,870
Balance at 31 March 2011	7,865	4,654	-	12,519

10 Inventories

	31 Mar 2011 £000	31 Mar 2010 £000
Communication/electrical equipment	65,152	82,355
Highway damage repair items - barriers and parts for the repair of bridges, tunnels and special structures	1,382	1,508
Salt	21,696	5,694
Uniforms for Traffic Officers working on the trunk road network	524	631
Total	88,754	90,188

In July 2010 an independent interim report, the Quarmby Report, was published on the resilience of England's transport systems to severe winter weather following the 2009-10 winter. The report recommended the Government should intervene to create a 'buffer' salt stock to reduce the risk of a severe national salt crisis in the coming winter. During the year the Agency purchased a significant amount of salt to create the buffer stock.

11 Trade and other receivables

11(a) Analysis by Type

	31 Mar 2011 £000	31 Mar 2010 £000
Amounts falling due within one year		
Trade receivables	10,602	7,727
Deposits and advances	11,122	9,409
VAT	89,959	110,296
Midland Expressway Limited M6 concession	10,613	9,622
Prepayments and accrued income	11,628	6,092
Other receivables	35	912
	133,959	144,058
Amounts falling due after more than one year		
	31 Mar 2011 £000	31 Mar 2010 £000
Severn River Crossing Plc subordinated loan	100,045	95,481
Severn River Crossing Plc deferred interest	54,815	46,096
Midland Expressway Limited M6 concession	153,977	144,338
Deposits and advances	4,605	-
Staff relocation housing loans	46	58
	313,488	285,973
Total	447,447	430,031

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing. The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a predetermined cumulative revenue target from tolls. It is predicted the concession period will end in the second half of 2017. Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

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

11(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2011 £000	31 Mar 2010 £000	31 Mar 2011 £000	31 Mar 2010 £000
Balances with:				
Other central government bodies	90,031	111,487	-	-
Local authorities	5,354	3,643	-	-
Total intra-government balances	95,385	115,130	-	-
Balances with bodies external to government	38,574	28,928	313,488	285,973
Total Debtors	133,959	144,058	313,488	285,973

12 Cash and cash equivalents

	2010-11 £000	2009-10 £000
Balance at 1 April 2010	30,499	48,983
Net change in cash and cash equivalent balances	(49,154)	(18,484)
Balance at 31 March 2011	(18,655)	30,499

The following balances at 31 March are held at:

Office of HM Paymaster General	-	30,498
Government Banking Service	(18,655)	1
Balance at 31 March 2011	(18,655)	30,499

In 2010-11 the bank overdraft of £18,655,000 has been reported in Note 13 Trade and other payables.

13(a) Trade and other payables

	Note	31 Mar 2011 £000	31 Mar 2010 £000
Amounts falling due within one year:			
Other taxation and social security		4,624	2,916
Trade payables		29,997	5,653
Accruals and deferred income		450,143	639,260
Current part of finance leases		998	250
Current part of imputed finance lease element of on balance sheet PFI contracts		51,245	56,135
Consolidated fund extra receipts due to be paid to the Consolidated Fund			
received		128	380
receivable		6	74
Amounts due to DfT in respect of Dartford River Crossing road user charges		7,099	6,963
Amounts due to the Consolidated Fund in respect of supply		29,120	16,280
Bank Overdraft	12	18,655	-
Other payables		625	37
		592,640	727,948
Amounts falling after more than one year:			
		31 Mar 2011 £000	31 Mar 2010 £000
Imputed finance lease element of on balance sheet PFI contracts		1,497,871	1,162,369
Consolidated Fund extra receipts due to be paid to the Consolidated Fund in respect of:			
Severn River Crossing Plc subordinated loan		100,045	95,481
Severn River Crossing Plc subordinated loan interest		54,815	46,096
Midland Expressway Ltd concession		61,497	52,195
Other payables, accruals and deferred income:			
Payable as agents in respect of the Midland Expressway Ltd concession		9,089	8,169
Other		7,618	3,329
		1,730,935	1,367,639

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

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

Accruals and deferred income comprise:

	31 Mar 2011	31 Mar 2010
	£000	£000
Amounts payable relating to road schemes	383,923	578,783
PFI Shadow Tolls	31,041	22,011
Administration accruals	9,823	10,562
Other	25,356	27,904
	450,143	639,260

13(b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2011	31 Mar 2010	31 Mar 2011	31 Mar 2010
	£000	£000	£000	£000
Balances with:				
Other central government bodies	34,990	20,299	216,357	193,772
Local authorities	299	519	-	-
Total Intra - government balances	35,289	20,818	216,357	193,772
Balances with bodies external to government	557,351	707,130	1,514,578	1,173,867
Total Creditors	592,640	727,948	1,730,935	1,367,639

14 Provisions

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2009	208,134	90,184	111,394	213,504	1,874	11,837	636,927
Provided in the year	37,509	15,640	-	-	476	7,358	60,983
Provisions not required written back	(20,617)	(11,555)	(9,202)	(75,600)	-	(472)	(117,446)
Provisions utilised in the year	(53,407)	(48,842)	(14,695)	(50,219)	(531)	(3,064)	(170,758)
Balance at 1 April 2010	171,619	45,427	87,497	87,685	1,819	15,659	409,706
Provided in the year	48,441	77,111	2,000	10,000	2,653	2,655	142,860
Provisions not required written back	(34,556)	(12,867)	(2,000)	(53,077)	-	(947)	(103,447)
Provisions utilised in the year	(36,409)	(45,076)	(34,720)	(18,113)	(704)	(4,525)	(139,547)
Reclassification incl. accruals	-	-	-	-	-	(4,760)	(4,760)
Balance at 31 Mar 2011	149,095	64,595	52,777	26,495	3,768	8,082	304,812

Analysis of expected timing of discounted flows:

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Migration pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
In 2011 - 2012	42,300	57,017	37,817	17,953	1,032	3,422	159,541
Between 2013 and 2017	103,246	7,578	14,960	8,542	2,565	4,660	141,551
Between 2018 and 2022	3,549	-	-	-	171	-	3,720
Thereafter	-	-	-	-	-	-	-
Balance at 31 March 2011	149,095	64,595	52,777	26,495	3,768	8,082	304,812

Land and Property Acquisition

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

Engineering and Construction Services

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

Bridge Strengthening

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

Tunnels

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

Migration, Pensions and Other Liabilities

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2011 that will require settlement by the Agency.

The pension liability relates to former staff who left the Agency's employment before the formal retirement age of 60. The Agency is responsible for making payments to the pension plan until their retirement age. The reclassification to accruals of £4,760,000 relates to a pension fund deficit, payable by the Secretary of State under a contractual obligation in respect of the Dartford River Crossing Pension Scheme. This was initially provided for in March 2010.

In year increases and decreases in provisions

These can impact on both the Capital Expenditure and Statement of Comprehensive Net Expenditure. Capital Expenditure provisions decreased by £86,109,000 (2009-10 increased £9,127,000) during the year. The following provisions were charged to the Statement of Comprehensive Net Expenditure:

	2010-11	2009-10
	£000	£000
Programme:		
Land and property acquisition	(151)	3,423
Engineering and construction services	(7,809)	(774)
Bridge strengthening	-	-
Tunnels	(43,077)	(75,600)
Early retirement	768	-
Pensions and other liabilities	162	5,318
	(50,107)	(67,633)
Administration:		
Early retirement	1,885	476
Other	1,526	1,567
	3,411	2,043
	(46,696)	(65,590)

15 Transfer of Functions to/from Local Authorities

The policy to transfer non-core network routes to local authorities, as outlined in the Government's policy announced in the 1998 White Paper is now complete. However, from time to time, in delivering major schemes programmes, when a new section of road has been built to improve the road network the old section is detrunked to the relevant local authority.

Detrunked section of the road:	Local authority	Date of transfer	Asset value £000
Programme of major schemes			
A421 Bedford to M1 Junction 13	Bedfordshire	01 Dec 2010	76,846
A46/M40 Junction 15 - (Longbridge Bypass)	Warwickshire	01 Jul 2010	2,610
			79,456

16 Capital Commitments

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

	31 Mar 2011 £000	31 Mar 2010 £000
Contracted capital commitments not otherwise included in these accounts:		
Property, plant and equipment	418,054	1,068,628

17 Commitments under Leases

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

Obligations under operating leases comprise:	31 Mar 2011		31 Mar 2010	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	7,258	195	8,029	2,079
Later than one year and no later than five years	33,892	305	31,586	574
Later than five years	66,718	-	68,439	-
	107,868	500	108,054	2,653

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

Obligations under finance leases comprise:	31 Mar 2011		31 Mar 2010	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	-	998	-	250
Later than one year and no later than five years	-	307	-	500
Later than five years	-	-	-	-
	-	1,305	-	750

18 Commitments under Private Finance Initiatives (PFI)

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

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

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

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

	31 Mar 2011	31 Mar 2010
	£000	£000
Not later than one year	164,186	131,792
Later than one year and no later than five years	627,348	480,819
Later than five years	2,266,542	1,502,107
	3,058,076	2,114,718
Less interest element	(1,508,960)	(896,214)
	1,549,116	1,218,504

Charge to the Statement of Comprehensive Net Expenditure and future commitments

	31 Mar 2011	31 Mar 2010
	£000	£000
Not later than one year	402,845	387,920
Later than one year and no later than five years	1,778,124	1,828,448
Later than five years	11,916,188	9,967,084
	14,097,157	12,183,452

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI transactions year to date was £289,346,000 (2009-10 £241,613,000).

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

19 Financial Instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the Agency faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

Liquidity risk

This is the risk that the Agency is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. The Agency's net revenue resource requirements are mainly financed by resources voted annually by Parliament to the Department for Transport.

The Agency is therefore not exposed to significant liquidity risks.

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfill their contractual obligations to the Agency. Some of the Agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations.

For those customers and counterparties that are not public sector organisations, the Agency has policies and procedures in place to ensure credit risk is kept to a minimum.

Interest Rate Risk

This is the risk that the Agency will suffer financial loss due to interest rate fluctuation. The Agency's financial assets and its financial liabilities carry nil or fixed rates of interest, therefore the Agency is not exposed to significant interest rate risk.

Exchange Rate Risk

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

Fair Values

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

20 Contingent liabilities and assets

20(a) Contingent liabilities

	31 Mar 2011 £000	31 Mar 2010 £000
Land & property acquisition	168,651	285,559
Engineering & construction services	7,110	900
Other	4,446	6,959
Gross balance	180,207	293,418

Land and Property Acquisition

Contingent liabilities from land and property acquisition arise from the following sources:

Acquisition and Blight

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

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

Compensation for Loss After Construction

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

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

Claims in Dispute

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

Engineering and Construction Services

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

Other

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

20(b) Contingent Assets

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

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

As it is not known for some years after the initial disposal whether any further income will arise the Agency has a contingent asset relating to future values. In 2010-11 amounts totalling £12,000 (2009-10 £0) were received under these arrangements.

21 Related Party Transactions

The Agency is an Executive Agency of the Department for Transport. The Department is regarded as a controlling related party. During the year the Agency had a significant number of transactions with the Department. In addition the Agency had transactions with other Government departments and agencies, principally Treasury Solicitors, Department for Communities and Local Government, Central Office of Information, Valuation Office Agency, National Assembly for Wales and a number of Local Authorities. In addition the Agency had transactions with QinetiQ, a public limited company in which the Ministry of Defence holds shares.

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

There were no Board member interests in third party transactions.

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

22 Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £250,000 in total and those that, individually, exceed £250,000. Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

During 2010–11 there was one case of £366,000 where debt from a third party has been written-off due to a book-keeping error in prior years and a further case of £483,000 where a debt from a third party was abandoned as the amount could not be recovered.

During 2010-11, eight road schemes in the course of development were cancelled as a result of the Government's decision, taken as part of the 2010 Spending Review, to proceed with 14 other schemes to be started between 2011-12 and 2014-15. This decision resulted in £42,142,300 of capitalised costs needing to be written off during the year. This excludes costs written off in previous years.

The amounts involved are as follows:

	2010-11 £000	2009-10 £000
Losses:-		
Bookkeeping/cash losses: 21 cases (2009-10 15 cases)	394	110
Fruitless payments: 8 cases (2009-10 2 cases)	42,142	116
Claims abandoned/store losses: 1,948 cases (2009-10 1,958 cases)*	5,524	6,302
Special Payments: Ex-gratia compensation: 6 cases (2009-10 1 case)	41	40

*Includes 1,863 cases valued at £4,510,000 (2009-10 1,920 cases, valued at £5,763,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

23 Third Party Assets

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

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

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

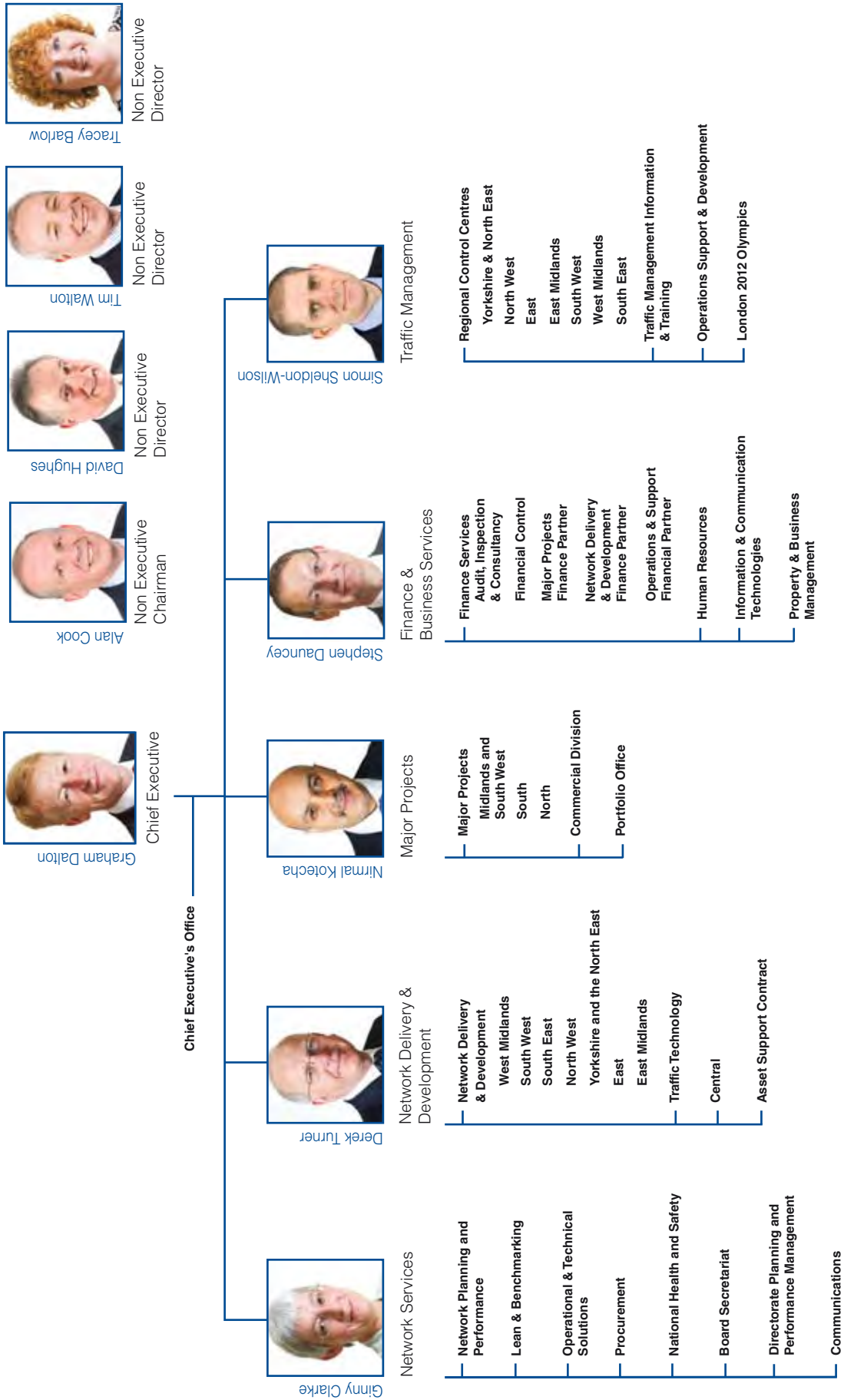
The amounts held are set out in the table below:

	31 Mar 2011	31 Mar 2010
	£000	£000
Lloyds TSB Escrow Bank Accounts	2,944	4,163
Lloyds TSB Euro Bank Account	111	151
	3,055	4,314

24 Events after the reporting period

There have been no significant events between the Financial Reporting date and the date of these Financial Statements. These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. International Accounting Standard (IAS) 10 requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Agency's management to the Secretary of State of the Department for Transport. The authorised date for issue is 05 July 2011.

ANNEX A: The Board Structure



ANNEX B: Performance against 2010-11 Business Plan deliverables

Key performance measure	2010-11 performance	2010-11			Prior years' performance	
	Requirements	Targets	Result	Met/Not Met	2009-10	2008-09
1 Reliability: Implement a programme of delivery actions that tackle unreliable journeys on the strategic road network	The Agency will deliver the 2010-11 components and impacts of the Reliability Delivery Plan as agreed by the Secretary of State	3.29 seconds reduction in vehicle delay	3.34 seconds achieved	Met	Met	Met
2 Major Projects: Deliver to time and budget the programme of major schemes on the strategic road network	For the programme of national schemes in the construction phase, maintain a programme level of 1.0 against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 1)	CPI 1.0 SPI 1.0	CPI 1.00 SPI 1.04	Met	CPI 1.07 SPI 1.13	CPI 1.09 SPI 1.07
	For the programme of regional schemes in the construction phase, maintain a programme level of 1.0 against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 1)	CPI 1.0 SPI 1.0	CPI 0.99 SPI 1.03	Met	CPI 1.04 SPI 1.06	CPI 0.96 SPI 1.13
	For the programme of national schemes in the development phase, achieve a milestone achievement index of 1.0	65%	100%	Met	36%	19.2%
3 Safety: Deliver the Highways Agency's agreed proportion of the national road casualty reduction target	Deliver the Highways Agency's agreed proportion of the national target. By 2010 reduce by a third (ie to 2,244) the number of people killed or seriously injured on the core network compared with the 1994-98 average of 3,366	Reduce to a maximum of 2,244	To be published separately on website July 2011	On target (See note 2)	1,939	2,053
4 Maintenance: Maintain the network in a safe and serviceable condition, and deliver value for money	Condition index: Maintain a road surface condition index of 100 ± 1 within the renewals of road budget (see note 3).	99-101	99.6	Met	100.0	100.0

Key performance measure	2010-11 performance	2010-11			Prior years' performance	
	Requirements	Targets	Result	Met/Not Met	2009-10	2008-09
4 Maintenance: Maintain the network in a safe and serviceable condition, and deliver value for money	Cost & Efficiency: Deliver selected maintenance renewals (excluding technology maintenance) with costs at an average level below inflation by the end of 2010-11 when compared to 2009-10 (see note 4)	Cost reduction	14% cost reduction	Met	Met	
5 Carbon: Contribute to national and international goals for a reduction in carbon dioxide emissions by lowering the Highways Agency's emissions	Carbon: By the end of 2010-11 achieve a 3% reduction in our carbon emissions from our direct energy and fuel usage, our network energy and our business travel when compared with 2008-09, in line with the UK carbon reduction target (t/CO ₂ e reduction)	Reduce by 3%	3,3% reduction	Met		
6 Environment: Improve quality of life for transport users and non-transport users, and promote a healthy natural environment	Environment (Non Carbon): Deliver the following in-year actions contained in the 2010-11 Environmental Action Plan	See Performance Requirements set out below:				
	a. Air Quality: To complete studies examining a representative selection of air quality exceedences on the strategic road network, and to develop options for mitigating these problems.	Complete 4 studies	4 studies completed	Met	No target	Met
	b. Noise: Review and validation of First Priority Locations as shown in the Defra Noise Action Plans enabling the development of prioritised improvement actions for 2011-12 and beyond.	Undertake FPL reviews	1,270 FPL's reviewed and validated	Met	No target	No target
	c. Water Environment: Deliver six effective interventions at priority outfalls, priority soakaways and flooding hotspots and culverts	6	6	Met	No target	Met
	d. Nature Conservation: Deliver 10 interventions to support protected species and enhance habitats in accordance with the HA Biodiversity Action Plan.	10	35	Met	No target	Met

Key performance measure	2010-11 performance	2010-11			Prior years' performance	
	Requirements	Targets	Result	Met/Not Met	2009-10	2008-09
7 Customer Satisfaction: Deliver a high level of road user satisfaction	Improve road user satisfaction by 0.2 percentage points compared with the level achieved in 2009-10. Develop and agree a new customer satisfaction measure and target to be implemented for 2011-12 (see note 5).	72.09	73.44	Met	71.9	71.63
8 Efficiency: Deliver the Highways Agency's contribution to the Department for Transport's efficiency target	Efficiency (Programme): Deliver cumulative efficiency improvements of £144m by the end of 2010-11.	£144m	£253.9m	Met	£199.3m	£106m
	Efficiency (Admin): Deliver our programme within the allocated admin budget over the CSR07 period, which requires cumulative efficiency savings of 17.2% in real terms by end 2010-11 (see note 6).	17.2%	19.39%	Met	15.6%	5%

Notes to the Business Plan performance table

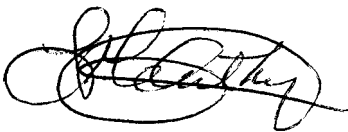
For the areas shaded in dark grey no comparable year target exists

1. *A programme level variance of +0.10 or -0.05 against the CPI/SPI would mean that the target would be deemed to be met; exceeding the upper limit of the acceptable range represents over-delivery against target.*
2. *Due to the compilation method these figures reflect the calendar, and not the financial year. Results are undergoing statistical analysis and verification and will be published on the Agency's website in July 2011.*
3. *The measure of road surface condition is based on surveys covering rutting, unevenness, and skid resistance. The target takes account of the fact that it is not practical or sustainable to maintain the whole road network in as-new condition. The condition at which the road network is to be maintained each year is equated to a road surface condition index score of 100 and is the target level at which the road network will be maintained. To allow for variability or uncertainty in annual condition scores, a tolerance is allowed in the target.*
4. *The 'cost and efficiency' indicator, which measures the relative cost of maintenance renewals taking one year with the next, was introduced for the first time in 2009-10. Due to the limited amount of detailed activity unit costs available for the comparator year, 2008-09, it became apparent that the initial measurement methodology would not be appropriate. A revised methodology was therefore developed which has been used to assess performance. Even with the revised methodology, the small amount of 2008-09 comparator data is a limiting factor on the overall result derived from this KPI.*
5. *The basis of this target changed in 2008-09. The previous requirement was a 5% increase in road user satisfaction across core objectives compared to the prior year, and was reported separately against trunk roads and motorways.*
6. *The last Comprehensive Spending Review, CSR07, allocated budgets for the years 2008-09 to 2010-11.*

Internal Audit Certificate of Audit Assurance

Agency performance against key performance indicators and targets shown in the 2010-11 Business Plan has been subject to independent audit by the Agency's Audit, Inspection and Consultancy Division (AICD).

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



Sharon McCarthy

Head of Audit and Assurance Division

Highways Agency

23 June 2011



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