

Safe roads, Reliable journeys, Informed travellers





Annual Report

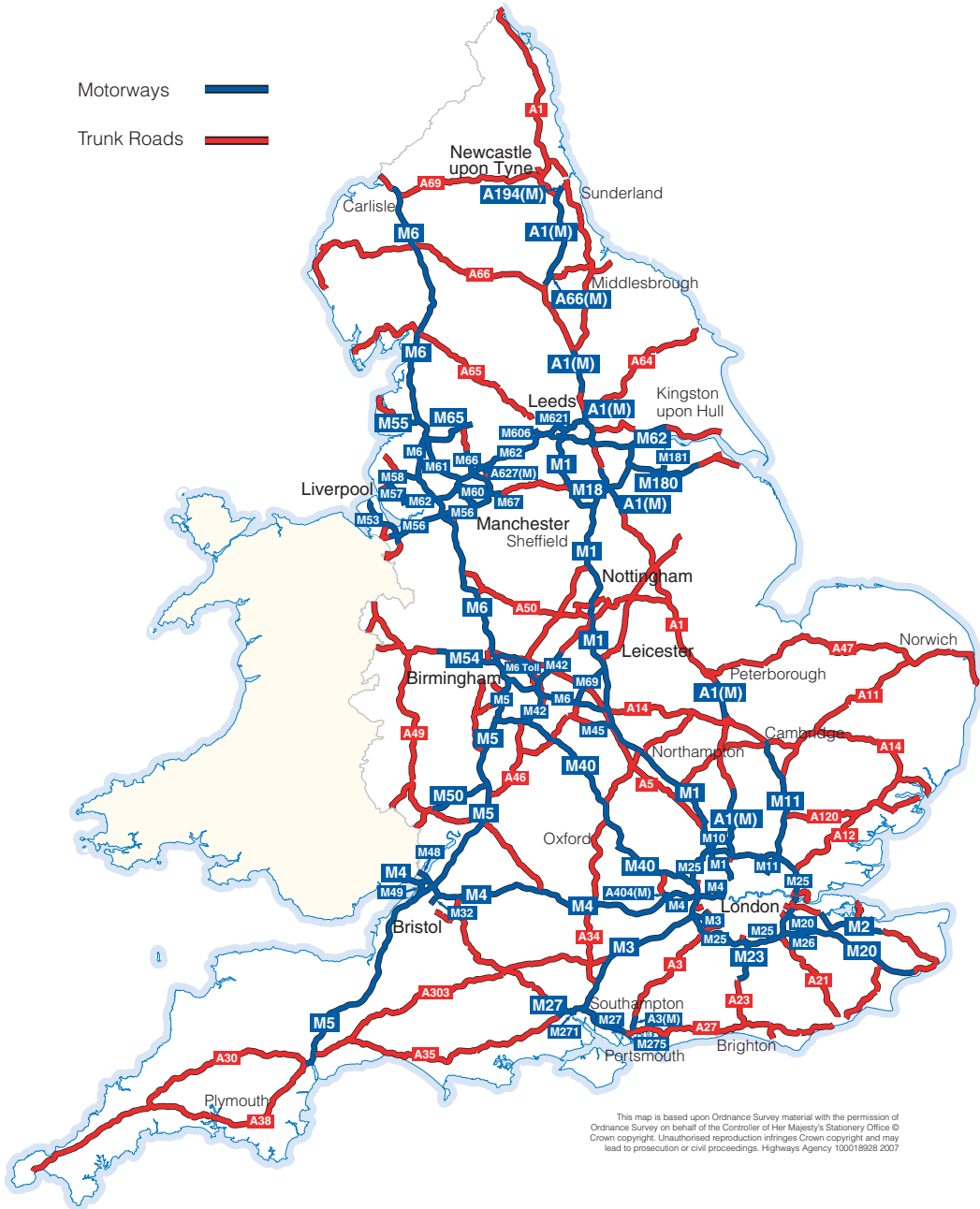
Highways Agency 2006 - 2007

Highways Agency Annual Report and Accounts 2006 - 07



England's strategic road network

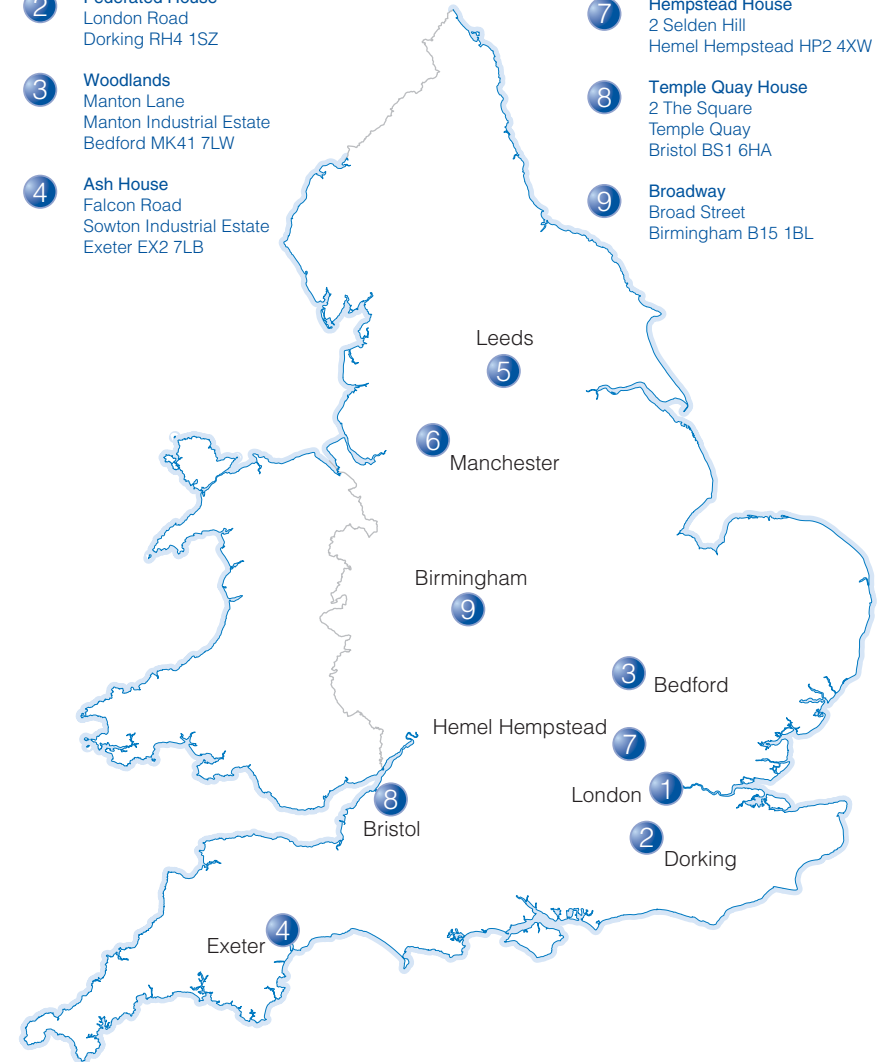
Motorways 
 Trunk Roads 



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Highways Agency

Annual Report and Accounts 2006-2007

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Highlights



ATM



The black poplar tree has been facing extinction. Not any more, thanks to our plans to plant 1,000 of the rare breed, including 24 alongside the Great Barford Bypass.



Structural Engineer at work

Strategic roads programme

- 11 major new schemes opened in the year. £60 million Great Barford bypass opened early.
- We began to implement the Nichols review recommendations.
- Active Traffic Management (ATM) pilot – controlled use of hard shoulder began six months early.

Incident/road works related congestion

- Our Traffic Officer Service on motorways reached full capability two months early.
- We are implementing our reliability delivery plan, embedding a culture of performance management.



At arm's length: The Unimog means roadside workers don't have to leave the safety of their vehicles.

Environmental targets

- We have met targets on air quality, biodiversity, landscape, and water quality.

Information

- Ministers gave us approval to develop three new services.

Safety

- Deaths and serious injuries on our network have been reduced.

Maintenance

- An £800m maintenance programme kept our roads safe and serviceable; and we met the Road Pavement Condition Index target again.

Road user satisfaction

- We met targeted satisfaction levels for motorways and trunk roads.

Finance

- We utilised over 99% of our £6 billion budget.

Award winning projects

We regularly win awards across the spectrum of our work. Here are some of this year's successes:

- The M60 Junction 5-8 Widening scheme was highly commended in the major projects category at the Construction News awards event.



- Chief Executive Archie Robertson has won the public sector team excellence award in the Daily Telegraph Public Sector Power 100 awards.



- Our contractors in the North East, A-One, picked up the Wildlife Guardian Special Award at the Northumberland Wildlife Trust Conservation awards.

- We were praised as best cross border and international project at the CENTRICO awards, for leading the technical developments on the OTAP/DATEX II project, sharing real-time traffic and travel-related information across eight European countries.



- Traffic Officers Clint Gumbley and Iain Rowlands received commendations for bravery from the Liverpool Shipwreck and Humane Society.





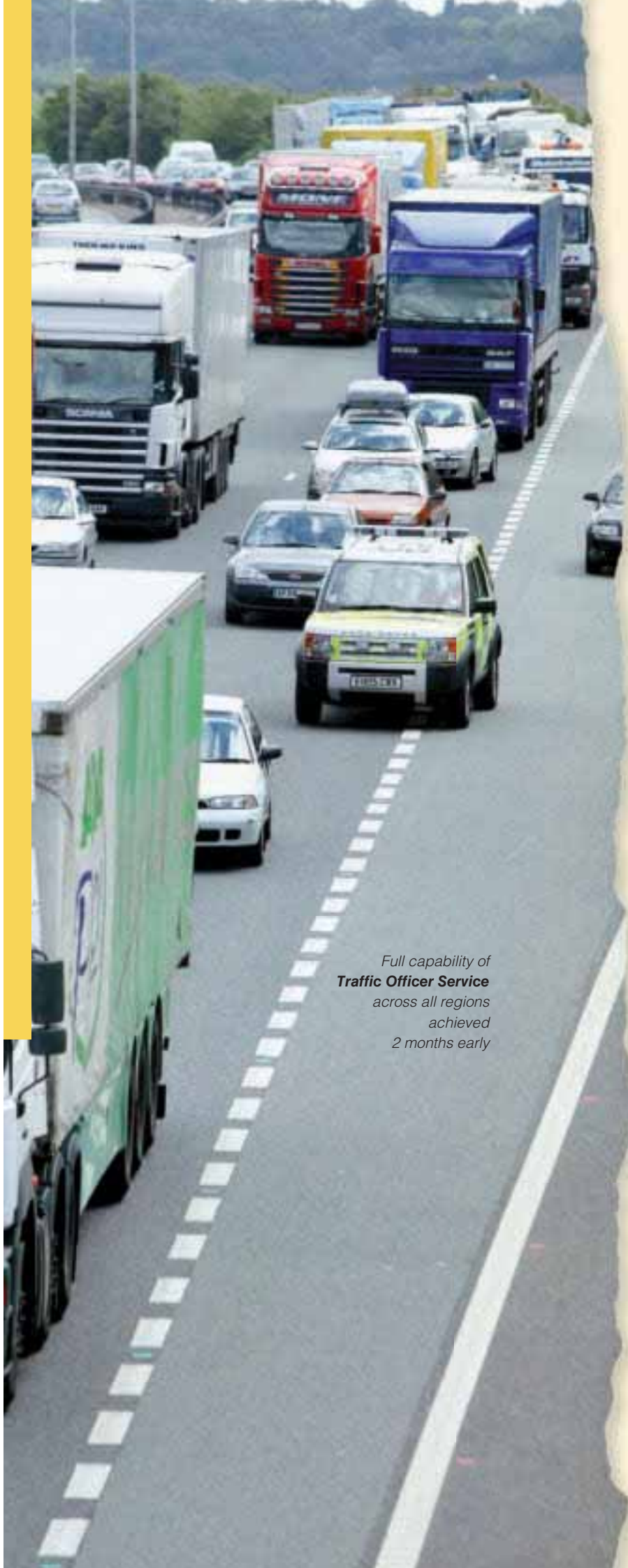
- The South East public relations team scooped **two gold awards** for the best crisis management campaign and public sector programme in the annual Chartered Institute of Public Relations PRide Awards, which recognises the very best work by regional communications teams, for Exercise Orpheus, the first full-scale, live test of emergency planning held at the Dartford Crossing.

- Engineering works on the M25 were recognised in the British Construction Industry awards and a Certificate of Excellence award from the Concrete Society.



- Roadworks on the M42 near Birmingham were nominated as the best managed in Europe by the AA Trust.





*Full capability of
Traffic Officer Service
across all regions
achieved
2 months early*

Chief executive's introduction

This year we made one of the most fundamental changes in the short history of the Highways Agency as we achieved the role of network operator, moving forward from our traditional role of building and maintaining roads. We are now taking a direct involvement in traffic management and have a target to tackle journey reliability.

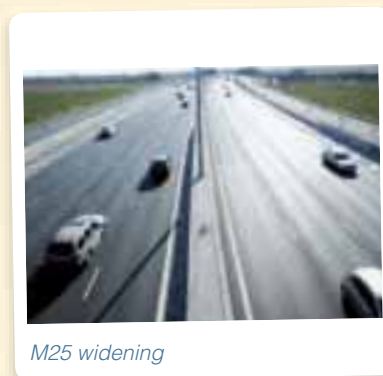
During the year we achieved all of our targets apart from one which was narrowly missed.

Our customers are now making more use of the strategic road network; increasing car, light and heavy goods vehicle traffic reflecting the continuing growth of our economy. Whilst overall growth is only about 1%, this increase is concentrated on the parts of the network which are already the busiest.



To counter this pressure we:

- delivered 90 lane kilometres of new capacity in motorway widening, junction improvements and bypasses
- introduced new technology such as motorway access management, active traffic management with use of the hard shoulder as a running lane during busy periods, and of course, we completed the introduction of the traffic officer service to help traffic flow on the motorways
- launched new traveller information services to help our customers plan and manage their journeys on the network



M25 widening

We also delivered 8 new travel plans with our partners. Travel plans help people to consider their travel options to help take pressure off both the network and the environment. We worked with developers on over 3,000 planning applications, identifying options that avoided having an adverse impact on our network. This report describes the measures we have taken in more detail.

The number of deaths and serious injuries in road crashes on our network continues to fall in line with our short term goals. However, we are not complacent. We are continuing

our efforts to improve road safety on all fronts, conscious that driver behaviour has the greatest potential to unlock future improvement.

The Road Worker Safety Plan outlines actions we are taking, working with service providers and key partners, to improve worker safety.



Archie, with Paul Leinster, of the Environment Agency (EA) signing a Memorandum of Understanding committing both organisations to working together to share information, increase efficiency, prevent pollution and raise environmental standards.

I have been pleased to see a reduction in the number of road workers killed in road traffic incidents. However, the death of a fireman on a motorway hard shoulder as I was preparing this report illustrates that we all have more to do to protect those who serve on our roads.

ahead of the retail price index (RPI). This was confirmed by both the Nichols review and the National Audit Office study of cost estimation and project management.

We have continued to make progress with measures to reduce our impact on the environment, and published our first Sustainable Development Action Plan in June 2007. The plan takes on board the conclusions of the review by Sir Nicholas Stern into the economics of climate change.

These studies also identified weaknesses in the way we estimated the costs of future projects. We are now getting on with implementing the Nichols review recommendations, working closely with the Department for Transport, our parent department. Although estimates of costs are rising, I expect that our future schemes will still show good value for money for the economy. The roads programme was identified as essential by the Eddington study which looked into the effects of transport on economic growth and productivity.

My thanks go to all those who have moved on from the agency for their contribution.

And I would like to thank staff, both at the agency and in our vital supply chains, for the continuing enthusiasm and commitment they have given to putting our Customers First!



The way ahead: The cone laying machine with inventor Bryan Flynn (right) to reduce congestion and improve safety.

We have been monitoring the costs of delivering roads capital projects closely. Inflation in this sector is closely aligned to wider infrastructure costs generally and these are increasing

Archie Robertson
Chief Executive

About us – who we are and what we do

*Journey planning
via our website*



Car share lanes

Who we are....



The Highways Agency, established in 1994, is an executive agency of the Department for Transport. Our respective roles and responsibilities and the governance of the relationship are set out in a formal framework document. We have a small corporate centre in London and eight locations across the country. We also have traffic officers working on motorways based in seven Regional Control Centres and 28 outstations.

Our Board includes our Chief Executive, seven executive directors who are responsible for managing delivery of the agency's responsibilities, and three non-executive directors. Details can be found in the Leadership and Corporate Governance section of this report.



Corporate centre, London

.... and what we do

We are responsible for the operation and stewardship of the strategic road network in England on behalf of the Secretary of State for Transport. Our primary functions are to manage traffic, tackle congestion, provide information to road users and improve safety and journey time reliability, whilst respecting and minimising the adverse impact on the environment. Our formal aim, objectives and values are shown overleaf.



The great crested newts had to be relocated to the safety of nearby ponds when it came to widening the A550/A5117.

*Understanding the needs
of our disabled customers*



Our road network, ranging from motorways to single carriageway trunk roads (the major A roads), is valued at over £81 billion. It carries a third of all road traffic in England and two thirds of all heavy freight traffic. The network provides a vital service to commerce and industry and to the lives of individuals and communities. A network map is included on the inside front cover.

We fulfil our role by working closely with our partners and contractors to deliver an efficient and sustainable network that meets the needs of all our customers. We have also forged strong links with other road administrations in Europe and around the world for the exchange of information, experiences and expertise. Through these links we are able to learn of innovative ideas across the world. We are also active participants in a range of high profile roads-related forums.



HAIL

We put customers first in everything we do, listening to them, and gaining a better understanding of the way our network impacts on them. Through this understanding we are better placed to respond to their needs and expectations.



Our corporate plan Customers First, published in 2005, set out our vision for providing a continuously improving service to all our customers. This plan continues to focus our commitment to customers and to transform the ways in which we deliver services right across the agency. More detail can be found in the 'Working with our customers and stakeholders' section of this report.



Putting our customers first

Explaining our strategy for delivery

We have a defined strategy and vision represented in our aim, objectives and values.

Our aim

Safe roads, reliable journeys, informed travellers

Our prime objective

1. To deliver a high quality service to all our customers by:
 - reducing congestion and improving reliability
 - improving road safety
 - respecting the environment
 - seeking and responding to feedback from our customers

Our enabling objectives

2. To ensure more effective delivery through better working relationships
3. To implement best practice and innovative solutions to improve service now and in the future
4. To be a good employer
5. To be an efficient agency with effective business processes and resource management systems

Our values – how we behave in fulfilling our objectives

Customer service - We put our customers first and aim to deliver world class quality of service

Teamwork - We work together in dynamic teams and partnerships

Continuous improvement - We are committed to learning, innovation and flexibility

Diversity - We value people for who they are and their contributions

Best value - We provide quality services that provide value for money

Integrity - We build trust by acting with honesty, openness and fairness





Customer promise

As part of moving the Highways Agency forward we have developed our Customer Promise. We have talked to our customers, stakeholders, staff and suppliers and put together the following statements to set out the key features of our services to customers simply and clearly. We will be using the promise to improve our performance and as a basis for better involving our customers and stakeholders in our business.



The public discovered the benefits of the A3 Hindhead improvement project for themselves at an exhibition.

Helping you with your journey

- **We will help you make your journeys safely and reliably**
- **We will provide value for money and invest in improved services**
- **We will provide helpful information to enable you to make choices before and during your journey**
- **We will clear up incidents quickly and safely**
- **We will limit any delays when carrying out roadworks and improvements**
- **We will play our part in protecting the environment**
- **We will ask you for your views and act on feedback**
- **We will deal with you promptly, courteously and helpfully**



How we link with other parts of government



Lorries on the A428

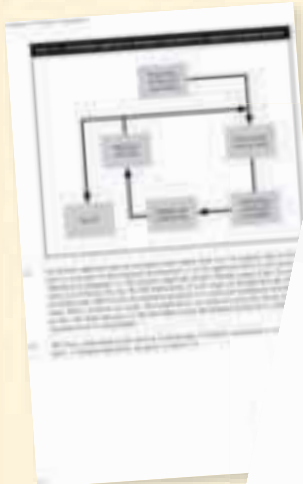


The strategic road network supports a range of wider government policies and objectives by enabling the movement of people and goods.

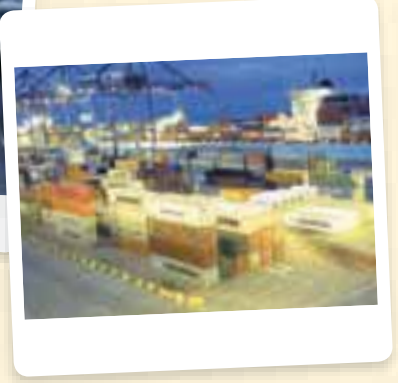
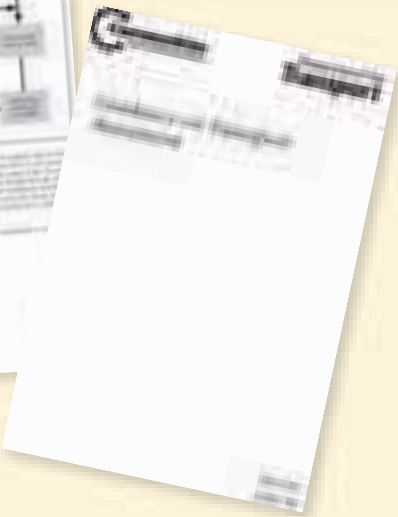
Examples include our work with:

- the Department for Transport on
 - o access to ports, airports and multi-modal freight interchanges
- the Department for Communities and Local Government and the Department for Transport to support the growth and sustainable communities agenda
- Regional Assemblies on developing regional spatial strategies and regional transport strategies
- o improving road safety
- o reducing the environmental impacts of road travel

To deliver these wider policies the Highways Agency works effectively in partnership with other parts of the Department for Transport, government and the public sector.



Guidance on Transport Assessment

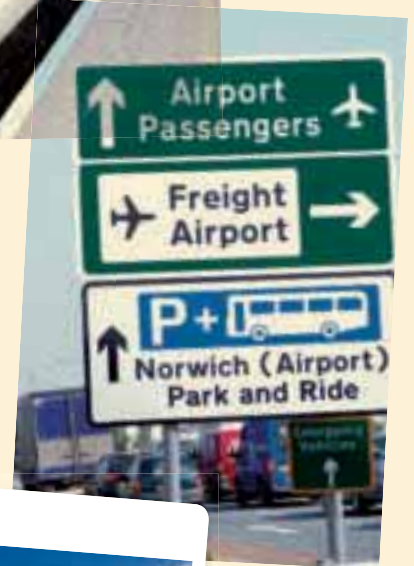




Police Officers at an Highways Agency public information exhibition

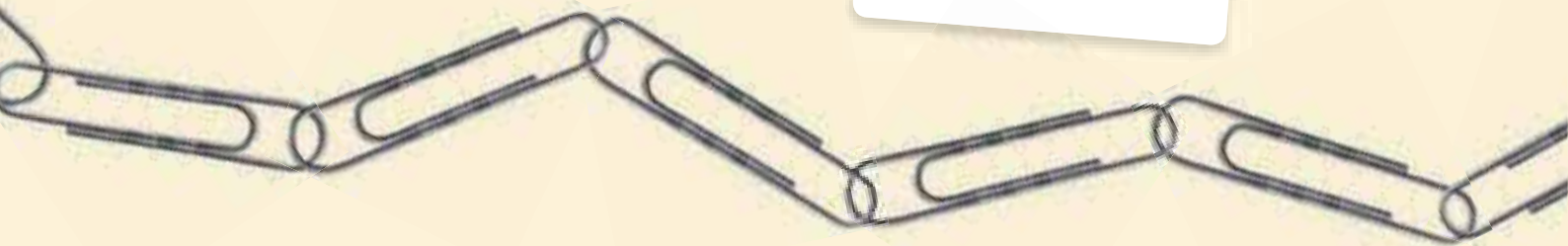
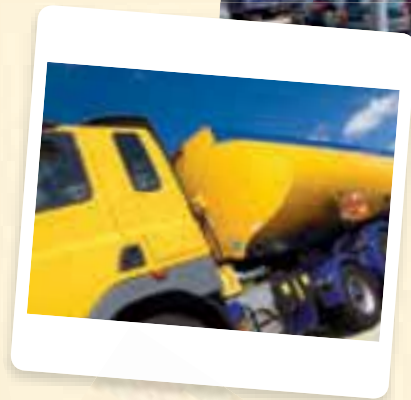


** Photos courtesy of the South East England Regional Assembly*



- local authorities on developing Local Development Frameworks and on development control; and on managing the interface between the local and the strategic road network
- the police on traffic management and improving road safety

Overall we contribute to a sophisticated policy mix which recognises the importance of the strategic road network in carrying much of the nation's lifeblood efficiently and effectively.





Great Roads Great Rides



CASE STUDY

This year we launched “**Great Roads, Great Rides**”, a DVD aimed at motorcyclists - over 160,000 copies have been distributed. Made in conjunction with bike and safety experts it provides tips and advice to motorcyclists about how they can improve their safe driving performance

Excellence in Delivery



This years TRAFFEX show demonstrated how much damage and potential injury can be caused when a car collides at speed with an unprotected roadside object, such as a sign post or lighting column.

Nearly a fifth of those killed in the UK each year are involved in a collision with a roadside object or feature.

The Incident Management Screen is designed to enable an incident to be hidden, to reduce rubber necking, with the aim of clearing traffic more quickly and preventing any further shunts.

At the heart of our operations are several functions in which we excel:

- **Safety** – where our record for safety improvement is first class, and our network remains one of the safest in the world
- **Traffic management** – using traffic officers, technology and demand management techniques
- **Procurement** – where we have met the highest standard of excellence
- **Technology and innovation** – where we are innovative in a complex environment

The sections below outline the latest developments in these critical areas.

Although we are good, we are not complacent; we recognise that we must improve. In the **Looking Forward** section of this report we explain how we will take our performance to the next level in 2007-08.

1. Safety

Although we manage one of the busiest high-speed road networks in the world our safety record is one of the best. Yet too many people are still being killed and injured.

We continually monitor and manage the network, making sure that it is safe for our customers. This year we have trialled a new form of safety assessment of the network, in addition to and alongside our continuous accident monitoring. This is based upon the network's potential performance in the event of an accident. This will give us a new tool to focus safety improvement resources on where they are going to be most effective.



Fresnel lens

As well as applying engineering solutions we are expanding and developing new ways of working with others, for example with the Vehicle Operating Standards Agency. At ports in the South East, we supplied foreign

drivers with adhesive fresnel lenses to alert them and assist them making lane changing manoeuvres. Research has shown driver

blind spots on commercial vehicles are a significant cause of accidents.

We are also strengthening our toolkit of information material supporting other road safety issues. The toolkit is available for our staff to use or give to our colleagues in local safety partnerships.

Quickmoveable barrier machine



Anti stone throwing Junior Citizen event



We have also developed an educational pack for schools to help teachers warn children of the danger of throwing objects off bridges over roads.

We also look after those who work on the network and ensure that it is kept safe and in good condition for millions of road users. The people that carry out these vital duties are vulnerable to being hit by traffic, and we are reducing these risks by:

- reducing their exposure to live traffic
- raising public awareness of the risks they face
- encouraging better driving standards



Elderly freshness driving campaign

2. Traffic management - improving journeys

Making better use of our road space is a priority. We need to manage the demands on our strategic roads and motorways to make the best use of our hardworking assets. Here are just a few of the schemes we are pioneering.

- Development of the traffic officer service



This year we achieved full network operator status for the motorway network in England.

Traffic officers and regional control centres are now operational throughout the country, taking responsibility for keeping traffic moving on strategic roads.

Traffic officers have begun managing routine incidents on the motorway network previously dealt with by the police, including:

- removing abandoned, damaged and broken down vehicles
- providing rolling roadblocks and temporary road closures
- clearing debris
- escorting abnormal loads
- monitoring road works

The seven Regional Control Centres oversee these operations, setting the appropriate signs and signals.

Excellence in delivery



Active Traffic Management



Active Traffic Management

We have trialled the controlled use of the hard shoulder as a running lane during periods of congestion, or when incidents occur, through our Active Traffic Management (ATM) project on the busy M42 motorway east of Birmingham.

While it is too early to draw definitive conclusions, the initial results are encouraging:

- capacity increased by around 13%
- average journey times at peak periods have been reduced
- there is less variability of journey times during weekdays

Once we are able to evaluate fully the results of the trial we will be able to assess whether ATM would offer a value for money solution on other congested motorways.

The scheme uses a mix of existing and new technologies including:

- comprehensive CCTV monitoring
- automatic queue detection



- the latest variable message signs capable of displaying text and images
- emergency refuge areas positioned away from moving traffic

Motorway access management

During busy periods, congestion often occurs where vehicles join motorways from the entry slip roads. To improve the flow of traffic we began work in 2006 on a £6 million project to introduce a total of 30 motorway access management sites by April 2007.



Active Traffic Management will be introduced across the network

Access management helps to reduce congestion by carefully regulating the amount of traffic joining motorways. On the M6 north of Birmingham, where motorway access management was first introduced, journey times have improved by 11%.

*The A249 Sheppey Crossing.
(Photo courtesy of Carillion)*



Car share lanes

On some sections of our roads, up to 90% of cars have no passengers. We are planning to trial high occupancy vehicle 'car share' lanes on motorways for use during peak periods, allowing vehicles carrying more than one occupant, to bypass congestion. Preparatory construction works for the trial at the junction between the M606 and M62 are planned for 2007.

We will look carefully at the results from the trial before deciding whether to introduce car share lanes more widely on motorways. Elsewhere in the UK and abroad, they have been shown to work well.

3. Procurement

Our procurement policies and procedures have been highly acclaimed in an independent assessment by the Chartered Institute of Purchasing and Supply (CIPS). Their certification programme sets the benchmark in procurement competence.

We have met the high standard of procurement excellence required, placing us among the best procurement organisations in the UK. Our well developed and sophisticated procurement function underpins our day to day business.



A30 Bodmin to Indian Queens improvement

Launch of the new Motorway Bridge across the River Esk. The M6 Carlisle to Guards Mill.

For instance, we have dramatically reduced the time it takes to open major new-build road schemes. It used to take 12-15 years, but by continually improving contractual arrangements, such as involving contractors much earlier in the process, we have brought this down to seven years.

Excellence in delivery



New technology like the Quickmoveable barrier machine will reduce delays caused by roadworks

The Advanced Vehicle Location system, left, lets RCC operators know exactly where Traffic officer patrols are at any time

4. Technology and innovation – better value, new ideas

We have an ambitious programme to harness new technologies, supporting our network operator role with new technology to provide up-to-date traffic information to drivers through our website and telephone service, electronic message signs next to roads and through traffic information broadcasts via the travel media and our new digital traffic radio service.

We research how new technology measures can improve road safety and journey time reliability, and investigate steps to mitigate our impact on the environment. We aim to maximise benefits and value, with practical applications being brought into use on the network. For instance we have introduced innovative solar-powered road studs, ten times brighter than traditional ones.



Our innovative approach of wireless CCTV cameras could cut congestion by moving broken-down vehicles quickly



The fence, installed on the central reservation of the A2, is an innovative solution to stop headlight glare



Solar powered road studs are ten times more visible than traditional cat's eyes and do not need the light from drivers' headlights to work

Our controller centres monitor traffic flows....

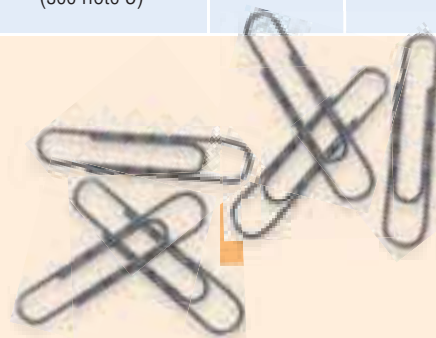


...and help you with your journey



Our performance against Ministerial targets

Key Performance Measure	2006-07 Targets - Explained	2006-07 Targets	Result	Outcome/ Comments	Result 2005-06	Result 2004-05
1 Deliver improved management of the strategic road network.	Assess the impact of the Highways Agency's initiatives to improve journey time reliability by end of October 2006, using the information to shape forward delivery programmes and produce a delivery trajectory for the Journey Time Reliability PSA target by December 2006.	December 2006	December 2006	Met (see note 1)		
	Deliver full capability of the Traffic Officer service across all 7 Regional Control Centres by December 2006.	December 2006	October 2006	Met		
2 Deliver the programme of improvements to the strategic road network.	Achieve at least 1,953 (see note 2) of 2,056 progress points for delivery of the strategic roads programme. Original target revised October 2006 with Ministerial approval from at least 2,023 of 2,129 progress points.	1,953	1,901	Not met (see note 3)	1,042	(see note 4)
	Introduce controlled use of hard shoulder on the Active Traffic Management (ATM) pilot on the M42 by March 2007.	March 2007	September 2006	Met		
	Complete a cumulative total of at least 74 of 92 priority action sites at junctions.	74	76	Met (see note 5)	68	41



Key Performance Measure	2006-07 Targets - Explained	2006-07 Targets	Result	Outcome/ Comments	Result 2005-06	Result 2004-05
3 Deliver improvements to journeys by making information available to influence travel behaviour and inform decisions.	Evaluate the influence on driver behaviour of information channels currently available and during 2006-07 develop an improvement action plan for implementation in 2007-08.	March 2007	March 2007	Met		
	Develop, for Ministerial approval, 3 new cost effective driver information services which contribute to improving journey reliability and safety for our customers. (see note 6)	3	3	Met		
	Evaluate the impact of those travel plans introduced in 2005-06 and in light of the experience gained, introduce at least 7 travel plans (making a cumulative total of least 10), by March 2007.	7	8 new plans introduced. 2005-06 plans evaluated (see note 7)	Met	3	
4 Deliver the Highways Agency's agreed proportion of the national target. By 2010 reduce by a third (ie to 2,238) the number of people killed/seriously injured on trunk roads compared with the 1994-98 average of 3,366.	Reduce by at least 748 to 2,618.	2,618	2,399 (See note 8)	Met	2,609	2,728
5 Maintain the network in a safe and serviceable condition.	Maintain a road surface condition index of 100 ± 1 (see note 9).	99-101	99.6	Met	99.5	99.4

Our performance against Ministerial targets

Key Performance Measure	2006-07 Targets - Explained	2006-07 Targets	Result	Outcome/ Comments	Result 2005-06	Result 2004-05
6 Mitigate the potentially adverse impact of strategic roads and take the opportunities to enhance the environment taking into account value for money.	Achieve 95% across the 5 following sub-targets (see note 10):	95	97	Met	100	100
	Air Quality: implement measures to improve the air quality of at least 2 out of 21 prioritised Air Quality Management Areas (AQMA's), and so deliver the Agency's contribution to the Department's joint PSA target for air quality.	2	2	Met	2	2
	Biodiversity: achieve at least 7% of the published HA Biodiversity Action Plan, which extends across 15 targets (making a cumulative total of 41% of the HA BAP completed).	7%	13.9%	Met	12.1%	6.6%
	Landscape: introduce at least 9 planting schemes to enhance the landscape.	9	9	Met	15	11
	Noise: treat at least 110 lane kms of concrete road surface with lower noise surfacing.	110kms	91.6kms	Not met	237.8kms	117.2kms
	Water Quality: treat at least 4 pollution risk water outfall sites.	4	4	Met	8	5
	Improve the environmental performance of major schemes by improving the average score for the environmental sub-criteria in the Appraisal Summary Table, in at least 5 out of the 10 sub-criteria.	5	5	Met		
7 Deliver a high level of road user satisfaction.	Achieve an overall customer satisfaction level score of at least 82% on Trunk Roads and at least 84% on motorways	82% trunk 84% motorways	82% 84.5% (see note 11)	Met	83.8% 87.8%	83.8% 87.6%

Key Performance Measure	2006-07 Targets - Explained	2006-07 Targets	Result	Outcome/ Comments	Result 2005-06	Result 2004-05
8 Deliver the Highways Agency's contribution to the Department's efficiency target	Deliver efficiency improvements in roads procurement through adding value to service delivery of £132m (cumulative) in 2006-07	£132m	£156.4m	Met	£71.4m	
	Deliver our programme within the allocated administration budget, which requires an efficiency improvement of at least 2.5% per annum	2.5%	2.5%	Met	2.5%	

Notes

For the areas shaded in grey no comparable year target exists

- (1) A provisional trajectory was produced in December. The provisional nature reflects a major data improvement exercise that was underway relating to a rebasing of the target in April 2007. This forms part of our work towards achieving our Public Service Agreement target make journeys more reliable on the strategic road network by 2007-08.
- (2) The major schemes progress points method is an enhanced way of measuring and monitoring progress of the targeted programme of improvements (TPI). Each major scheme incorporates a number of events, including 4 'key events' and points are awarded when they are completed. Key events comprise: invitation to tender, award of contract, start of works and road opening. Progress points up to a maximum of 100 are awarded for each road scheme.
- (3) A number of major projects were held back in order to undertake an in depth review of their scope and costs. This was done as a result of the significant cost increases coming forward on some projects, which became the subject of the Nichols and NAO investigations. These project reviews ensured that the Highways Agency was taking forward those projects that provided the best business case and better value for money.
- (4) The baseline was restated at the start of 2005-06, the revised target covering the period 2005-06 to 2007-08. The outturn for 2004-05 is not directly comparable.
- (5) After completing surveys on 11 of the sites the Agency concluded that on value for money grounds no further work should be undertaken. These 11 sites count against the target.
- (6) The three new driver information services are a traffic radio service, real time CCTV images on our website and high-quality moving images for TV travel news bulletins, and the display of travel time information on our variable message signs (VMS).
- (7) Monitoring on the three travel plans introduced in 2005-06 was undertaken during the year, and reports were published in May 2007.
- (8) Due to the compilation method these figures – by necessity – reflect the calendar, and not the financial year. Also, the size of the Highways Agency's network, on which the figures have been calculated, has reduced over the period in which comparative statistics are presented.
- (9) The measure of road surface condition is based on surveys covering rutting, unevenness, cracking 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/uncertainty in annual condition scores, a tolerance is allowed in the target.
- (10) The measure is calculated by applying a simple arithmetical mean across the results of the five sub targets; the results being expressed as a percentage.
- (11) Results have been rounded to the nearest 0.5%

Reducing congestion and improving reliability



Journey reliability

We recognise that it is not possible to build our way out of congestion. For our customers, unreliable journey times can cause significant frustration, making it hard for people to plan their journeys.

We have therefore been set a target to improve reliability, which is to ensure that the average vehicle delay on the 10% slowest journeys is less in 2007-08 than in the baseline period of August 2004 to July 2005.

We are implementing a delivery plan for improving reliability. It includes:

- improved management of roadworks
- introducing motorway access management to improve traffic flow
- extending the Motorway Incident Detection and Signalling Systems (MIDAS) to improve safety
- schemes to reduce congestion and improve safety at key hotspots
- traffic officers and incident support units reducing the impact of incidents

Monitoring to the end of March 2007 showed a slippage of about 8.7% against the target. This appears to be related to a higher impact of traffic growth than originally anticipated. We are putting additional measures in place to tackle unreliable journeys, including:

- trials of collision investigation equipment to speed up accident investigations
- increasing the number of motorway access management sites to smooth traffic flow
- doubling the amount of network covered by diversion routes





Major road schemes completed during 2006-07	
M60 Junction 5-8 widening	A500 City Road & Stoke junction improvement
M5 Junctions 19-20 southbound climbing lane (Naish Hill)	A30/A382 Merrymeet junction
M5 Junctions 19-20 northbound climbing lane (Tickenham Hill)	A419 Commonhead junction
A249 Iwade - Queenborough improvement	A11 Attleborough bypass
A421 Great Barford bypass	M40/A404 Handy Cross junction improvement
A63 Melton grade-separated junction	



Traffic Officer Service

- During 2006-07 we steadily increased the number of traffic officers on the motorway network, reaching full capability in October 2006.



Major exercise for emergency services, on a practice major motorway incident.

They are supported by our seven regional control centres (RCCs) which are now fully operational. In the last quarter of 2006-07 traffic officers were attending an average of 1,400 incidents a day across the motorway network.

Programme of improvements to the network

Major schemes

This year we completed 11 major schemes in the strategic roads programme, but overall performance on the programme slightly undershot the target. A number of projects were delayed as we sought to control their scope and costs, and considered the recommendations of the Nichols and NAO reviews. We are now taking forward only those projects that provide best value for money.



A2, M2, Cobham widening

Use of hard shoulder – Active Traffic Management

We successfully introduced the final phase of the Active Traffic Management (ATM) project, using the hard shoulder as a running lane during busy periods on a 17km stretch of the busy M42 motorway east of Birmingham in September 2006. This was some six months ahead of target.



Reducing congestion and improving reliability



Safety toolkit

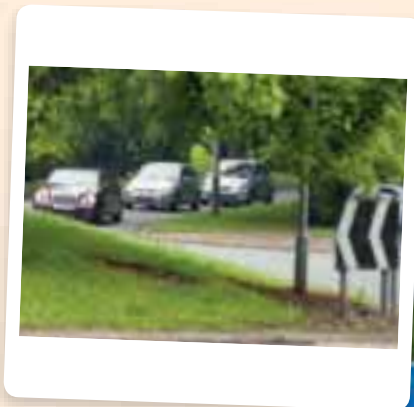


Influencing Travel Behaviour

As part of our demand management measures, we have implemented eight travel plans this year as part of our Influencing Travel Behaviour programme, adding to the existing three schemes, which we have started to evaluate. We develop these plans with employers and developers and aim to reduce the overall traffic impact of business or residential areas by encouraging staff or residents to adopt more sustainable travel patterns. More details can be found in the corporate social responsibility section of this report.

Other Influencing Travel Behaviour initiatives include:

- working with tourism authorities to smooth peak traffic flows
- encouraging transport modal shift initiatives with freight and coach operators
- working with local authorities and developers to ensure that where appropriate, travel plans are implemented as part of planning conditions



Road safety

We are working hard to achieve our share of DfT's target of improving road safety. Our strategic road network carries about a third of all traffic but accounts for only about an eighth of all accidents. In 2006 we are able to report significant success and are well on the way to achieving the target.

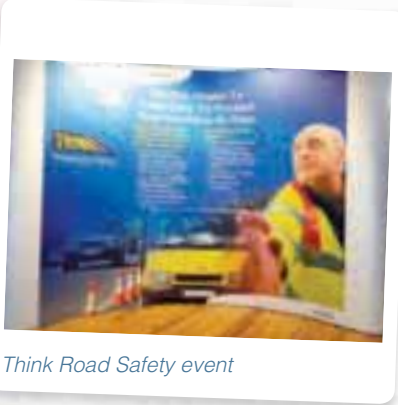
To sustain year on year casualty reductions, we have had to look to new ways to obtain further safety improvements in addition to engineering measures and improvements. We have begun to develop an 'influencing driver behaviour' programme that includes developing our toolkit of safety education material.



The mobile Variable Message Sign can be deployed at short notice allowing high quality information to be displayed at critical points of traffic congestion



We are also supporting the DfT's "Think" campaign, using new technology and signs to alert drivers to poor behaviour; and working more closely with our partners and other stakeholders.



Think Road Safety event

Within the Agency we now provide advice and regional safety targets to help those directly managing the network prepare local area safety action plans. These plans show how we intend to deliver year on year improvements and how we will work with our supporting partners to achieve results.

Maintaining the network

Maintenance is the biggest item in our budget. We carry out a wide range of activities including:

- regular inspections to identify where maintenance is needed
- repair and maintenance of roads and bridges
- resurfacing
- maintenance of lighting equipment and communication systems such as emergency telephone and electronic signs

- clearing debris and litter
- salting roads for winter



Gritter at work on the road at night



Highways Agency signs being positioned on M6 Junction 35 to 42

Each year we assess the road surface condition of the network by looking at rutting, unevenness, cracking and skid resistance. National roads condition survey data published for this year by the Department for Transport in May 2007, from machine based surveys of the surface of English motorways and all purpose trunk roads, showed our roads to be in very good condition.



Reducing congestion and improving reliability



Maintenance work was carried out recently on the M1 between junctions 4 and 5 to improve the condition of the carriageway.



We actively ensure that the programme of maintenance delivers value for money and this includes collaboration with local authorities where possible. Our contract strategy has helped to deliver improved quality of service and reduced cost of service delivery. The renewals element of the maintenance programme is prioritised on those interventions which deliver the greatest benefit and full account is taken of environmental impact.

Respecting the environment

Our corporate plan, 'Customers First', highlights our responsibility to balance the need to travel with the need to contribute to a better quality of life for all. All schemes in the agency's strategic roads programme include high standards of environmental mitigation.

Since we published our environmental strategy in 1999 we have set targets for delivering environmental improvements around the network. We are making excellent progress on delivering medium term objectives, particularly delivery of priority actions from the agency's biodiversity action plan and the analysis and treatment of water outfalls to reduce pollution.





Sustainable development: We will continue to protect wildlife. Here we are building bat boxes.



We encourage motorists to keep roads litter-free by bagging rubbish in their vehicles and disposing of it properly.

Ancient artefacts found on the planned site of the A2 widening, Kent.



We began to implement our environmental information system, ENVIS, last year. The system allows better management of environmental aspects of schemes through their whole life, from construction to decommissioning.

We published our first corporate social responsibility (CSR) report in last year's annual report. The updated CSR in this report deals in more detail with environmental issues and our sustainable performance.



As well as easing congestion, the new A30 will enable the marsh fritillary butterfly to flourish by diverting traffic away from Goss Moor.



Working with our customers and stakeholders



Customer Feedback - road users' satisfaction

Our national road users' satisfaction survey, carried out continuously, involves over 2,000 people annually who are interviewed at their own homes. It provides the results for our key performance indicator for road user satisfaction as well as other important information about how our customers use our network and services.

We achieved average annual scores for customer satisfaction of 84.7% for motorways and 82% for trunk roads against targets of 84% for motorways and 82% for trunk roads. On motorways the highest quality score was for good direction signs; on trunk roads for quieter road surfaces.

We also introduced area road users' satisfaction surveys, involving over 11,000 people a year. Surveys are carried out in each of our fourteen maintenance areas to identify local issues. The six monthly reports are used by the Highways Agency to understand what road users and people living near our roads think about the way they are managed in their areas. We also collect information about road users' experiences when driving through roadworks.

Feedback from these surveys is being used to improve the way we deliver our services. We are improving the ways we communicate with customers to better explain what we are trying to do, what information is available to help them plan their journeys and what they can do themselves to benefit from safe and reliable journeys.

Customer beacon network

We have established a network of customer beacons, representing teams across the Highways Agency, who gather feedback from road users and other customers.



They are continuing to help their teams improve the way they communicate and deliver services to customers by identifying and sharing best practice across the Highways Agency. The customer beacons also help their teams to use feedback when identifying and planning new services.



*M40/A404 Handy Cross Improvement.
All Highways Agency projects are done in close partnership with others - which improves performance*

Consulting the needs of our disabled customers

Working with our stakeholders

We have improved the way we engage with stakeholders by appointing senior managers to act as the focal point for specific organisations or industries. Our managers advise people in the Highways Agency about the concerns of each group.



Partnership working

Strong working relationships with our partners are crucial to our success. We have established a good relationship with the police through developing the traffic officer service, and this has ensured a smooth transition of traffic management responsibilities. We have started formal partnership working with English Heritage, the Environment Agency and the Freight Transport Association and are working towards a similar arrangement with Network Rail.

We also work closely with planning authorities, suppliers and environmental groups when planning road improvements and other projects.



Improving customer service through our supply chain

We have recently completed the latest phase of our capability assessments which measure the quality of services offered by major project and maintenance organisations. We have published results for individual companies on our website.

In this third round of the assessments, which were first introduced in 2002, we included several new indicators, developed to increase the focus on:

- diversity
- innovation
- risk management
- corporate social responsibility and
- putting customers at the heart of our business





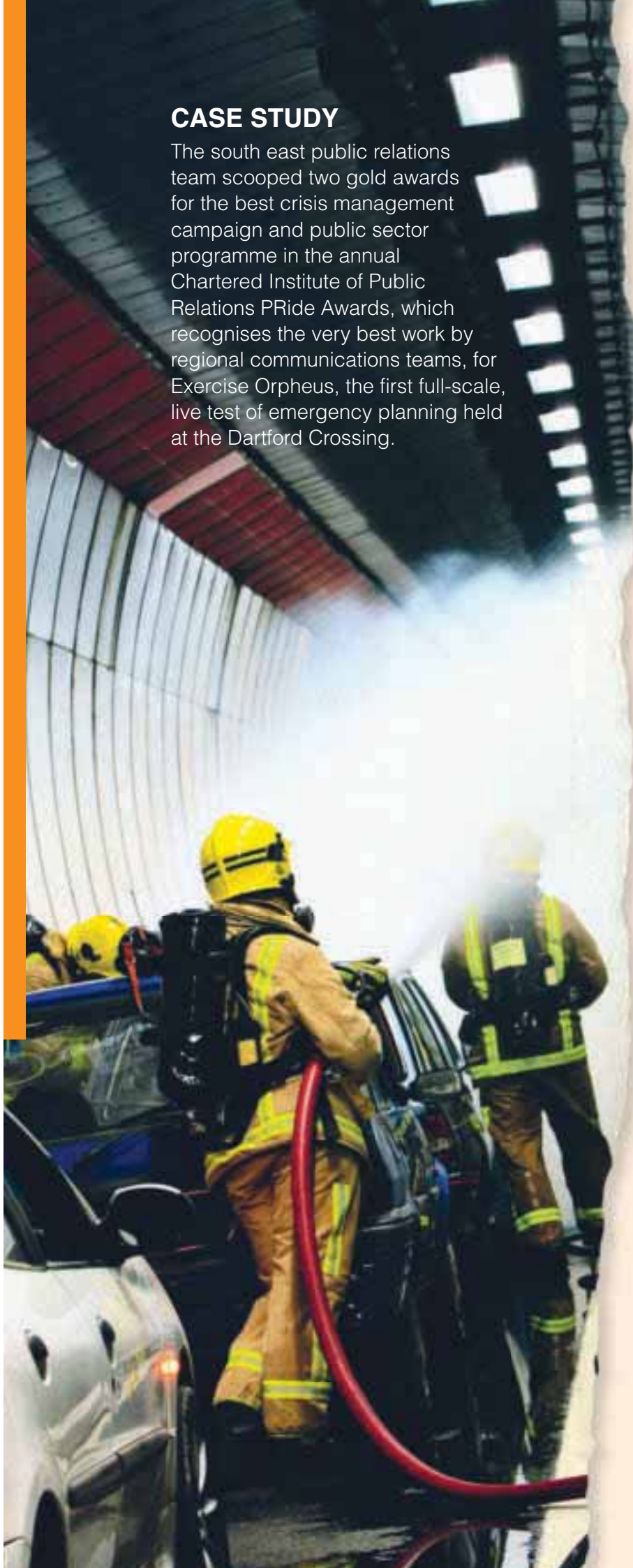
CASE STUDY

‘Driving change for customers’ conference with suppliers and stakeholders

- In today’s conditions, helping people with their journeys requires joined up action by all those concerned with roads and transport. The **Driving Change for Customers conference** set out what the Highways Agency is doing, and sought to identify how we can work together with our suppliers and stakeholders to provide a better service to customers.

CASE STUDY

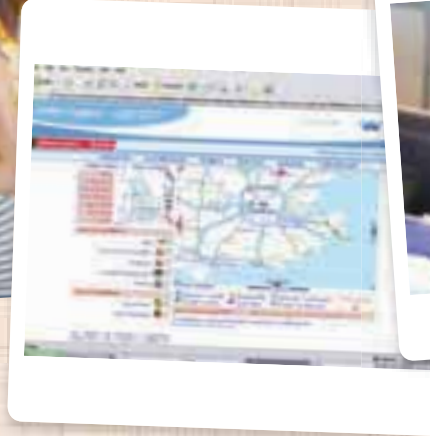
The south east public relations team scooped two gold awards for the best crisis management campaign and public sector programme in the annual Chartered Institute of Public Relations PRide Awards, which recognises the very best work by regional communications teams, for Exercise Orpheus, the first full-scale, live test of emergency planning held at the Dartford Crossing.



Working with our customers and stakeholders



The Clothes Show Live gave an exciting opportunity to speak with the kind of customers we haven't reached before.



The supply chain delivers services on motorways and trunk roads worth approximately £2bn a year, so the assessments are designed to help each organisation identify strengths and development areas in the capabilities needed for a wide range of work. They also help to ensure supply companies know what we require from our contracts.

The capability assessments represent a significant investment by us in the continued development and improvement of our supply chain.

We are pleased with the commitment and positive approach demonstrated by our suppliers, both in developing the assessment toolkit and the steps they have taken to make improvements and towards achieving best practice to delivering customer services.

Keeping our customers informed - improved communications

Current information services

During the year we reviewed the effectiveness of our existing information channels for drivers and developed an action plan for improvement. The plan concentrates on improvements to the information we display on our variable message signs (VMS) and on developing our Traffic England website. Feedback from our customers shows that both these channels are valued and that improvements would bring worthwhile benefits.

Use of the Highways Agency Information Line (HAIL) telephone service increased significantly over the last 12 months with our staff dealing with a wide range of questions about the work of the agency. The HAIL team also provided much information about travel conditions on the network to help people plan their journeys.

Better information for road users

We are introducing better information services to keep road users better informed about conditions on the road network and to help them make choices about the route, time and mode for their journeys. This contributes to reducing congestion and improving journey time reliability.



We received ministerial approval to roll out three new travel information services:

- a traffic radio service that provides real-time traffic information, updated every fifteen minutes and broadcasting nationally on DAB radio
- real-time CCTV footage on our website, and high-quality moving images for TV travel news bulletins
- the display of travel time information on our network. Building on trials on the M5 and M6, we now plan to introduce the service nationally. The service displays current estimates of journey times and any expected delays on our electronic motorway variable message signs. Customer feedback from our trials has been very supportive

Communications plan published

Our central theme for 2006-07 was to be seen as an organisation that's focused on "helping you with your journey", while explaining how we are protecting the environment. There are a number of things we do that demonstrate how we do this, under the themes of:

- **Reliability – keeping traffic moving**
- **Safety**
- **Information**
- **Environment**

Our communications plan and corporate campaigns supported these four key themes, and we made it clear within these themes that we are looking to promote our reputation for innovation.

Tone of Voice language branding programme introduced

In June 2006 we launched a new tone of voice initiative which is designed to humanise our writing to customers and stakeholders, to make us more approachable, less bureaucratic and formal. So far, over 400 staff have been trained.



Improving capability

Roads are pre-salted ahead of the cold weather and we have 500 vehicles ready to call on whenever freezing temperatures are forecast.



Highways Agency Traffic Learning Centre Training



Better preparedness

We have taken steps to tackle disruption to the road network caused by bad weather and other risks. Our preparations for the 2006-07 winter season focused on improving our winter service plans by:

- increasing standardisation,
- better governance,
- setting up a liaison group with the salt industry for continuity in road salt supply, and
- having an effective system in place for learning lessons from severe weather-related incidents.

At the same time we have also improved the reporting system to supply up-to-date information for drivers on the condition of the road network. We tested the readiness of our staff and service providers in 'snow desk' exercises at the start of the winter.

We have continued to strengthen emergency and contingency planning arrangements by producing a family of plans at a local, regional, and national level. These have been tested with other partners by way of exercises, and in some cases, real events.

In addition we are reviewing with local authorities diversion routes to decrease delays to travellers following incidents.



Frontline empowerment

We have set up regional operations boards, made up of divisional directors from our main business areas, to establish a single performance focus in each region. These boards have given an opportunity to consider and address network performance issues and draw out best practice, supporting improved working relationships and better understanding of key issues.

Major exercise for emergency services



Highways Agency hosts live exercise to test emergency response at the Dartford Crossing.



The right skills, in the right place at the right time

We have implemented several initiatives to build our staff capabilities:

- **Flexible deployment** - Two pilots were started during the year, testing flexible deployment of staff resources on a geographical basis and on a functional basis, to learn lessons before using more widely.

We plan to roll out flexible deployment across the whole agency over time, helping us to work smarter by:

- using our skills and capabilities to best effect
- helping us recognise which teams are overloaded and allocate work differently

- giving everyone the opportunity to develop their skills and capabilities without the need to move away from their current team
- making sure that collectively we are putting our effort against the highest priority work
- **Clarity of roles** - We have drawn up role profiles for senior staff, taking on board the DfT competency framework and the Professional Skills for Government agenda
- **Priority development and training** - During the year we improved our corporate development and training strategy, and produced guidance for managers
- **Bringing in and bringing on talent** - We ran a leadership recruitment campaign for our middle management tier during the year

Best practice and innovative solutions to improve service

We have been working with other statutory bodies in the planning process, such as local authorities, so that they can receive and respond to planning consultation electronically. This is providing a forum to share best practice across government.



Financial accountability



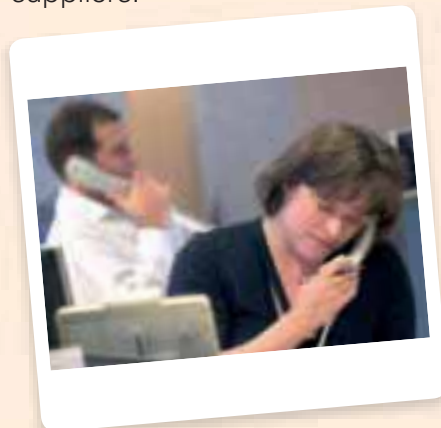
Police and Highways Agency staff meeting and working together

Improving efficiency

Improved efficiency is an important element in adding value to service delivery. We have developed a framework of performance indicators to measure efficiency improvements in our existing roads procurement and maintenance contracts for strategic roads.

We plan to achieve total efficiency gains of £200 million in our strategic roads procurement by 2007-08, and our procurement experts are collaborating with local authorities to achieve gains of £190 million in their roads procurement. Together, this will secure approximately 50% of the Department for Transport's efficiency target.

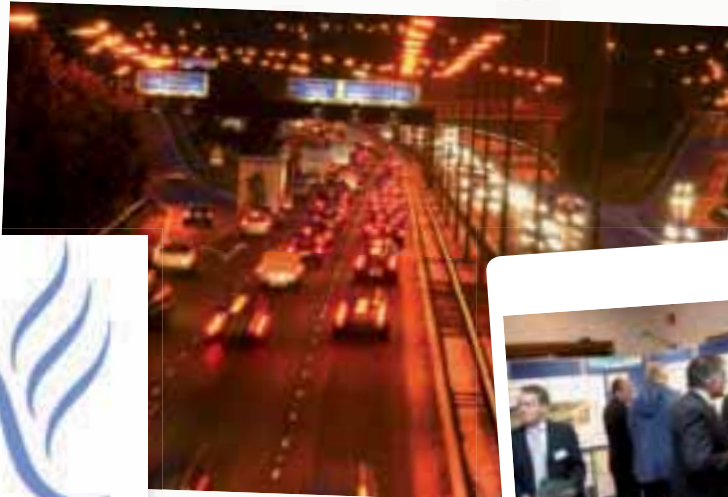
We chair the Highways Efficiency Liaison Group (HELG), which steered development of a Strategy for Achieving Efficiency Gains from Collaborative Roads Procurement, published in September 2005, and has continued to help drive further collaborative initiatives. HELG is a unique cross-industry group, and is the main means for engaging with the industry, taking initiatives forward and challenging the way procurement is carried out. It helps to get the message on collaboration and efficiency out to local authorities and suppliers.



Effective business processes

Our 'Way we Work' quality management system has been developed to help us follow best practice processes and procedures. Key processes have been analysed, improved and loaded onto the new system which delivers:

- **Consistency** across the organisation, with everyone using the same up to date processes
- **Clarity**, with one easily accessible point for information about how we do things and what tools we use
- **Continuously improved processes** to meet our changing needs
- **Compliance** to reduce the risk of not doing things properly and jeopardising our good work



M25 widening



Start of works
A2 widening
public exhibition



Response to the Nichols review

Last year the Secretary of State for Transport initiated a report on cost forecasting and programme management of our major road schemes.

The review was undertaken by the Nichols Group, and it confirmed that estimates have increased above initial forecasts, largely on schemes which are not yet in construction. The biggest single factor was higher than expected inflation in construction prices. The review noted that estimating is inherently difficult for schemes with expenditure spreading over ten or more years ahead.

Nichols made a number of recommendations for improvements in the development and management of schemes, so that our large forward programme of investment can be successfully managed:

- restructure the roads programme into phases
- improve governance arrangements between the DfT and the Highways Agency
- improve estimating, risk management, procurement and delivery capability

We have developed an action plan, and are working closely with our supply chain to implement these recommendations.

Resources allocated by priority

Regional operations boards have been established in every region to direct resource allocation. Their role is to discuss and review performance of the regional network, in terms of reliability, safety and information provided to travellers, identifying issues and actions to be taken regionally or taken to national level for consideration.

Quality support services

We are committed to our support services being best in class.

We have made a start on this by benchmarking our Procurement and Corporate Communications functions. We meet the benchmark of excellence in procurement competence set by the Chartered Institute of Purchasing and Supply (CIPS), placing us alongside the best procurement organisations in the UK.

Early contractor involvement

We have designed and implemented new forms of contract, including the Early Contractor Involvement (ECI) contract for major new-build projects, which involves the supply chain earlier in the planning and designing of projects and service requirements.



Corporate social responsibility

Last year we reported on our sustainability performance for the first time following our commitment to integrate sustainability into all aspects of our business. Our Business Plan 2006-07 recognised that we have to balance the need to develop and operate the strategic road network with our responsibilities to neighbouring communities and the wider environment.



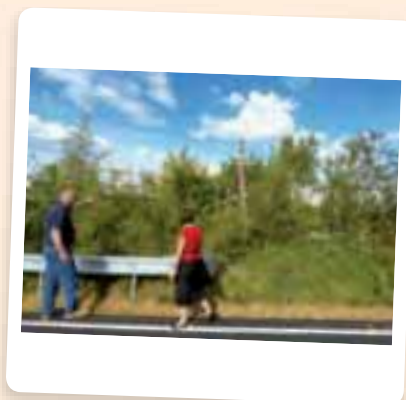
*Business Plan
2006-07*

In this report, we set out our progress towards delivering against our targets, and in embedding the consideration of sustainability in our culture as well as in that of our partners.

External developments have also affected the environment in which we operate. For example, the past 12 months have seen the release of a number of very significant publications from the Intergovernmental Panel on Climate Change (IPCC) report to the publication of new targets for sustainable operations on the government estate. So we also reflect on how we need to respond to the changing world around us.

As in last year's report, we are using the four priorities for action set by the government's sustainable development strategy to report on our performance on:

- sustainable consumption and production
- climate change and energy
- natural resource protection and environmental enhancement



- creating sustainable communities and a better world

Sustainable consumption and production

Our main sustainable development impacts are related to:

- the processes and materials we use to build and maintain our network
- product lifecycles on our network and in our offices
- our procurement process

Through our road construction, improvement and maintenance programmes, we consume large quantities of material resources and produce significant quantities of waste. In 2006-07, we have continued to re-use materials present at construction sites and make use of recycled materials in our construction and improvement projects.



M3 Bridleway used recycled tyres to create a safer surface

In Cornwall, some 800,000 tonnes of waste material has been used to create the new A30 Bodmin to Indian Queens dual carriageway. Using sustainable construction practice, 90% of the construction material used for the new road and asphalt layers comes from waste generated locally by the china clay industry in St. Austell. The alternative would have been bringing large amounts of material long distances from quarries by road.

In December 2006, we completed two new bridleway bridges over the M3 in Windlesham and Chobham in Surrey. Designed with the needs of horse riders in mind, we used non-slip rubber tiles made from more than 2,000 recycled tyres to create a safer surface. As well as being softer and spongier, the tiles also absorb some of the noise from the vehicles using the motorways below.

Paper usage in our offices

Reams used	Base year 2004-05	Last year 2005-06	This year 2006-07	Compared to base year	Compared to last year
Offices	19,227	18,022	16,912	☺	☺
Per head	7.8	7.2	6.8	☺	☺

monitored at 9 offices *based on staff numbers in these offices.

In our offices, we have increased our recycling rate by over 7%. Our new offices in Bedford and Leeds do not have individual waste bins at the desk encouraging waste reduction and recycling. Some 43% of office waste was recycled in 2006-07 and the total amount of waste reduced.

We are on target to exceed the government's sustainable operations targets relating to waste and recycling.

We deliver the majority of our services through third parties, so we must understand their capabilities. This year we have introduced the third edition of our Capability Assessment Toolkit (CAT3) and completed

the first phase of our assessment of the services offered by our major project and maintenance suppliers.

For the first time through CAT3 we have assessed our suppliers' ambitions and

Waste from our offices

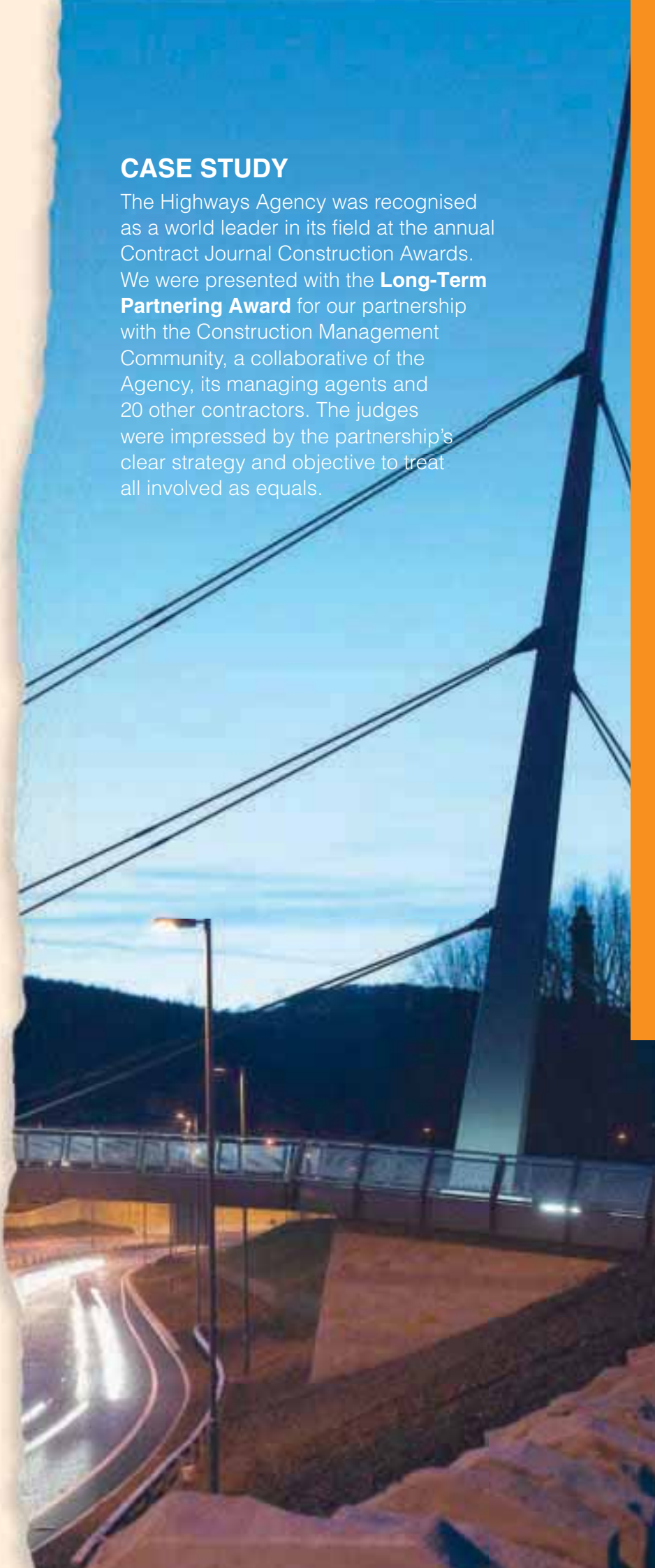
Office waste ¹	2004-05	2005-06	2006-07	Trend
Total amount produced (t)	229	231	229	☺
of which recycled (t)	71	84	99	☺
Amount per head* (kg)	118	117	114	☺
Percentage recycled	31.2%	36.4%	43.2%	☺

monitored at 7 of our main offices *based on staff numbers in these offices.

plans to support the delivery of sustainable development. Diversity, innovation, risk management, corporate social responsibility and putting customers at the heart of the agency's business were among the new assessment criteria introduced by CAT3. To date we have assessed 33 of our major contractors and suppliers.

CASE STUDY

The Highways Agency was recognised as a world leader in its field at the annual Contract Journal Construction Awards. We were presented with the **Long-Term Partnering Award** for our partnership with the Construction Management Community, a collaborative of the Agency, its managing agents and 20 other contractors. The judges were impressed by the partnership's clear strategy and objective to treat all involved as equals.



CASE STUDY

Restoring habitats, Black Poplars set for return.

The Black Poplar, featured in Constable's painting *The Hay Wain*, is now one of Britain's rarest native timber species.

Highlighted in our Biodiversity Action Plan as a priority species, we endeavour to reintroduce black poplars where conditions are suitable, and have planted them, with other species such as alder and hazel, at a number of our road schemes this year.



Corporate social responsibility



Noise reduction barrier



Helping to reduce water on the road



The villages of Wadesmill, High Cross and Colliers End now have a new bypass, reducing the volume of traffic traveling through the villages by more than 85%

Spatial planning and development control

In 2006-07, we have carried on working with local planning authorities and stakeholders to promote sustainable development through local strategies and the planning process.

New developments can sometimes add a substantial amount of extra traffic onto our roads. Yet, through careful planning, the traffic impact can be reduced. We encourage developers to consult us early on in the planning process to discuss ways of keeping impacts to a minimum through site design, junction improvements, and to consider travel plans and other smarter travel choices.

The 'Planning and the Strategic Road Network' circular was published by DfT at the beginning of March 2007. The circular explains how we will participate in all stages of the planning process with Government Offices, regional and local authorities, public transport providers and developers to ensure national and regional aims and objectives can be aligned and met.

We are aware of the implications of spatial planning in terms of our responsibilities for the trunk road network, and possible breaches of statutory limits on air quality, noise and in respect of water (run-off, flooding, and pollution) that may occur on or close to the highway. We therefore engage with the development planning and control processes.

Our Influencing Travel Behaviour (ITB) programme is aimed at reducing congestion on our roads. We aim to cut congestion and reduce emissions through influencing travel behaviour, providing access to information to help people make smarter travel choices and introducing demand management measures.

As part of the ITB programme, we helped key traffic generators on our network develop travel plan pilots. Travel plans were developed at three sites (Northampton, A45 Northants; Cribbs Causeway, South Gloucestershire; Solent Business Park, Hampshire) last year and our initial assessment shows that two of the three schemes have made some worthwhile progress towards their "maturity" targets for 2008.

Travel Plan Pilots			
Location	No of people	Number of organisations involved	Initiatives implemented
Grove Park M1 J21 Leicester	3000	1	Company specific travel plan. Car share set up. Freight strategy.
Cornwall College Camborne A30	10.500	1	Company specific travel plan. Travel Plan Co-ordinator. Car park management strategy.
Birmingham Business Park, M6 & M42 junctions	5000	25	Area wide travel plan. Extension of bus services. Car share and website.
Northampton General Hospital, A45 Northants	3000	5	Area wide travel plan. Pool bikes, cycle packs.
Cambridge Science Park	5000	71	Area wide travel plan. CamShare (car share) launched Oct 06.
Team Valley Gateshead, A1	17000	500	Area wide travel plan. Significant investment in cycle, pedestrian and bus user improvements negotiated.
Fifth Avenue, Business Park Gateshead	2000	14	Area wide travel plan. Car Share website launched. Travel guides. Bus ticketing.
Surrey Research Park	1600	1	Company specific travel plan. Car share service and website launched March 2007.

The table above shows how our work on further travel plans progressed in 2006-07.

Climate change and energy

The government strategy on sustainable development seeks to secure a profound change in the way we generate and use energy and in other activities that release greenhouse gases while ensuring that we are prepared for the effects of climate change. The publication this year of two landmark publications on climate change, the IPCC report and the Stern Report made clear that these are increasingly important issues.

Our main impacts in this area are through our customers travelling on our network, the energy we use for our network and our offices, and our staff and contractors commuting and business travel. We are implementing a number of actions to reduce both our energy use and our carbon footprint but for sustainability it is also important that we begin to consider how we will adapt to a changed climate.

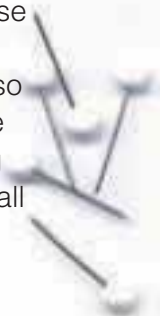
For the road network, our main electricity contracts for street lighting and communication equipment were re-let from 1st April 2006 for a three year period.

We secured 15% green energy and 85% good quality combined heat and power (CHP) through the new contracts. We also continue to receive 100% green energy for our small sites (under 100 kWh).

Our annual electricity load amounts to 184 million kWh/year for street lighting, traffic signs and communication equipment, a slight decrease from 188 million kWh in 2005-06. In addition, we also have published new advice on the standards of lighting equipment to improve overall energy efficiency.



Wind power is the latest resource to be used to reduce congestion, using renewable energy to activate signs along a road where weather conditions are particularly bad.



Corporate social responsibility



We assessed sustainability credentials when choosing our new buildings in Bedford and Leeds, both achieving BRE Environmental Assessment Method (BREEAM) "Excellent" ratings. The buildings are energy efficient, and fitted out in a sustainable, environmentally sensitive manner.

In addition to energy usage and waste we also monitor water usage at five offices where we are sole or major occupier. Usage per head and overall is up on last year. So while per head usage is better than our base year, savings need to be found in this area.

Changes in weather patterns may present new chronic threats to highways assets. We are therefore working to adapt our network to new conditions such as higher flood risks.

In February 2007 we began a £200,000 scheme to address the problem of flooding on the A30 at Crowlas, Cornwall. These improvements will reduce the risk of flooding on the highway and in the village.

Water usage in our offices

Water used in m ³	Base year 2002-03	Last year 2005-06	This year 2006-07	Compared to base year	Compared to last year
Offices ¹	8,140	7,600	8,420	☹	☹
Per head	11.5	6.3	7.0	☺	☹

¹ measured in 5 offices

Electricity used in our offices

kwh used	Base year 2002-03	Last year 2005-06	This year 2006-07	Compared to base year	Compared to last year
Offices ¹	3,116,412	3,160,389	3,602,937	☹	☹
Per head	2,515.3	1,685.5	1,869.7	☺	☹

¹ measured in 6 offices 2006-07 as the two Bedford offices relocated to one office (7 offices previously)

In our offices, electricity usage increased over by 14%, but our gas usage has continued to reduce, this year by 19%. We will continue to endeavour to reduce energy consumption in our offices and regional control centres.

Gas used in our offices

kwh used	Base year 2002-03	Last year 2005-06	This year 2006-07	Compared to base year	Compared to last year
Offices ¹	2,656,673	2,188,078	1,769,332	☺	☺
Per head	4,355	1,911	1,478	☺	☺

¹ measured in 5 offices

No matter how successful the world is in reducing future carbon emissions, an amount of climate change is now considered to be inevitable.



Protecting natural resources and environmental enhancement

We aim to better understand our environmental impacts and work to enhance our environment.

Our operations affect the environment through emissions to air and water from our network and our offices, noise and light pollution, our use of natural resources such as aggregates and water, and the impact of our activities on biodiversity and habitats.



Indicator	06-07 Target	Performance	Commentary
Air quality	Implement measures to improve air quality of at least 2 out of 21 prioritised AQMAs*	✓	Measures implemented at 2 AQMAs*
Biodiversity	Achieve at least 7% of the published HA biodiversity action plan	✓	13.9% of our Biodiversity Action Plan achieved
Landscape	Introduce at least 9 planting schemes to enhance the landscape	✓	9 planting schemes completed
Noise	Treat at least 110 lane km of concrete road surface with lower noise surfacing	✗	91.6 km treated with lower noise surfacing
Water	Treat at least 4 pollution risk water outfall sites	✓	4 sites treated
OVERALL:	Achieve an average score of no less than 95% across the 5 sub-targets	✓	Achieved – 97%

* An AQMA (Air Quality Management Area) is declared by a local authority where the air quality objective for one or more of the nine pollutants in the Air Quality Strategy is unlikely to be met by the specified date.

Environmental Management Systems (EMS) are in place in eight of our 10 offices. This year, we have also introduced the EMS to our seven regional control centres and their outstations.

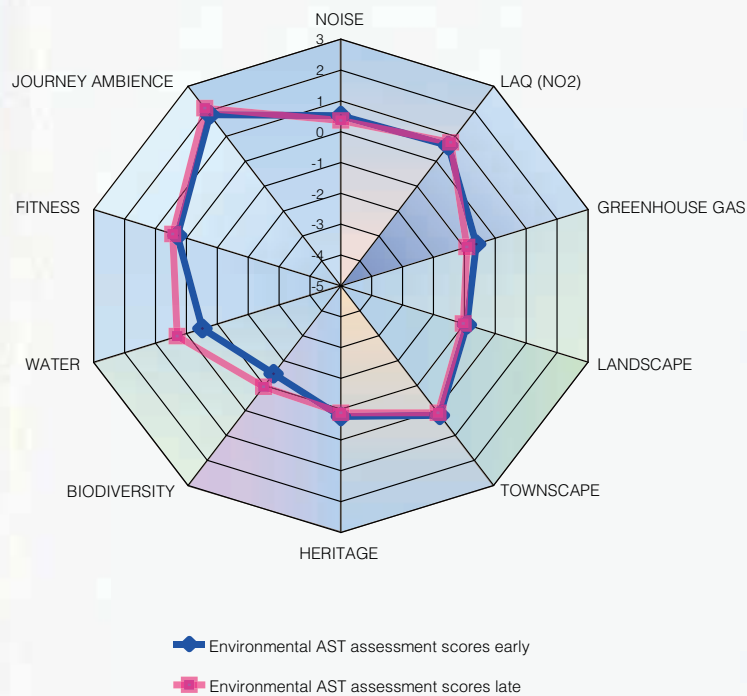


The Highways Agency won a gold award at the BBC Gardeners World at the NEC, Birmingham

In 2006-07, we completed piloting an Environmental Information System (EnvIS) for the improved management of our soft estate. This system will allow us to monitor the network's environmental performance more comprehensively, from construction through to decommissioning of highways infrastructure as it becomes worn out or redundant.

We will explore how we can best use EnvIS data for performance measurement over the coming year.





Update on Business Plan environmental objectives and KPIs

For 2006-07, we moved to include wider performance measurement that reflected a greater proportion of our work. We analysed the extent to which our major improvement projects deliver the government's environmental objectives for transport investment:



Signing of Memorandum of Understanding (MoU) between Highways Agency and English Heritage.

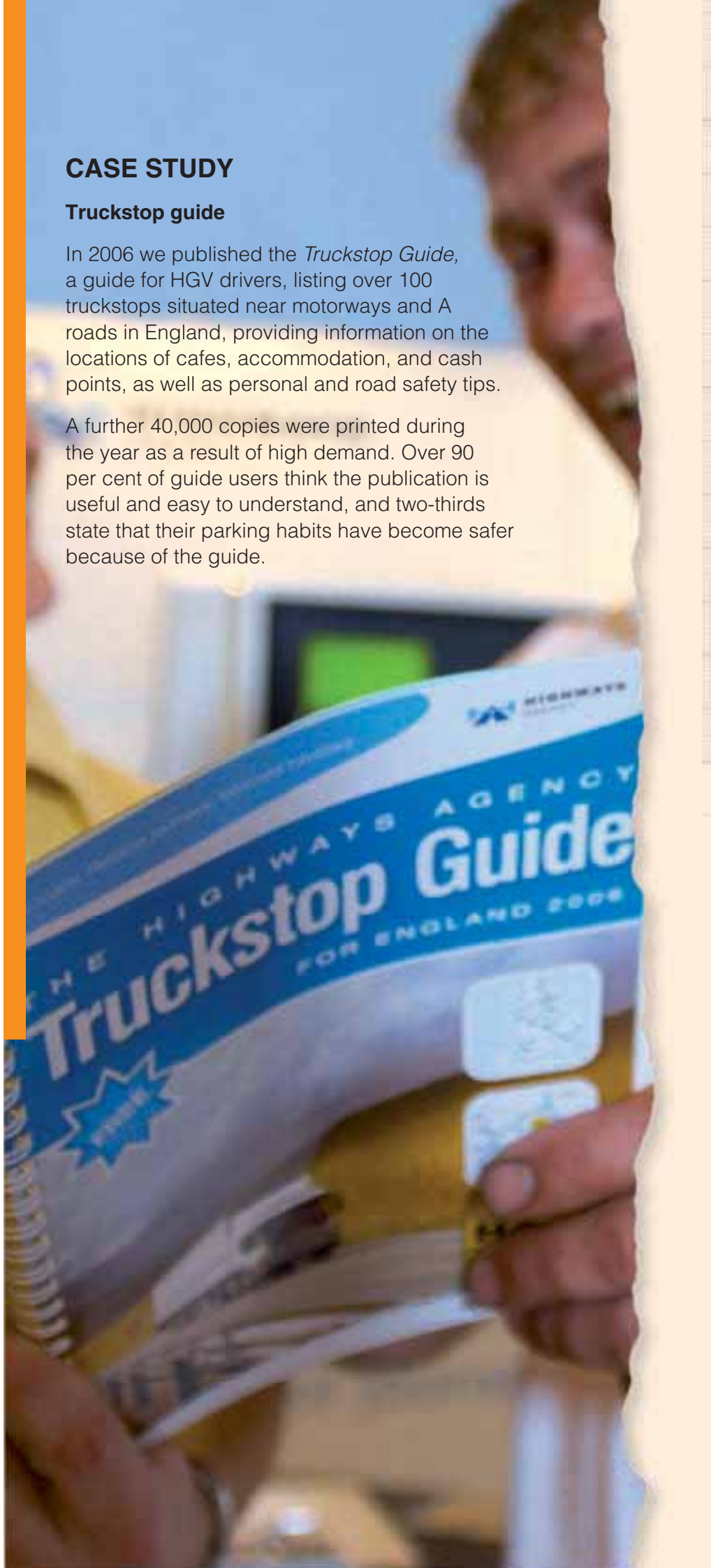
We have improved the environmental performance of five out of the ten sub-objectives. We performed slightly worse on noise and greenhouse gas, and landscape, townscape and heritage remained essentially unchanged.

CASE STUDY

Truckstop guide

In 2006 we published the *Truckstop Guide*, a guide for HGV drivers, listing over 100 truckstops situated near motorways and A roads in England, providing information on the locations of cafes, accommodation, and cash points, as well as personal and road safety tips.

A further 40,000 copies were printed during the year as a result of high demand. Over 90 per cent of guide users think the publication is useful and easy to understand, and two-thirds state that their parking habits have become safer because of the guide.



Corporate social responsibility



Type of training	Last year 2005-06	This year 2006-07	Commentary
Foundation in Management (FIM)	100 delegates	93 delegates	Introduced in April 2005
Core training courses	1,200 delegates	1,547 delegates	New workshops covering environmental issues, managing performance, and legal awareness training were introduced in 2006-07
External professional qualifications	145 staff obtained qualification	90 staff obtained qualification	Various fields including accountancy, management and procurement

Creating sustainable communities and a better world

The way we deliver our services affects the lives of our customers, staff and contractors as well as those of local communities.

Caring for our customers and stakeholders

In December 2006, we published our Disability Action Plan, which aims to help us to understand the needs of our disabled customers and ensure they have equal access to our services. We consult to make sure the diverse needs of all our customers are taken into account, ensuring that all schemes in development take account of good practice guidance for inclusive mobility.

To deliver the plan, we will be working with our partners to ensure that together we deliver services that give greater equality for disabled people.

We have already made progress in a number of areas including:

- more than 6,500 emergency roadside telephones will be replaced over the next three years to provide a more accessible service. They include a multi-language text messaging service to allow deaf people to communicate
- interactive Information Points at a number of motorway service areas allow road users to check on latest traffic conditions. They have been designed so wheelchair users can easily use them

Caring for our staff and contractors

Work-life balance

Through our flexible working policy, staff can vary their hours and parents of children under the age of six (or 18 where child is disabled) can apply to change their work pattern to care for the child.

Work-life balance		
Special work arrangements	% of staff	
	in 2005-06	This year
Part-time working	7.1%	5.7%
Home based	2.1%	1.6%

We also offer physical health checks and information about how to cope with stress through our Well Being at Work programme.

CASE STUDY

How's this for customer service?

Amanda Mushing – Customer service award winner Traffic officer, Amanda was on patrol when she came across a driver, recently diagnosed as diabetic, slumped in his car on the hard shoulder. While paramedics made their way to the scene, Amanda restored his blood sugar levels by giving him a fizzy drink and an apple from her lunchbox.



Staff involvement

We aim to engage and involve all our staff with regular team briefings, cascaded throughout the organisation, and through regular meetings with recognised trade unions. And there are regular opportunities for staff to exchange views on line with our chief executive on agency and wider issues.



We attach great importance to consultation with staff and their recognised trade union representatives; to the need to make full use of the skills and talents of staff; and to provide staff with opportunities to contribute to decisions affecting their jobs and careers.

Training and development

Our **You Make It Happen** awards acknowledged the people whose behaviour over the last 12 months demonstrated our values through the work they do.

Diversity in the workplace

We value the skills and experience that people from various ethnic groups and people with disabilities bring to the workforce.

Our Disability Action Plan published in December 2006 aims to ensure that our workforce is more representative of our customer base.



For disabled applicants and staff this means ensuring our recruitment and selection procedures are fair, accessible and transparent, ensuring reasonable adjustments

are made to the working environment so staff with disabilities can do their jobs and developing a culture which is disability confident and promotes positive attitudes towards disabled colleagues.



Corporate social responsibility



Weatherhill Outstation first aid room



Health and Safety management

We have continued to raise the profile of Health and Safety across the Agency and have produced a new Health and Safety Management System (HSMS). A guide for managers has been produced, highlighting responsibilities and procedures and linking to related documents.

Improving Incident and Accident Reporting

We have established two electronic reporting systems to increase accident and incident awareness and to quickly share lessons learned.

IRIS - Incident Reporting and Investigation System, used by line managers to record incidents involving agency staff.

AIRS - Accident and Incident Reporting System - developed in partnership with the Transport Research Laboratory, AIRS is used by our supply chain to report incidents and near misses to our national health & safety team.



Traffic Officer service – improvements in health and safety

A programme to improve incident reporting is in place and has showed substantial success over the past year. Near miss reporting has increased significantly. Developments include an easy to use booklet, a monitoring toolkit and a comprehensive A-Z guide. In addition, a rolling two-year programme of internal safety audits of the traffic officer service has commenced.





Type of training	Last year 2005-06	This year 2006-07	Commentary
Construction, Design and Management (CDM) one-day briefing session	70	218	A new full day course was developed and delivered to all identified staff.
Half day Directorate Specific CDM sessions	N/A	95	The training allows staff to better understand the Highways Agency's design and client role under CDM 2007.
Defensive driver training	110	195	Theory and practical training provided for around 300 staff.
Institution of Occupational Safety and Health - Managing Safely – 4 Day course	N/A	20	Two courses provided to senior managers.

A summary of other training delivery for our staff

The table above shows examples of how we are developing the competence of our people in all aspects of health and safety.

Incidents during the year

The statistical returns for the year are shown in the table below.

Number of incidents	Last year 2005-06	This year 2006-07
In our offices	107	117
Including Traffic Officers	30	50
Out of the office	44	222
Including Traffic Officers	37	212
Total	151	339
Of which were RIDDOR reportable ¹	6	17

¹ RIDDOR: Reporting of Injuries, Diseases and Dangerous Occurrence Regulations 1995, the regulation requires the reporting of certain types of work-related accidents

Incident numbers have increased due to the greater number of staff working on-road with live traffic. We are taking action to manage and control these activities, both through our Traffic Learning Centre and by strong leadership on protecting road workers.

Training on lifting and handling, a major cause of injuries, is being prioritised in 2007-08.

Development work has been completed on an innovative 'Certificate in Traffic Management' for traffic officers. Health and safety underpin every aspect of the certificate, which tests the ability to manage on-road incidents safely. Over 200 Traffic Officers began working towards the award this year, with more to follow.



Traffic officers working with the emergency services on a practice major motorway incident.



Corporate social responsibility



Keeping our road workers safe

Preserving the safety of our workforce is vitally important. There are between 3,000 - 4,000 people working on our high-speed network at any one time.

It can be a hazardous business as those on live carriageways are vulnerable to being hit by traffic and we are committed to reducing this risk. The fatality rate for this group is one of the highest for employment sectors reported by the Health and Safety Executive.

We have put in place a road worker safety action plan, working with our suppliers and stakeholders, to reduce their exposure to live traffic, to maintain the industry's highest standards of practice and improve drivers' awareness. We are also using technology to reduce road workers' exposure to danger even further.

Road worker safety – delivery of our action plan

We have achieved the following:

Working with our suppliers:

- highlighted road worker safety issues, and worked to share more information
- reviewed high-risk operations to reduce the risks to road workers
- created a training DVD highlighting the importance of near-miss reporting
- encouraged reporting of incidents of road worker abuse

Improving awareness:

- messages about driving safely at road works included in the revised Highway Code
- road users surveyed to gain their views on driving through road works to better understand road user perceptions which will enable targeted education



- we investigated and disseminated best practice in media handling of road works information to improve coverage and reporting
- data sharing and capture of road worker incidents improved



Road worker laying cones

On the road:

- improved use of VMS signing
- at road works, we used average speed enforcement to improve compliance with speed limits, and reviewed the use of signs in the central reservation
- reduced road worker exposure to live traffic at safety fence repairs
- instructed the use of sequential flashing lights in tapers
- investigated innovative cone taper layouts
- supported development of mechanised cone laying technology at road works to reduce road worker exposure to live traffic (see case study)

Designing for safety:

- organised workshops and seminars with road designers to encourage better designs which will improve road worker safety
- issued advice to designers on how to incorporate maintenance requirements into designs

Creating a fairer world

As a large employer, we recognise that we can participate in the promotion of fairer trade practices by promoting the use of fair trade products in our offices. These are available in our

London office, and we are encouraging the use of fair trade and local products in the catering specifications at our offices in Bedford and Leeds.

What next?

The Department for Transport and all its agencies published their Sustainable Development Action Plans (SDAPs) together in June 2007.

With the agreement of the Sustainable Development Commission, our SDAP complements our 2007-08 Business Plan. This ensures that the actions included are linked to our wider business planning process and timetable, raising the profile of sustainable development within the Highways Agency. Progress reporting will follow.

Our transformation journey will continue over the coming years, building on past excellence and adapting to future needs and expectations.



New cone laying machine



A yellow machine, likely a traffic management lorry, is shown on a road. In the foreground, there is a concrete barrier. The machine has a red and yellow striped hazard pattern on its side. The background shows a road with white dashed lines.

CASE STUDY 1

New cone laying machines

To reduce the risk to road workers we have trialled two new cone laying machines. Fixed to the rear of traffic management lorries, the machines place and collect cones, eliminating the need for road workers to stand close to fast-moving traffic. If the trials are successful, production models are expected to become a part of everyday traffic management operations in 2007-08.

CASE STUDY 2

Another innovation –

dispensing with cones entirely - which enables more lanes to stay open for peak flow traffic and provides a safe environment for road workers is the quick-change moveable barrier system, made up of reinforced concrete blocks. It can be lifted and moved sideways at speeds of up to 10mph across the carriageway. Following successful trials the barrier has been at work on the A2 in Kent.

CASE STUDY

A30 Go-Goss sponsored walk

We supported a sponsored walk on 1st April 2007 between Bodmin and Indian Queens on the newly built A30.

Local organisations including the Lions Club, the Round Table and the Rotary Club have combined efforts with the Highways Agency and its contractor Alfred McAlpine to plan the walk to raise money for various charities. Minimum donations for entry were split between the Cornwall Air Ambulance, the Children's Hospice South West and the Lighthouse Club which cares for the families of roadworkers killed in accidents. Walkers were also encouraged to raise further money for either the organisers' chosen charities, local causes or their own favourite charity. The event allowed people to walk or cycle distances of either seven kilometres, 13 kilometres (for cyclists only) or 20 kilometres.



Looking forward



These are our priorities for delivery in 2007-08:

Investing in the network

Seven major schemes are due to open, and work will begin on nine others.

Work continues on widening the M25, our biggest current project, with the contract award expected in 2008.

We will implement the recommendations of the Nichols and National Audit Office reports on programme management.

Overcoming congestion

We will complete the transfer of traffic management functions previously carried out by the police to the traffic officer service.

Outcomes of the M42 Active Traffic Management pilot will be reported to Ministers.

We will extend coverage of the automatic incident detection system, (MIDAS); and wider use of mandatory variable speed limits.

Upgrading of our national communications network will continue with more reliable transmission equipment installed.

Opening our first car share lane at the M606-M62 junction near Bradford.

Informing our customers

New information services to be implemented include:

- the traffic radio service
- travel times on electronic variable message signs
- the provision of real-time CCTV images through the web and to travel news media organisations, allowing customers to see travel conditions for themselves

Implementing at least 18 new travel plans.

Implementing our new spatial planning policy.

Developing our driver information programme 'toolkit' that supports the area safety action plans launched in 2006-07.

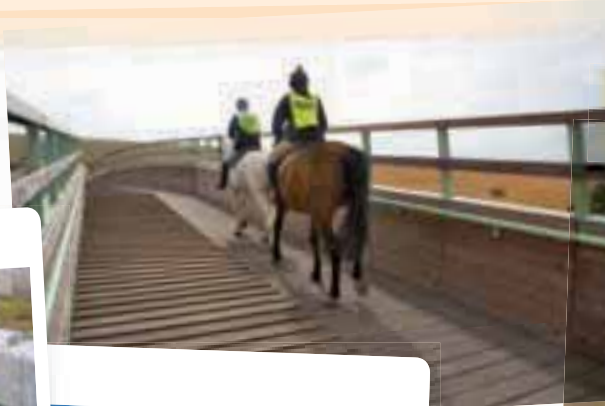


Safety toolkit

Safety

We will continue to introduce new measures to improve road user safety and our network safety performance. Although the total number of people killed and seriously injured on our roads decreases each

A26 Itford Farm new
bridleway bridge



Bikeguard barrier



year, the trend is not uniform, so we will be investigating further why the level of improvement has stopped on some roads, and also what we can do to halt the increasing number of for example motorcycle casualties. As part of this we plan to introduce new measures for the treatment of whole routes rather than known accident locations.

We will build on the introduction of our new health and safety management system for monitoring the safety of our own staff and our supply chain contractors so we can make improvements based on better quality data.

We will look for ways to minimise disruption caused by our maintenance activities:

- right works - right time
- right place

There will be public consultation on proposals for a new roadside facilities policy.

Environmental matters

Key initiatives include:

- implementing our environmental information system
- publishing new advice on cultural heritage assessment and innovative guidance on historic landscape assessment

Customer engagement

Launching a new computer-based management system to track stakeholder concerns.

Extending the scope of our customer surveys:

- wider range of sustainability considerations
- wider stakeholder group

Progressing our Disability Action Plan 2006-09 including auditing our network to identify features that make it unreasonably difficult for disabled people to use it.

Increasing customer engagement during major schemes by following our revised guidance on Approaches to Public Involvement.

Efficiency improvements

We will implement the findings of our 2006 scrutiny into the efficiency of our maintenance programme.

Procurement efficiency will be improved by:

- sharing learning with our local authority stakeholders
- purchasing collaboratively with our supply chain and local authorities
- developing communities of highways suppliers and clients in the regions to assist the sharing of best practice and efficiencies



Leadership and corporate governance



M25, Jct 25 Holmesdale Tunnel.



Relationship with our parent department

The Highways Agency is sponsored by the Department for Transport. Our chief executive is a member of the Department's Management Board. Following the Nichols review and the department's capability review we are working together to strengthen the relationship between the Department and the Highways Agency and to clarify roles and responsibilities.

Highways Agency board structure

The Highways Agency board and its five supporting sub-groups have a single programme of work, ensuring close alignment and linkage of items discussed in senior management meetings and in corporate communications.

The groups are used to capture the views of the wider senior management team, with regular rotation of membership amongst the team. The five sub groups and their main functions are:

Highways Agency transformation group (ATG)

Provides direction and momentum to change activity in the Highways Agency. The group looks at major cross-cutting initiatives, and champions business improvement and innovation across the Highways Agency.

Performance delivery and investment group (PDIG)

Manages a framework for in-year performance management, improves cost management, and develops and improves the investment appraisal process.

i ATG and SPG are made up of five Board members including one non-executive, (PDIG: 4 directors, one non-executive), and several members of the agency's senior management. The NOG is made up of five directors and several members of the agency's senior management.

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

Director of SSR, Ginny Clark, accepted the accolade for 'Most Committed Client' during a ceremony marking ten years of Considerate Construction, July 2007.



Strategy and planning group (SPG)

Oversees a long-term (10 years +) strategic planning framework which directly influences the agency's corporate, business and management planning (including customer-focus) over the next three years and beyond.

National operations group (NOG)

The group is initially focused on delivery of the journey time reliability target, and will develop to oversee the other operational targets.

Audit Committee

Advises the board on key risks and control issues.



Leadership and corporate governance



Corporate governance

An integral part of delivering improved service is to ensure that the agency continues to operate sound mechanisms for internal control through:

- planning procedures to ensure future programmes are aligned with government policy and our strategic direction
- clear capital investment control mechanisms, supported by techniques such as investment appraisal, value management and value engineering

- clear, consistent, continuously improved and compliant processes
- sound project management and project sponsorship disciplines
- procurement processes that reflect best practice and best value
- established management processes for project management and information technology security
- transparent processes and checks in place to ensure effective corporate governance
- sound asset management processes, including management of our property portfolio

Risk management

The Board identifies and actively manages the major corporate and strategic risks facing the Highways Agency and has action plans to manage them. During the year, action by the Board substantially reduced our exposure to many of these risks.





M25, Jct 25 Holmesdale Tunnel. The photo shows the progress of the scheme and the scale of the work involved to upgrade and improve the tunnel.



The current top risks are in the areas of:

- Ensuring the safety of the Highways Agency's staff and supply chain
- Maintaining stakeholder confidence in the agency
- Justifying or obtaining the necessary funding to deliver our objectives as expected by stakeholders
- Action to meet the PSA reliability target demonstrating reduced levels of congestion
- Disruption of the network arising from a major traffic or security incident
- External factors blocking or delaying decisions to proceed with major schemes

- Providing trusted, reliable, useful and effective management and other information and achieving the required standards of information security
- Shortage of appropriately skilled people in the Highways Agency or supply chain and/or excessive turnover of staff
- Cultural issues delaying or preventing organisational change



Directors may also highlight major risks from their parts of the business where they need to:

- Give assurance that a major risk is under control
- Raise the need for action by the Board to manage a risk

These risks are added to the Board's corporate risk log. All business areas also report their key risks to the Board with their performance reports as a matter of routine.




Highways Agency Accounts 2006 - 2007





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Management commentary

Financial Statements

These cover the period 1 April 2006 to 31 March 2007 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) of the National Audit Office.

The financial statements have been prepared in accordance with HMT's Financial Reporting Manual (FRM).

As an executive agency of the Department for Transport (DfT) the Agency's financial statements are consolidated within the resource accounts produced and published by the DfT. These are available online on the DfT website at www.dft.gov.uk.

Significant accounting policies

There are several areas of the Agency's financial statements where accounting judgements have a significant impact on financial outturn. These are outlined below:

Valuation of the trunk road network

As explained in note 1.4 to the accounts, professional valuers undertake a full valuation of the network at intervals not exceeding five years. The valuation process requires the use of assumptions and estimates.

The above valuations are recorded in the United Kingdom Asset Valuation System (UKAVS). The UKAVS model is used in the years between full valuations to generate updated values for the trunk road network by the application of indices for the costs of land, and road construction. (For details of the indices used see note 1.4 to the accounts). For VAT purposes it is assumed that a total reconstruction of the network will be performed and therefore VAT is not recoverable. It is also assumed that works preparation, supervision, lands acquisition and compensation costs over the period will be at a flat rate calculated at the revaluation.

Costs from recently opened traffic schemes are used to determine percentages for land compensation values to be added to the network. An adaptation of renewals accounting is used to estimate depreciation of the network. Renewals accounting is only acceptable if the network is maintained in a steady state. Annual condition surveys of the network have confirmed this to be the case since 2001-02.

Recognition and the valuation of provisions

Due to the long-term nature of the Agency's road improvement activities certain assumptions, judgements and estimates are made in the recognition and valuation of provisions relating to compensation claims and acquisition of land. The Agency is also subject to contractual and damages claims. We assess the likelihood of adverse judgements or outcomes, as well as the ranges of probable and estimated losses. Our assumptions regarding the recognition and valuation of provisions are based on a variety of data sources, and experience.

Apportionment of Private Finance Initiative (PFI) payments between capital, interest and service elements

The Agency has a number of PFI agreements for the provision of new infrastructure and its subsequent maintenance for a fixed period of time, typically 30 years.

Judgements and estimates are made to apportion the payments made to the contractor between capital repayment and interest elements, with the remainder of the PFI payment recorded as a service charge in the operating cost statement.

Further details regarding valuation of PFI assets can be found in note 1.14.

Funding of the Agency

Resources to fund the Agency's day-to-day costs and capital investment programme are obtained through the Parliamentary supply process and allocated within the DfT Estimate.

The allocation takes account of income

generated by the Agency, such as recoveries of costs for work carried out on behalf of third parties and rental income from surplus properties. More details of operating income can be found in note 5 to the accounts. In addition to the above, private sector funding is available under PFI and Public Private Partnerships (PPP) arrangements. The choice between public and private financing is made on a value for money basis.

Financial results

The Highways Agency Request for Resources voted by Parliament for the year was £6.3bn. Of this, £2.7bn represents a notional charge for cost of capital, and the remaining £3.6bn represents the Agency's operating budget. The Agency used this budget to within 0.4% (£23m).

	2006-07 Actual £m	2006-07 Budget £m	Variance £m
Net resource outturn excluding programme cost of capital charge	2,423	2,441	(18)
Capital expenditure	1,115	1,125	(10)
Operating result	3,538	3,566	(28)
Programme notional cost of capital charge	2,698	2,693	5
Total	6,236	6,259	(23)

In addition to exercising effective financial and budgetary control, we used our resources to successfully achieve 14 out of 15 key business plan targets (see the - *Annual Performance Report*).

Financial position

The total asset value of the Agency was £82 billion, 99.0% of which relates to the trunk road infrastructure.

Cash flow forecasts are provided to DfT on a monthly basis. Funding is drawn down

when required as the Agency aims to keep minimal cash at bank and is not subjected to significant liquidity risks. The value of other current assets (stock and debtors) is also relatively low.

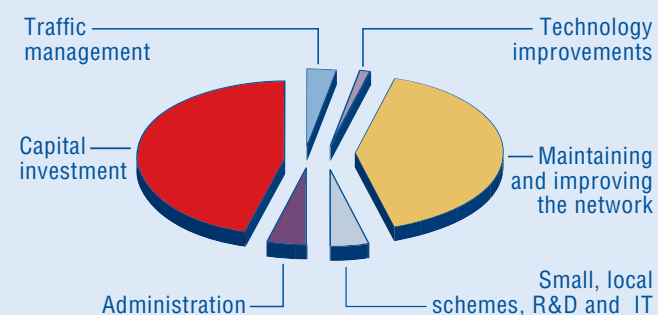
More than 75% of the Agency's liabilities are of a long-term nature. These include provisions for liabilities and charges and creditors including PFI liabilities falling due after more than one year.

How we used our resources in 2006-07

Due to the large asset base of the Agency, significant resource is required to cover the cost of depreciation and impairment of fixed assets, and the cost of capital charges.

The main areas of expenditure (known as main sub-programme areas), other than the cost of capital and depreciation are illustrated below:

Analysis of main sub-programme areas



There was an overall underspend on our programme of major improvements. A number of projects were delayed while in depth reviews of their scope and costs, including consideration of the Nichols and NAO reviews, were undertaken. Only those projects that provide best value for money are being taken forward. The resources released by the review were used to fund additional expenditure on technology improvements and our programme of smaller schemes.

The trunk road infrastructure is one of the most valuable single public assets in the UK, and maintenance of it consumes a high proportion (over 36%), of the Agency's budget (excluding capital charges and provisions). This includes replacing and maintaining surfaces, bridges and other structures. It also includes associated upkeep such as fencing, drainage, lighting and signage and the cost of keeping the network moving in winter. Overall spend on maintenance was 99% of the available budget.

Capital Investment

During 2006-07 £1,118m (2005-06 £751m) was invested in the road network. Ten Agency-funded major schemes opened for traffic in the year, along with a further two PFI-funded schemes. The total expenditure was across some 1,200 schemes, with the 50 highest value schemes accounting for £880m (2005-06 800 schemes, 50 highest value, £523m) of the total. A significant element of the overall expenditure, (£274m), related to three PFI schemes which were completed and taken onto the Agency's balance sheet; A1(M) Darrington to Dishforth Phase II (£154m), A249 Iwade to Queenborough (£93m) and the first phase of the National Roads Telecommunications Services project (£27m).

Government and Highways Agency spending plans

The second Comprehensive Spending Review, (CSR), which represents a long-term and fundamental review of government expenditure, reports in summer 2007. It will identify what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead, and issue departmental budget allocations and Public Service Agreement (PSA) targets for 2008-09, 2009-10 and 2010-11. The Agency's share of the DfT budgets will be agreed by autumn 2007.

The Agency's budget for 2007-08 was set in the previous Spending Review in 2004 (see 2004 Spending Review – *New Public Spending Plans 2005 – 2008*). The Agency's

net budgets (i.e. including allowable income) for 2007-08 are:

	Resource	Capital
	£m	£m
Programme pay and allowances	12	-
Major improvements	217	752
Traffic manager	93	13
Technology improvements	58	74
Maintaining the Network	809	30
Smaller schemes and R&D	91	89
Capital charges	3,771	-
Provisions	265	85
Administration	94	17
Total	5,410	1,060

Budgets sourced from Highways Agency 2007-08 Business Plan

The spending plans incorporate the Agency's share of DfT's annual efficiency gain targets, which followed the Gershon efficiency review in July 2004.

Planned administrative spending has reduced marginally for the next year, with any pay or pension cost increases being absorbed. Details of pensions arrangements can be found in notes 1 and 2 to the accounts, and in the Remuneration Report.

The overall budget for traffic management is around 20% higher than in 2006-07, as our Traffic Officer service is now fully resourced and operational.

The 2007-08 capital budget of £1,060m is an increase of some 40% over the budget for 2005-06, the first year of the current Spending Review period, and continues the planned escalation of the Agency's capital expenditure programme to support the delivery of associated congestion and safety improvement targets.

Market stability

The civil engineering and construction sectors are facing inflationary pressures due to oil and land inflation. The Agency has managed these pressures in delivering the current year programme, and has adjusted its estimates in its future years' programme.

Relationship with 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. During 2006-07 the Agency paid 98.9% (2005-06 98.3%) of undisputed invoices within terms. No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

Dartford-Thurrock Crossing road user charging scheme

The Transport Act 2000 Sections 163 and 167 of Part 3 Chapter 1 and subsequent secondary legislation gives powers to introduce a road user charging scheme at the Dartford -Thurrock Crossing. A contract with Le Crossing Company Limited to manage the crossing and collect the charges has been in place since 1 April 2003. All monies received are passed on to the Agency and subsequently to the Department for Transport. The Agency publishes separate accounts for the Dartford-Thurrock Crossing road user charging scheme under Section 3(1) (b) of the Trunk Road User Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

Board member interests

A sister of the Agency's procurement director, Steve Rowsell, is a partner of the professional valuers Donaldsons LLP. The Agency paid this company £2,580 for services performed in 2006-07 (£24,324 in 2005-06). Mr Rowsell played no role in the awarding of these commissions. He left the Agency on 31 March 2007.

Auditors

The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and cost £300,000 (2005-06 £350,000). In addition £15,950 (2005-06 £27,814) was paid to the NAO in respect of the audit of the Dartford-Thurrock Road User Charging Scheme account.

Statement as to disclosure of information to 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.

Significant events since the end of the financial year

On 25 April 2007, the Management Board decided to take an opportunity of a lease break to close its office in Hemel Hempstead in October 2008. Fifty finance related staff currently work out of that location. A large number of these posts will no longer be required as a consequence of a transfer of finance transaction functions to the Department for Transport's new Shared Services centre in Swansea and the transfer of other functions to third parties. The Agency will work with staff and their Trades Unions representatives to minimise the effects of the closure and avoid, if possible, the need for compulsory redundancies.

The remaining posts will be transferred to our office in Birmingham. The financial consequences of this decision will be provided for in our 2007-2008 statements.

Date of issue

The Agency account has been authorised for issue on 5 July 2007 by the Accounting Officer.



Archie Robertson
Accounting Officer
27 June 2007

Remuneration Report for the year ended 31 March 2007

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 is comprised of the Department for Transport's Permanent Secretary (as chairman), all DfT Directors General and a non-executive board member. For 2006-07 members were:

David Rowlands	Permanent Secretary, Department for Transport
Stephen Hickey	Director General, Driver, Vehicle and Operator Group
Simon Webb	Director General, Delivery and Security Group
Robert Devereux¹	Director General, Road Transport, Aviation and Shipping Group
Mike Mitchell	Director General, Rail Group
Archie Robertson	Chief Executive, Highways Agency
Ann Hemmingway	Non-executive Director, Department for Transport

¹ Robert Devereux became DfT Permanent Secretary on 31 May 2007.

Remuneration Policy for Senior Civil Servants within the Highways Agency

The remuneration policy is based upon work and recommendations of the Review Body on Senior Salaries. In reaching its recommendations, the Review Body has regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to

exercise their different responsibilities;

- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the government's departmental expenditure limits; and
- the government's inflation target

The Review Body also takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations. Further information about the work of the Review Body can be found at www.ome.uk.com.

Pay System and Performance Management

The Senior Civil Service pay system is a pay band structure, 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.

Performance is assessed against measurable key objectives and targets, agreed between the individual and his/her manager (performance agreement).

Annual salary increases are based upon pay awards recommended by the Review Body and depend upon performance; the Remuneration Committee allocates the base pay award across the Department's senior civil servants using a matrix of salary level and performance tranche.

Performance Tranche (top, middle, low satisfactory, low unsatisfactory) is based on achievement against the performance agreement, overall track record and growth in competence and contribution relative to others operating broadly at the same level. The Remuneration Committee, using recommendations provided by the Directors General, makes final decisions on tranche allocation.

Non-consolidated bonus payments may also be made. For senior staff on a fixed term contract these are based upon performance against defined criteria. Staff on open-ended contracts receive bonuses dependent upon the recommendations of the Review Body and their performance relative to others.

Remuneration Policy for Non-Executive Directors

The Agency undertook a review of the fees payable to non-executive directors during 2006, comparing them with other DfT agencies. As a result rates were increased with effect from 1 September 2006.

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 but also includes the circumstances when other appointments may be made.

Unless otherwise stated below, senior managers hold appointments that are open-ended until they reach the normal retiring age of 60, with a maximum notice period of six months.

Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Those on a fixed period contract have a maximum notice period of five weeks. Early termination may result in the

individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk.

Fixed term contracts may be extended or converted to open-ended, subject to agreement of the Civil Service Commissioner and consistent satisfactory performance.

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 (months*)
Executive Director		
Archie Robertson	24/11/2003	14
Ginny Clarke	02/07/2001	27
Hilary Chipping	11/09/2001	Open-ended
Mel Zuydam	01/06/2004	21
Steve Rowsell ¹	02/10/2005	0
Steve Williams	12/03/2001	Open-ended
Derek Turner	07/03/2005	11
Keith Miller ²	19/04/2004	5
Denise Plumpton	17/01/2005	10
Jerry England ³	19/03/2007	6

Non-executive Director

John Doran	28/09/2004	6
Alex Jablonowski	28/09/2004	18
Andrea Gregory	01/09/2005	5

* months remaining from 31/03/07

¹ Steve Rowsell resigned from the Agency. His last day of service was 31 March 2007.

² Keith Miller is taking early retirement from the Agency. His last day of service will be 31 August 2007.

³ Jerry England was appointed as interim Director of Major Projects Directorate from 19 March 2007 on a 26 week contract. This position is currently being recruited under open competition.

Salary and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Agency's senior civil servants. These sections of the Remuneration Report have been subject to audit.

	2006-07		2005-06	
	Salary, including performance pay £000	Benefits in kind (to nearest £100)	Salary, including performance pay £000	Benefits in kind (to nearest £100)
Archie Robertson	165-170	-	170-175	-
Denise Plumpton	150-155	-	120-125	-
Derek Turner	135-140	-	110-115	-
Mel Zuydam	130-135	-	120-125	-
Ginny Clarke	110-115	-	110-115	-
Hilary Chipping	100-105	-	100-105	-
Steve Williams	100-105	-	95-100	-
Keith Miller ¹	95-100	-	90-95	-
Steve Rowsell	90-95	-	85-90	-
Jerry England ²	15-20	-	-	-

¹ Keith Miller stood down from his position as Executive Director and departed from the Agency on 28 February 2007 by way of compulsory early retirement. This arrangement was agreed between the Department for Transport and Mr Miller to facilitate a fundamental re-structuring of the Agency's Major Projects Directorate and the implementation of the recommendations of the Nichols and NAO reviews on cost and programme management. Mr Miller is being paid his full salary during his notice period (six months to 31 August 2007). Under the terms of the Civil Service Compensation Scheme, Mr Miller received a total of £353,000.

² Jerry England was appointed as interim Director of Major Projects Directorate from 19 March 2007 through a specialist employment agency. The amount reported above represents the amount payable to the employment agency in 2006-07, including VAT. We do not regard these payments as being of a third party nature.

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.

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. There were no benefits in kind. During the year no compensation was payable to former senior managers, and no payments were payable to third parties for the services of a senior manager.

Pension Benefits

Pension benefits are provided through the Civil Service pension arrangements for which details are given in note 2 to the Financial Statements. Factors used to calculate the CETV were revised on 1 April 2005 on the advice of the Hewitt Bacon & Woodrow Scheme Actuary.

Pension Benefits

	Accrued pension at age 60 as at 31 March 2007 £000	Real increase in pension at age 60 £000	CETV at 31 March 2007 £000	CETV at 31 March 2006 £000	Real increase in CETV £000
Archie Robertson	5-10 no lump sum	0-2.5 no lump sum	100	69	26
Mel Zuydam	5-10 no lump sum	0-2.5 no lump sum	64	41	18
Denise Plumpton	5-10 no lump sum	0-2.5 no lump sum	89	51	25
Ginny Clarke	35-40 plus 110-115 lump sum	0-2.5 plus 0-2.5 lump sum	711	683	6
Derek Turner	0-5 no lump sum	0-2.5 no lump sum	59	30	25
Hilary Chipping	35-40 plus 85-90 lump sum	0-2.5 no lump sum	684	642	20
Steve Williams	35-40 plus 110-115 lump sum	0-2.5 plus 2.5-5 lump sum	826	765	31
Keith Miller ¹	30-35 plus 95-100 lump sum	0-2.5 plus 0-2.5 lump sum	651	622	7
Steve Rowsell	30-35 plus 100-105 lump sum	0-2.5 plus 5-7.5 lump sum	677	620	37

¹ Keith Miller is taking early retirement from the Agency, last day of service, 31 August 2007. The accounts include provision for the associated pension costs.

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 CS 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.

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 using common market valuation factors for the start and end of the period.

Remuneration of Non Executive Directors

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2007:

	£000's
Alex Jablonowski	20-25
John Doran	10-15
Andrea Gregory	10-15



Archie Robertson
Accounting Officer
27 June 2007

Statement of Highways Agency and Accounting Officer's Responsibilities

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Treasury has directed the Highways Agency to prepare for each financial year accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency at the year-end and of its income and expenditure, recognised gains and losses, 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 (FReM) 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 an additional Accounting Officer of the Department with responsibility for the Highways Agency and for preparing the Agency's Accounts and for transmitting them to the Comptroller and Auditor General.

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 the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting. The Government Accounting manual may be accessed online at www.government-accounting.gov.uk.

Statement regarding disclosure of information to the Auditors

As Accounting Officer I have taken all the steps necessary to make myself aware of any relevant audit information and to establish that the National Audit Office have been made aware of that information in connection with their audit.

Insofar as I am aware there is no relevant audit information of which the National Audit Office is unaware.

Statement on the System of Internal Control within the Highways Agency

The scope and purpose of the system of internal control

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

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

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

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

The risk and control framework

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

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

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

The Board identifies strategic risks^{vi} to the Agency's business. Managers identify and evaluate risks to successful delivery of the Agency's operational and control objectives when they prepare and monitor directorate and divisional management plans.

I hold regular meetings with Ministers when operational risks are discussed. Ministers receive direct reports about risks to key initiatives, the outcome of key Gateway Reviews and other key risk areas. They receive reports on risks to delivery of Public Service Agreement targets through the DfT reporting system.

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

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

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review consists of discussions with my Head of Internal Audit and the chair of the Audit Committee. It is informed by the work of my internal auditors, stewardship reports from the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. This year my review was also informed by a review of the Agency's project and programme management and cost controls by the Nichols Group.^{vii}

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board^{viii} and the Audit Committee^{ix}. Measures to address weaknesses and ensure continuous improvement of the system are in place, and as a result of my review and the advice received I have commissioned

- Improvements in cost control, programme and project management, and other areas as a result of the Nichols review, and
- Further improvements in process/guidance as part of a 3-year programme

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

My Head of Internal Audit provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Manual, and an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement.

The Head of Internal Audit's opinion for the year 2006-07 is that: on the basis of the evidence obtained during 2006-07 he can provide substantial assurance on the adequacy and effectiveness of the Highways Agency's arrangements for corporate governance, risk management and internal control. In his opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control.

Actions to rectify specific weaknesses identified by my internal auditors are under way.

I have also set an objective for the top managers in the agency to improve control and assurance (as measured by internal audit opinions relating to their commands) during the year and commissioned the program of work to improve assurance outlined above.

In my Statement on Internal Control for 2005-06 I reported that I had commissioned action to:

- Document and publish an agreed new corporate governance framework for the Agency (incorporating risk, stewardship and balanced scorecard reporting);
- Make further improvements in the electronic guidance on processes and controls; and
- Provide support and guidance to managers to help them to improve record-keeping, control and accountability in their commands.

As a follow up I can report that:

- The corporate governance framework has been reviewed and updated. It is illustrated below^{xi};
- A programme of reviews is under way to deliver continuous improvement of our internal guidance, processes and controls, starting with financial management areas;
- An improved investment appraisal framework has been implemented; and
- Improved anti-fraud policies and procedures have been put in place.



Archie Robertson
Accounting Officer
27 June 2007

Notes

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of departmental policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

ii Control objectives

- We have clear strategic direction, objectives, responsibilities and key targets in support of government policies;
- 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;
- We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality;
- The information and advice we use and provide is Trusted, Reliable, Useful and Effective; and
- Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements.

iii Capacity to handle risk

The Agency's directors and other senior managers lead risk management in their commands, supported by a team of risk management co-ordinators led by a risk management adviser. Risk management guidance is available to all staff. The guidance outlines key aspects of the risk management process and identifies the main reporting procedures. Senior managers have received training in risk management tailored to their responsibilities and concerns

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

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

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

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

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

^{vi} The key **strategic risks managed by the Board** are shown elsewhere in this annual report

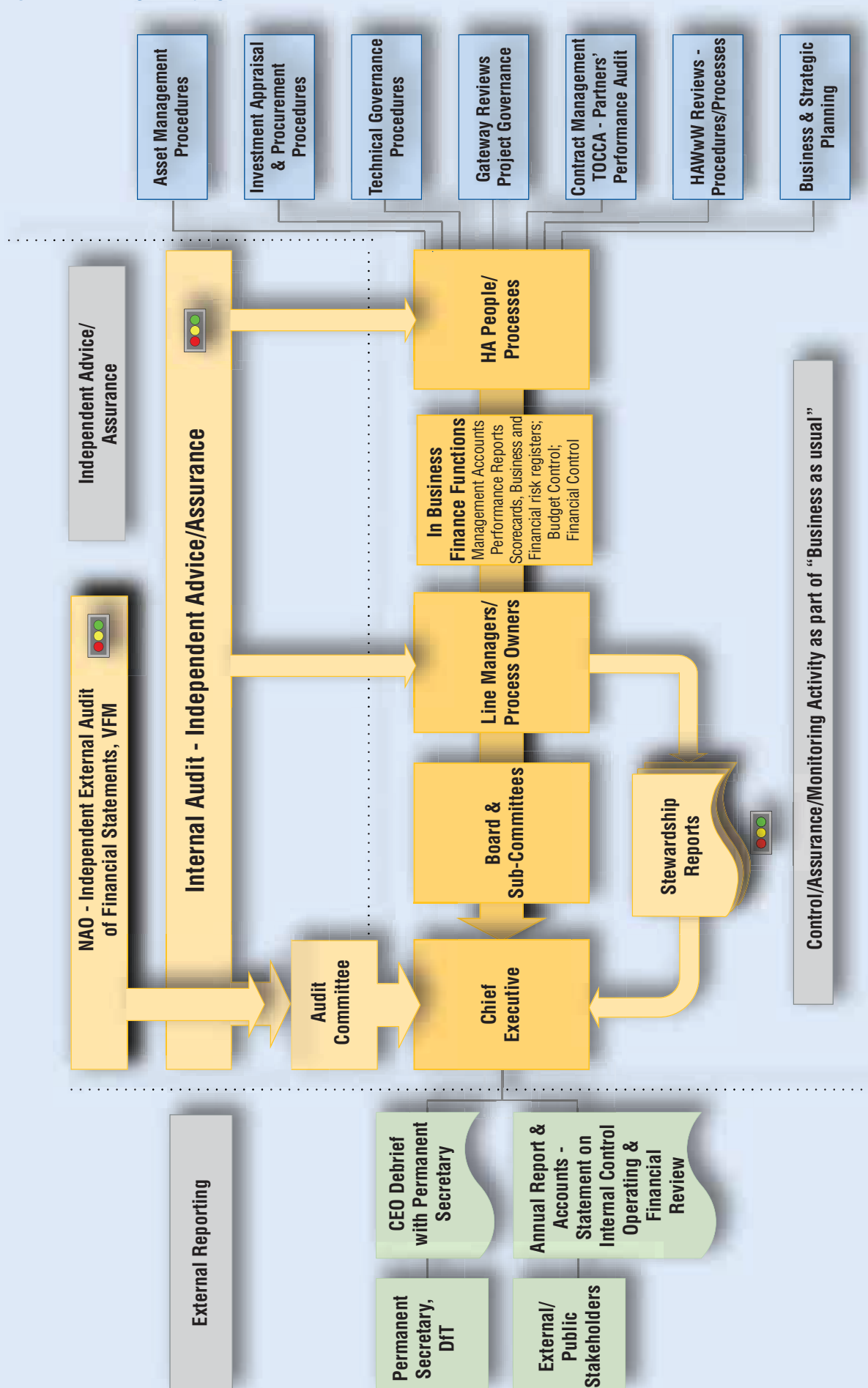
^{vii} <http://www.dft.gov.uk/pgr/roads/nicholsreport/>

^{viii} The **Highways Agency Board** (which comprises the senior members of the Agency and three independent non-executive directors) meets frequently to consider the plans, performance and strategic direction of the Agency, the most important risks to successful delivery of those plans and the Agency's stewardship of public assets;

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

^x <http://www.hm-treasury.gov.uk/media/71D/48/daocorp-governancecode.pdf> Disclosures about how the Board and its sub-committees operate, the independence of non-executive directors, and the Audit Committee's terms of reference are elsewhere in this annual report.

Highways Agency governance framework



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 31 March 2007 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement 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 Agency, the Chief Executive and auditor

The Agency and Chief Executive, as Accounting Officer, are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises the Management Commentary and Remuneration Report is consistent with the financial statements. I also report whether 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.

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

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

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

Basis of audit opinion

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Agency's affairs as at 31 March 2007, and of the net operating cost, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with HM Treasury directions issued under the Government Resources and Accounts Act 2000; and
- the information given within the Annual Report, which comprises the Management Commentary and Remuneration Report, is consistent with the financial statements.

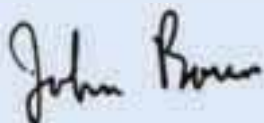
Audit Opinion on Regularity

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.

Report

I have no observations to make on these financial statements.

John Bourn



Comptroller and Auditor General

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

29 June 2007

Operating Cost Statement for the year ended 31 March 2007

		2006-07		Income	restated 2005-06
	Note	Staff Costs £000	Other Costs £000	£000	Total £000
Administration Costs					
Staff costs	2	60,804			61,705
Other administration costs	3		36,872		36,615
Operating income	5			(3,276)	(2,457)
Programme Costs					
Staff costs	2	47,060			21,958
Other programme costs	4		5,021,526		4,581,907
Operating income	5			(71,447)	(49,709)
Totals		107,864	5,058,398	(74,723)	
Net Operating Cost				5,091,539	4,650,019
Net Resource Outturn				5,121,209	4,661,448

*Net Resource Outturn represents the Net Operating Cost excluding operating income not appropriated in aid (see note 5).
All income and expenditure is derived from continuing activities.*

Statement of Recognised Gains and Losses for the year ended 31 March 2007

	Note	2006-07 £000	restated 2005-06 £000
Net gain on the revaluation of tangible fixed assets	6	5,773,902	4,569,302
Reversionary interest on M6 toll road	13	12,366	9,130
Net gain/(loss) on other in year adjustments relating to prior year transactions	13/14	(55,786)	113,317
Recognised gains & losses for the period		5,730,482	4,691,749

The notes on pages 76 to 107 form part of these accounts

Balance Sheet as at 31 March 2007

	Note	31st March 2007 £000	restated 31st March 2006 £000
Fixed Assets			
Tangible assets	6	82,347,204	76,361,911
Intangible assets	7	2,613	3,280
		82,349,817	76,365,191
Debtors: amounts falling due after more than one year	9	198,865	174,135
Current Assets			
Stocks	8	25,302	23,673
Debtors: amounts falling due within one year	9	104,649	87,555
Cash at bank and in hand	10	333	1,551
		130,284	112,779
Creditors: amounts falling due within one year	11	(598,944)	(571,655)
Net Current Liabilities		(468,660)	(458,876)
Total Assets less Current Liabilities		82,080,022	76,080,450
Creditors: amounts falling due after more than one year	11	(1,328,952)	(1,072,734)
Provisions for liabilities and charges	12	(582,289)	(457,226)
		80,168,781	74,550,490
Taxpayers' Equity			
General fund	13	39,460,241	39,515,343
Revaluation reserve	14	40,708,540	35,035,147
		80,168,781	74,550,490

The notes on pages 76 to 107 form part of these accounts



Archie Robertson
Accounting Officer

27 June 2007

Cash Flow Statement for the year ended 31 March 2007

	Note	2006-07 £000	restated 2005-06 £000
Net Cash Outflow from Operating Activities	16a	(1,230,292)	(1,271,936)
Capital Expenditure and Financial Investment	16b	(1,032,287)	(683,336)
Payment of Amounts Due to the Consolidated Fund		(3,259)	(3,197)
Financing	16c	2,264,620	1,953,545
(Decrease)/Increase in cash in the period		(1,218)	(4,924)

The notes on pages 76 to 107 form part of these accounts

Notes to the 2006-07 Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2006-07 government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits the choice of accounting policy, the accounting policy that has been 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 accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets, and stocks where material, at their value to the business by reference to their current costs.

1.2 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.

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. All other detrunkings are not covered by merger accounting principles and treated as in year adjustments.

1.3 Prior Year Adjustments

Material adjustments applicable to prior periods arising from either changes in accounting policy, correction of fundamental 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.

All prior year adjustments relate to detrunkings and have given rise to the following restatement to balances as at 1 April 2006:

		As previously stated £000	Adjustment £000	As restated £000
Infrastructure assets - cost	6	86,651,437	(776,096)	85,875,341
Infrastructure assets - depreciation	6	(10,453,874)	90,071	(10,363,803)
		76,197,563	(686,025)	75,511,538
General fund	13	39,951,861	(436,518)	39,515,343
Revaluation reserve	14	35,284,654	(249,507)	35,035,147
Capital maintenance	4	523,426	(2,241)	521,185

1.4 Tangible Fixed Assets

Tangible fixed assets are categorised into network assets and non-network assets. Network assets relate to the motorways and trunk roads in England, which form an integrated network infrastructure servicing a significant geographical area. 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 highways 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 tangible fixed assets is capitalised if the cost of the asset or a grouping of related assets is equal to or greater than:

- Network infrastructure £100,000
- Non network assets (excluding land) £2,000
- Land no minimum

Items falling below these values are charged as an expense and shown in the Operating Cost Statement. Other than assets included within the network infrastructure and ring-fenced relocation projects, there are no grouped assets.

Expenditure on road building schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will be completed: -

- The cost of schemes within the discretion of the Agency will be capitalised from inception; and
- The cost of major schemes which are subject to approval by Ministers are only capitalised once their inclusion in the Department's Targeted Programme of Improvements (TPI) has been agreed. Until that point any costs are charged as an expense and shown in the Operating Cost Statement

Where a scheme is subsequently withdrawn from the Secretary of State's road programme, cumulative design expenditure is written-off to the Operating Cost Statement. Any retained land and property is transferred to land and buildings or dwellings, as appropriate, and valued as an asset held for resale.

The costs of our internal staff that can be directly attributed to the construction of an asset have been capitalised in line with the requirements of FRS15.

Valuation

Infrastructure Assets

Infrastructure assets are valued at depreciated replacement cost following renewals accounting principles as set out in the Government Financial Reporting Manual (FReM). Annual condition surveys are used to assess whether the network has been maintained in a steady state since the previous survey.

The infrastructure asset valuation is based on a standard costs model. The accuracy of the valuation can be no greater than that of the component parts of the valuation model. Some of the cost indices used in the model are expressed to just 3 significant figures and so the overall valuation should be regarded as being no more precise than that. Each year's revaluation adjustment based on the indices can be no more accurate than 2 significant figures.

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using internal costing and physical assets records provided by the Agency. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost. In the years between full valuations, the value of the network is adjusted to reflect:

- a) Movements in prices using appropriate published indices (see below);
- b) Expenditure on new schemes or enhancements which increase the capacity of the network; and
- c) Detrunings (refer to note 15).

A full valuation of the network infrastructure was carried out by EC Harris LLP, professional surveyors, during the year ended 31 March 2005 mainly using internal costing and physical assets records provided by the Agency.

Between full valuations the values are adjusted using the following indices:

Roads and structures ROCOS (resource cost index of road construction); published on a quarterly basis by the Department of Trade and Industry (DTI)

Communications BEAMA (British Electrotechnical & Allied Manufacturers) index sourced from its website.

Land Land indices published twice yearly by the Valuation Office Agency (VOA)

The estimated unexpired life of the network is reassessed annually and the valuation adjusted where necessary.

Assets Under Construction

Assets in the course of design or construction are capitalised at the lower of actual and expected standard cost. This is a two stage process:

- During the course of construction capital additions are made at actual costs; and
- A review of the additions is carried out and an Assets under Construction valuation adjustment is made to reflect the difference between actual and estimated standard costs.

Land and Buildings, excluding Dwellings

Freehold land and buildings have been valued on the basis of open market value for existing use. Assets held for resale, being land and property released from road schemes, are valued at open market value, less provision for selling costs where material.

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

External professional surveyors undertake a full valuation of these assets at intervals not exceeding five years, and between valuations the values are adjusted using regional land and building indices published twice yearly by the VOA.

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

Asset	Valuation Date	Undertaken By
Yate Store	1 July 2004	Donaldson's LLP, professional surveyors
Federated House	29 July 2004	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2006	VOA
Motorway Service Areas	31 March 2005	VOA

The VOA fully and independently valued the Agency's surplus property estate, including land and buildings, as at 31 December 2003.

During 2006-07 a professional valuation by the VOA was undertaken on the land and buildings and plant and machinery located at the Motorway Maintenance Compounds.

Dwellings

Residential properties released from road schemes and held for resale are valued at open market value, less provision for selling costs.

External professional surveyors undertake a full valuation of these assets at intervals not exceeding five years and values are adjusted in the intervening years using regional land and building indices published twice yearly by the VOA. The VOA fully and independently valued the Agency's surplus property estate, including dwellings, as at 31 December 2003.

Plant and Equipment

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

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 current cost using monthly plant and equipment indices supplied by the DTI.

1.5 Depreciation

Infrastructure Assets

The Agency applies a modified version of renewals accounting, as described in FReM, to calculate depreciation for network assets that meet the renewals criteria. Assets that qualify for renewals accounting are not depreciated, instead expenditure incurred in maintaining the asset's operating capacity is expensed as a proxy for depreciation.

In addition an annual condition survey of the assets is undertaken, and the value of any material variation in operating condition revealed by the survey is taken to the Operating Cost Statement as an impairment charge or conversely an improvement credit.

The following infrastructure assets are subject to renewals accounting:

- Surface layer of flexible pavements
- Sub pavement layer of determinate life pavements
- Fencing, drainage, lighting, signage, kerbs, footways
- Road markings and studs
- Rigid concrete pavements

All other infrastructure assets and definable components, with determinable finite lives are depreciated at rates calculated to write off the assets over their expected useful lives on a straight line basis as follows:

	Life in years
• Road bridges, tunnels and underpasses	20 to 120
• Road culverts	20 to 120
• Retaining walls	20 to 120
• Gantries	20 to 120
• Road communications assets	15 to 50

Expenditure incurred on network structures and communications assets is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed and reflected in depreciation.

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

Non-Network Assets

No depreciation is provided on freehold land. 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
• Historic leasehold buildings	length of the lease
• Surplus properties awaiting sale	no depreciation
Plant and Equipment	Life in years
• Winter maintenance equipment	25 years
• Office equipment	5 to 10 years
• Communications 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 in storage include overhead gantries and become network assets once issued from stores. These are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. Whilst not depreciated, they are subject to an annual impairment review.

1.6 Intangible Fixed 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 and amortised at rates calculated to write off the assets on a straight-line basis over their useful lives, which are considered to be three to five years.

1.7 Stocks

Stocks are valued at cost, or current replacement cost where materially different. Long-term stock holdings for special structures (such as tunnels and bridges) where there are no recent purchases are valued at estimated replacement cost. Where excess or obsolete stock holdings have been identified, a provision has been made to reduce the carrying value to estimated net realisable value.

1.8 Research and Development

Expenditure on research is not capitalised. Development expenditure is capitalised 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 Operating Cost Statement in the year in which it is incurred. Fixed assets acquired for use in research and development are depreciated over the life of the associated project.

1.9 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.

1.10 Administration and Programme Expenditure

The Operating Cost Statement 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. It includes certain staff costs where they directly relate to service delivery.

1.11 Capital Charge

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) as follows:

Tangible and Intangible Fixed Assets

For tangible and intangible assets the cost of capital charge is based on opening values, adjusted for the effects of any in year revaluations and adjusted pro rata for in-year additions at cost, disposals as valued in the opening balance sheet (plus any subsequent capital expenditure prior to disposal), impairments at the amount of the reduction of the opening balance sheet value (plus any subsequent capital expenditure), and depreciation.

All Other Assets Less Liabilities

On cash balances with the Office of the Paymaster General and the balances due to the Consolidated Fund there is no capital charge. For all other assets less liabilities the cost of capital charge is based on the average carrying amount.

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in note 2. The defined benefit 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.

1.13 Operating Leases

All costs of operating leases are charged to the Operating Cost Statement on a straight-line basis over the course of the lease.

1.14 Private Finance Initiative (PFI) transactions

PFI transactions are accounted for in accordance with Technical note No. 1 (Revised), 'How to Account for PFI Transactions', as required by the FReM. This is available online at www.hm-treasury.gov.uk.

Where the balance of risks and rewards of ownership of the PFI property is borne by the Agency, the property is recognised as a fixed asset and the liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies 1.4 and 1.5. The liability after inclusion of imputed finance charges, is reduced as payments for the property are made. The remainder of the PFI payment (i.e. the full contract payment, less the capital repayment and the imputed financing charges) are recorded as a service charge in the operating cost statement.

PFI assets are first recognised once the property comes into use, for example when a road is ready to open for traffic. Where construction of the PFI property is completed in individual stages, which are capable of being used while construction continues on other parts, recognition of the asset is made as each stage comes into use.

Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost. Where the Agency has contributed assets that result in lower service charge payments, a prepayment for the fair value is recognised and subsequently charged as an operating cost over the life of the PFI contract.

Where at the end of the PFI contract 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 Tangible Fixed Assets under Assets under Construction.

The Agency currently has twelve 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 (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means). From 2005-06, the capital value has been based upon the PFI contractor's best estimate of capital cost at the time the contract is awarded.

1.15 Provisions

1.15.1 The Agency provides for legal and constructive obligations that are of uncertain timing or amount at the balance sheet 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 Operating Cost Statement unless they have been capitalised as part of additions to fixed assets.

1.15.2 Early Departure Costs

The Agency is required to meet additional costs of benefits for employees who retire early from the date of early retirement until the age of 60, when the liability is assumed by the PCSPS. The Agency provides in full for this cost when the early retirement programme and similar schemes have been announced and the obligation becomes binding.

1.16 Contingent Liabilities

Where appropriate, liabilities that have only a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities. This includes possible obligations for land and property acquisition that may crystallise as a result of the Secretary of State's decision to include them in his Targeted Programme of Improvements.

1.17 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 Treasury Direction. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.18 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. The accuracy of the valuation can be no greater than that of the component parts of the valuation model.

2. Staff Numbers and Costs

Staff costs comprise:

	2006-07			2005-06
	Permanent staff £000	Others £000	Total £000	£000
Wages and salaries	91,439	5,463	96,902	77,400
Social Security costs	7,164	-	7,164	5,776
Other pension costs	17,870	-	17,870	13,627
Total cost	116,473	5,463	121,936	96,803
Capitalised staff costs	(14,072)	-	(14,072)	(13,140)
Total Net Staff Costs	102,401	5,463	107,864	83,663

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

Pension benefits are provided through the Civil Service pension arrangements. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme with the cost of benefits met by monies voted by Parliament each year. The Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the Cabinet Office: Civil Superannuation resource accounts (www.civilservice-pensions.gov.uk).

For 2006-07 employers' contributions of £17,870,000 were payable to the PCSPS (2005-06 £13,627,000) at one of four rates in the range 17.1 to 25.5 per cent (2005-06: 16.2 to 24.6 per cent) of pensionable pay, based on salary bands. The Scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2007-08 the salary bands will be revised but the rates will remain the same. The contribution rates are set to meet the cost of the benefits accruing during 2006-07 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 £47,000 (2005-06 £28,306) were paid to one or more of a panel of three appointed **stakeholder** pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £1,782 (2005-06 £6,989), 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Retirements due to ill-health

Three persons (2005-06: 5 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £NIL (2005-06 £8,032).

Average number of persons employed				
The average number of full time equivalent (FTE) persons employed (including senior management) during the year was as follows:	Permanent staff	2006-07		2005-06
		Others	Total	Total
Staff funded from administration budgets				
Staff engaged on maintenance projects	782	48	830	840
Specialist support staff - Engineering, Finance, HR, IT and Procurement	127	60	187	218
Management and administrative staff	540	27	567	616
Staff funded from programme budgets				
Traffic Officer staff	1,446	9	1,455	657
Direct support to front line delivery staff	101	14	115	93
Staff engaged on capital projects	336	17	353	328
Average FTE persons employed	3,332	175	3,507	2,752

3. Other administration costs			
	Note	2006-07	2005-06
		£000	£000
Communication		1,374	1,478
Consultancy		1,662	2,193
Information technology		259	402
Maintenance		657	500
Professional services		81	194
Recruitment and training		3,072	3,000
Rent, rates and building costs		5,144	5,114
Stationery, postage and printing		1,032	735
Travel and subsistence		3,924	3,775
Other administration costs			
Provision for doubtful debt		24	(64)
Other		1,176	1,299
		18,405	18,626
Rentals under operating leases:			
Hire of plant and machinery		175	131
Other operating leases		7,404	6,933
		7,579	7,064
Non-cash items:			
Depreciation			
tangible fixed assets	6	3,841	3,270
Amortisation			
intangible fixed assets	7	1,016	1,026
Impairment of non roads fixed assets	6	370	222
Write down of Information Technology assets	6	2,203	-
Cost of capital charge		925	1,004
Notional costs			
Auditors' remuneration and expenses		300	350
Payroll and superannuation services		260	307
Provisions:			
Provided in the year	12	<u>1,973</u>	<u>4,746</u>
Total: non-cash items		10,888	10,925
		36,872	36,615

Payroll and superannuation services are provided by the Department for Transport.

4. Other programme costs

	Note	2006-07 £000	restated 2005-06 £000
Research and development expenditure		12,580	13,260
Capital maintenance		504,616	521,185
Current maintenance		482,020	457,515
Interest on PFI finance leases		73,029	60,222
PFI service charges		158,261	141,146
Other programme costs			
Provision for doubtful debt		(1,634)	304
Provision for slow moving stock		(3,400)	1,214
Other		36,390	29,536
		1,261,862	1,224,382

Non-cash items:

Depreciation:			
tangible owned fixed assets	6	212,254	195,138
tangible fixed assets held under PFI leases	6	35,111	25,090
Impairment of non network fixed assets	6	10,330	1,709
Write down in value of network assets	6	596,098	487,996
Cost of capital charge		2,697,943	2,553,180
Notional costs			
Legal services		462	693
Payroll and superannuation services		224	104
Loss on sale of programme assets		791	69
Provisions:			
provided in the year	12	206,451	93,546
Total: non-cash items		3,759,664	3,357,525
		5,021,526	4,581,907

For comparative purposes, the 2005-06 capital maintenance figure has been reduced by £2,241,000 being spend relating to roads detrunked and trunked in the current year, and treated as a de-merger in accordance with accounting policy 1.3. This adjustment is also reflected in the Cash Flow Statement.

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. This is generally where access to a new development is required from an existing trunk road or motorway within the Agency's responsibility;
- cost recoveries/rental income from offices where the Agency is the main occupier and surplus accommodation is let to other organisations. This includes recoveries from other government departments and agencies;
- 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;
- interest receivable, including interest on the Severn Bridge subordinated loan (see note 9);
- grants and contributions from the European Union; and
- other income, including reimbursement of certain costs and retail price index increases such as under the concession agreement with Midland Expressway Limited (see note 9), lane-licensing charges imposed by the Agency for lane closure and contributions from third parties for research projects.

Operating income analysed by classification and activity is as follows:	£000	2006-07 £000	£000	2005-06 £000
	Appropriated in aid	Not Appropriated in aid	Total	Total
Administration income				
Fees and charges to external customers	836	-	836	675
Cost recoveries/rental income from surplus accommodation	2,094	-	2,094	1,516
Other	341	5	346	266
Recoveries in excess of AinA	(374)	374	-	-
	2,897	379	3,276	2,457
Programme income				
Fees and charges to external customers	24,741	-	24,741	12,216
Rental income from properties	3,160	-	3,160	3,179
Claims for damage to Network	12,717	-	12,717	13,086
Interest receivable	-	10,901	10,901	9,271
European Union income	-	4,196	4,196	1,942
Recovery of costs incurred on M6 toll scheme	10,276	-	10,276	5,928
Other	3,549	1,907	5,456	4,087
Recoveries in excess of AinA	(12,287)	12,287	-	-
	42,156	29,291	71,447	49,709

Under the Department's Request for Resources 1 subhead E certain income is available for offset against costs of the Agency in determining its Net Resource Outturn. This income is known as Appropriations in Aid (AinA).

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:

	2006-07			2005-06		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	25,577	25,577	-	12,892	12,892	-
Cost recoveries/rental income from						
Surplus accommodation	2,094	2,094	-	1,516	1,516	-
Rental income from properties	3,160	940	2,220	3,179	997 **	2,182
Claims for damage to Network	12,717	13,030	(313)	13,086	14,412	(1,326)
Interest receivable, of which:						
Severn River Crossing Plc loan	6,547	-	6,547	5,439	-	5,439
Midland Expressway Ltd debtor	4,277	-	4,277	3,809	-	3,809
European Union income	4,196	-	4,196	1,942	-	1,942
Retail price index increase, of which						
Midland Expressway Ltd debtor	2,317	-	2,317	1,514	-	1,514
Recovery of costs incurred on						
M6 Toll scheme	7,959	7,959	-	4,414	4,414	-
Recovery of Safety Camera						
scheme costs	1,429	1,429	-	1,066	1,066	-
Other income	4,450	2,214	2,236	3,309	2,109	1,200
	74,723	53,243	21,480	52,166	37,406	14,760

The financial objective for each of these services is full recovery of the service costs in accordance with the HM Treasury Fees and Charges Guide.

* The purpose of the above table is to comply with the disclosure requirements of the HM Treasury Fees and Charges Guide, and is not for SSAP 25 Segmental Reporting purposes.

** The 2005-06 figure has been restated.

6. Tangible Fixed Assets

	Infrastructure Assets £000	Assets under construction £000	Land & Buildings excluding Dwellings £000	Dwellings £000	Plant & Machinery £000	Information Technology £000	Total £000
At Replacement Cost or Valuation							
At 1 April 2006 restated (1)	85,875,341	481,853	253,550	54,476	97,338	102,515	86,865,073
Adjustment to opening position (2)	(72,490)	12,366	-	-	-	-	(60,124)
Capital additions	-	1,117,689	3,735	2,675	1,158	20	1,125,277
AuC valuation adjustments	-	(598,301)	-	-	-	-	(598,301)
Disposals	-	-	(6,044)	(3,813)	(1,884)	(538)	(12,279)
Revaluation	6,601,917	-	29,414	7,332	9,099	-	6,647,762
Impairments	-	-	(8,210)	(451)	(4,880)	(2,449)	(15,990)
Transfers & reclassifications	599,573	(615,670)	9,694	(767)	4,736	2,095	(339)
Balance at 31 March 2007	93,004,341	397,937	282,139	59,452	105,567	101,643	93,951,079
Accumulated Depreciation							
At 1 April 2006 restated (1)	10,363,803	-	14,698	-	81,790	42,871	10,503,162
Adjustment to opening position (2)	(16,704)	-	-	-	-	-	(16,704)
Charge for the year	228,332	-	3,627	-	2,196	17,051	251,206
Impairment	-	-	(1,181)	-	(3,693)	(416)	(5,290)
Disposals	-	-	(4)	-	(1,817)	(538)	(2,359)
Revaluation	873,202	-	301	-	357	-	873,860
Transfers & reclassifications	-	-	-	-	4	(4)	-
Balance at 31 March 2007	11,448,633	-	17,441	-	78,837	58,964	11,603,875
Net Book Value	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2007	81,555,708	397,937	264,698	59,452	26,730	42,679	82,347,204
Balance at 31 March 2006 restated	75,511,538	481,853	238,852	54,476	15,548	59,644	76,361,911
Asset financing							
Owned	79,701,728	286,284	262,555	59,452	26,730	9,720	80,346,469
On-balance sheet PFI contracts*	1,853,980	-	2,143	-	-	32,959	1,889,082
PFI reversionary interest**	-	111,653	-	-	-	-	111,653
Net book value at 31 March 2007	81,555,708	397,937	264,698	59,452	26,730	42,679	82,347,204

*For assets brought into use prior to 2005-06 the original public sector comparator costs indexed up to March 2007 prices and only includes assets built by the PFI companies.

**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.

Infrastructure Assets

These have been restated as at 1 April 2006 as follows:

- (1) to remove the value of trunk road network assets detrunked and transferred to local authorities, in furtherance of government's policy as set out in the 1998 White Paper: A New Deal for Transport: Better for Everyone (notes 13 and 14) and to include the value of trunk roads transferred from local authorities to the Agency.
- (2) an adjustment of £55,786,000 has been made to reflect amendments to records held on the Agency's road asset databases. These adjustments are routine rather than related to changes in accounting policy or from a correction to a fundamental error in the prior year and are as follows:
 - Dimensional variance – an adjustment reflecting better information on the dimensions of individual bridges and other structures £48,341,000; and
 - Re-referencing variance – an adjustment arising from the re-measurement of road length £7,445,000.

Assets under Construction

The Assets under construction balance as at 1 April 2006 has been adjusted by £12,366,000 being reversionary interest, based on the current book value (which is projected forward then discounted back) of the M6 toll road.

The Assets under construction capital addition figure includes £14,913,000 of capitalised salary and travel and subsistence costs.

The Assets under construction valuation adjustment totalling (£598,301,000) comprises the excess of capital costs over standard costs for these road schemes.

Non network assets

Land and buildings held as fixed assets can be analysed as follows:

Freehold £252,256,000 (95.3%)

Long leasehold (50+ years) NIL

Short leasehold (less than 50 years) £12,442,000 (4.7%)

7. Intangible Fixed Assets

	Software Computer licences £000
At Replacement Cost or Valuation	
Balance at 1 April 2006	5,991
Capital additions	9
Disposals (licence expiries)	-
Transfers & reclassifications	340
Balance at 31 March 2007	6,340
Accumulated amortisation	
Balance at 1 April 2006	2,711
Charge for the year	1,016
Disposals (licence expiries)	-
Balance at 31 March 2007	3,727

Net Book Value	£000
Balance at 31 March 2007	2,613
Balance at 31 March 2006	3,280

Software Computer Licenses provide rights to use software developed by third parties.

8. Stocks

	31 March 2007 £000	31 March 2006 £000
Communications/electrical equipment	19,448	18,044
Salt	654	591
Other stock	5,200	5,038
Total	25,302	23,673
Other stock comprises:	£000	£000
Highway damage repair items - barriers and parts for repair of bridges, tunnels and special structures	1,834	1,782
Uniforms for Traffic Officers working on the trunk road network	299	370
DART Tags - a facility for regular users of the Dartford-Thurrock Crossing	3,067	2,886
	5,200	5,038

9. Debtors

9. (a) Analysis by type

	31st March 2007 £000	31st March 2006 £000
Amounts falling due after more than one year:		
Other debtors, of which:		
Severn River Crossing Plc subordinated loan	88,814	85,995
Severn River Crossing Plc deferred interest	23,582	17,034
Midland Expressway Limited M6 concession	86,379	70,994
Staff relocation housing loans	90	112
	198,865	174,135
	31st March 2007 £000	31st March 2006 £000
Amounts falling due within one year:		
Trade debtors	6,329	6,481
Deposits and advances	9,263	4,599
VAT	69,950	65,815
Other debtors	4,522	1,742
Prepayments and accrued income	3,787	4,202
Amounts due from Consolidated Fund in respect of supply	10,798	4,716
	104,649	87,555

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 pre-determined cumulative revenue target from tolls. It is predicted the concession period will end in 2016.

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. These costs will be reimbursed to the Agency six years following the road open to traffic, which was achieved in December 2003.

Twenty members of staff have relocation housing loans (2005-06: 22).

Deposits and advances includes £3,037,000 (2005-06 £115,000) of prepayments made to utility companies under the New Road and Street Works Act (NRSWA) 1991 and £6,087,000 (2005-06 £4,319,000) of road scheme related prepayments.

Other debtors includes an amount of £3,532,000 (2005-06 nil) due from contractors under Early Contractor Involvement (ECI) target cost arrangements.

9. (b) Intra-Government Balances

Balances with:	Amounts falling due within one year		Amounts falling after more than one year	
	31st March 2007	31st March 2006	31st March 2007	31st March 2006
	£000	£000	£000	£000
Other central government bodies	81,556	71,405	-	-
Local authorities	2,072	1,015	-	-
NHS bodies	88	223	-	-
Public corporations and trading funds	9,162	-	-	-
Intra - government balances	92,878	72,643	-	-
Balances with bodies external to government	11,771	14,912	198,865	174,135
Total Debtors	104,649	87,555	198,865	174,135

10. Cash at bank

	31st March 2007 £000	31st March 2006 £000
Balance at 1 April 2006	1,551	6,475
Net cash (outflow)/inflow	(1,218)	(4,924)
Balance at 31 March 2007	333	1,551

The following balances at 31 March are held at:

Office of HM Paymaster General	329	1,532
Commercial banks and cash in hand	4	19
	333	1,551

11. Creditors

11.(a) Analysis by type

	31st March 2007 £000	31st March 2006 £000
Amounts falling due within one year:		
Other taxation and social security	22	36
Trade creditors	51,132	80,980
Accruals and deferred income	491,142	443,238
Amounts payable under PFI contracts	42,710	35,015
Consolidated fund extra receipts due to be paid to the Consolidated Fund		
received	4,868	3
receivable	564	2,667
Amounts due to DfT in respect of Dartford River Crossing road user charges	6,042	6,795
Other creditors	2,464	2,921
	598,944	571,655

	31st March 2007 £000	31st March 2006 £000
Amounts falling after more than one year:		
Amounts payable under PFI contracts	1,165,568	938,164
Accruals and deferred income	7,744	6,759
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing plc subordinated loan	88,814	85,995
Severn River Crossing plc subordinated loan interest	23,582	17,034
Midland Expressway Ltd concession	36,709	19,497
Other Creditors		
Payable in respect of the Midland Expressway Ltd concession	6,535	5,285
	1,328,952	1,072,734

Accruals and deferred income comprise:

	31 March 2007 £'000	31 March 2006 £'000
Amounts payable relating to road schemes	370,404	330,531
Lands related costs accruals	78,256	67,108
PFI shadow tolls	24,803	25,498
Administration accruals	4,976	5,484
Other	12,703	14,617
	491,142	443,238
Major schemes accruals	64,252	54,173
Term Maintenance Contractors cost accruals	8,823	9,518
Managing Agents accruals	297,329	266,840
	370,404	330,531

The Severn River Crossing plc (SRC) subordinated loan relates to the £60 million index-linked loan advanced on 26 April 1992 (note 9). 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 2016. 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 9) which, upon repayment is payable to HM Treasury Consolidated Fund. Costs will be reimbursed to the Agency in 2009.

11. (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling due after more than one year	
	31st March 2007 £000	31st March 2006 £000	31st March 2007 £000	31st March 2006 £000
Balances with:				
Other central government bodies	6,294	3,619	149,105	122,526
Local authorities	1,126	1,759	-	-
NHS bodies	-	-	-	-
Public corporations and trading funds	497	900	-	-
Intra - government balances	7,917	6,278	-	-
Balances with bodies external to government	591,027	565,377	1,179,847	950,208
Total Creditors	598,944	571,655	1,328,952	1,072,734

12. Provisions for Liabilities and Charges

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Migration, pension & other liabilities £000	Total £000
Balance at 1 April 2006	254,420	103,745	79,952	-	2,052	17,057	457,226
Provided in the year	88,149	35,311	95,791	138,087	468	8,086	365,892
Provisions not required written back	(25,571)	(30,053)	(11,835)	-	-	(6,139)	(73,598)
Provisions utilised in the year	(11,004)	(40,361)	(21,179)	-	(619)	(4,640)	(77,803)
Reclassifications	(89,303)	-	-	-	-	(125)	(89,428)
Balance at 31 March 2007	216,691	68,642	142,729	138,087	1,901	14,239	582,289

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; it is expected that these costs will be incurred in the period up to 2016. Further information regarding planning blight, acquisition of property and compensation for property owners may be found in note 21.

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. It represents costs that may be incurred within the next 3 years.

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. It is expected that these costs will be incurred in the period up to 2011.

Tunnels

Transposition into UK regulation of the EU Tunnels Directive (to bring long tunnels on the Trans-European Roads Network up to new safety standards) is currently making its way through Parliament. The tunnels-related works are scheduled to be completed before the deadline of 2014 set in the Directive, subject to endorsement by the Department for Transport and the Secretary of State's approval where necessary. The provision relates to future years costs of works already contracted and in hand on certain tunnels.

Migration, Pensions and Other Liabilities

The provision for migration relates to the estimated cost of transferring certain Agency functions from London to the regions. It represents costs that may be incurred within the next 5 years.

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 Highways Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2007 that will actually be settled. It is expected that the majority of these costs may be incurred within the next 5 years.

Provisions made in the year and any provisions not required written back can impact on both the Operating Cost Statement and capital expenditure.

During 2006-07, the Operating Cost Statement includes a net increase in resource provisions of £208,424,000 (2005-06 £98,292,000).

There was also an increase in capital expenditure provisions of £83,871,000 (2005-06 £69,942,000) during the year.

Provisions have been (credited)/charged in the year to the Operating Cost Statement as follows:

	31st March 2007 £000	31st March 2006 £000
Programme:		
Land and property acquisition	(1,360)	17,932
Engineering and construction services	(14,673)	53,570
Bridge strengthening	83,957	16,450
Tunnels	138,087	-
Migration, pensions and other liabilities	440	5,594
	206,451	93,546
Administration:		
Early retirement	468	2,434
Other	1,505	2,312
	208,424	98,292

13. General Fund

The General Fund represents the total assets less liabilities, to the extent that the total is not represented by other reserves and financing items.

	2006-07 £000	2005-06 £000
Balance at 1 April 2006	39,951,861	40,245,386
Prior period adjustment:		
Detrunckings	(436,518)	(372,733)
Trunkings	-	-
Adjusted opening balance	39,515,343	39,872,653
Net Parliamentary funding	2,300,284	1,990,000
Amounts due (to)/ from Consolidated Fund in respect of supply	10,798	4,716
Net operating cost for the year	(5,091,539)	(4,652,260)
Consolidated Fund extra receipts payable to the Consolidated Fund	(32,006)	(11,429)
Non cash charges:		
Auditors remuneration	300	350
Legal services	462	693
Payroll and superannuation services	484	411
Cost of capital charge	2,698,868	2,554,184
	2,700,114	2,555,638
In year adjustments relating to prior year transactions:		
Write back excess AinA not recognised on consolidation	2,225	-
DART Tags - costs previously written off	-	2,814
RMC stock - costs previously written off	-	5,992
Reversionary interest on M6 toll road	12,366	9,130
Adjustments to network fixed assets	(35,497)	110,058
Adjustments to non network fixed assets	-	(6,461)
In year spend on detrunked and trunked roads	(2,067)	(1,181)
	(22,973)	120,352
Realised element of revaluation reserve (note 14)	80,220	72,191
Balance at 31 March 2007	39,460,241	39,951,861

14. Revaluation Reserve

The Revaluation Reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2006-07 £000	2005-06 £000
Balance at 1 April 2006	35,284,654	30,999,678
Prior period adjustment:		
Detrunckings	(249,507)	(213,049)
Trunkings	-	-
Adjusted opening balance	35,035,147	30,786,629
Net gain/(loss) on revaluation	5,773,902	4,569,302
In year adjustments relating to prior year transactions		
Adjustments to network fixed assets	(20,289)	1,460
Adjustments to non-network fixed assets	-	(546)
Realised element of revaluation reserve (note 13)	(80,220)	(72,191)
Balance at 31 March 2007	40,708,540	35,284,654

15. Transfer of functions to/from Local Authorities

In furtherance of government's policy announced in the 1998 White Paper to transfer responsibility for non-core network routes to local authorities, the Agency negotiated and transferred the following assets:

Detruncked section of the road:	Local authority	Date of transfer	Asset value £000
Major detruncking programme			
A10 M25 J25 to junction with A505	Hertfordshire County Council	29-Sep-06	402,580
A595 Calder Bridge to A5092 Grizebeck	Cumbria County Council	18-Aug-06	180,382
A5092 A595 Grizebeck to A590 Greenodd	Cumbria County Council	01-Oct-06	37,744
TPI detruncking			
A421 Great Barford bypass	Bedford County Council	01-Sep-06	33,171
A47 Thorney bypass	Cambridgeshire County Council	01-Dec-06	32,148
			686,025

In the instance of TPI detrunckings, a new section of road has been built to improve the road network. The old section has then been detruncked to the relevant local authority.

16. Notes to the Cashflow

	Note	2006-07 £000	restated 2005-06 £000
16. (a) Reconciliation of Operating Cost to Operating Cash Flows			
Net operating cost		(5,091,539)	(4,650,019)
Adjustment for non-cash transactions	3/4	3,770,552	3,368,449
(Increase)/decrease in stock	8	(1,629)	(7,492)
(Increase)/decrease in debtors	9	(41,824)	(38,309)
less movement in debtors relating to items not passing through the OCS		6,082	-
(Decrease)/increase in creditors	11	283,507	164,736
less movement in creditors relating to items not passing through the OCS		(77,638)	(52,942)
Use of provisions	12	(77,803)	(56,359)
Net Cash Outflow from Operating Activities		(1,230,292)	(1,271,936)
16. (b) Analysis of Capital Expenditure and Financial Investment			
Tangible fixed asset additions - investment in the network	6	(1,033,819)	(681,543)
Tangible fixed asset additions - investment in non network assets	6	(7,588)	(13,414)
Intangible fixed asset additions	7	(9)	(181)
Proceeds of disposal of fixed assets		9,129	11,802
Net Cash Outflow from Investing Activities		(1,032,287)	(683,336)
16. (c) Analysis of Financing			
From the Consolidated Fund (Supply) - current year		2,300,284	1,990,000
From the Consolidated Fund (Supply) - prior year		4,716	-
Less detrunking spend		(2,067)	(3,422)
Capital element of payments in respect of on balance sheet PFI contracts		(38,313)	(33,033)
Net Financing		2,264,620	1,953,545
16. (d) Reconciliation of Net Cash Requirement to (Decrease)/Increase in Cash			
Net cash requirement		(2,311,083)	(1,996,950)
From Consolidated Fund (Supply) - current year		2,300,284	1,990,000
From Consolidated Fund (Supply) - prior year		4,716	-
Amounts due to the Consolidated Fund received and not paid over		4,868	3
Amounts due to the Consolidated Fund - received in a prior year and paid over		(3)	2,667
Amounts from the Consolidated Fund unspent		-	(644)
(Decrease)/Increase in Cash	10	(1,218)	(4,924)

17. 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.

	31st March 2007 £000	31st March 2006 £000
Contracted capital commitments for which no provision has been made	723,518	522,048

18. Commitments under operating leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	31st March 2007		31st March 2006	
	Land & Buildings £000	Other £000	Land & Buildings £000	Other £000
Expiry within one year	323	643	1,291	974
Expiry after one year but not more than five years	1,279	373	1,325	1,157
Expiry thereafter	6,840	-	7,199	-
	8,442	1,016	9,815	2,131

19. Commitments under Private Finance Initiative

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

The substance of the PFI contract is that the Agency has a finance lease, with the asset being recognised as a fixed 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:

	31st March 2007 £000	31st March 2006 £000
Rentals due within one year	115,080	93,377
Rentals due after two but no more than five years	448,733	373,508
Rentals due thereafter	1,552,257	1,195,797
	2,116,070	1,662,682
Less interest element	(907,792)	(689,503)
	1,208,278	973,179

Charge to the Operating Cost Statement and Future Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on balance sheet PFI transactions was £154,733,000 (2005-06 £141,146,000).

Service element payments to which the Agency is committed during the year following the year of these accounts are given in the table below, analysed according to the period in which the commitment expires.

	2007 £000	2006 £000
Obligations under the service element of PFI contracts comprise:		
Expiry within one year	-	-
Expiry within two to five years	17,313	16,013
Expiry within six to ten years	37,364	-
Expiry within eleven to fifteen years	-	-
Expiry within sixteen to twenty years	155,772	104,418
Expiry within twenty one to twenty five years	-	42,419
Expiry within twenty six to thirty years	12,882	10,115
Expiry within thirty one to thirty five years	-	-
	223,331	172,965

20. Financial instruments

FRS 13 "Derivatives and Other Financial Instruments" requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which government departments and agencies are financed, the Agency is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk that would be typical of the listed companies to which FRS 13 mainly applies. The Agency has limited powers to borrow or invest surplus funds and, except for relatively insignificantly forward purchases of foreign currency, financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

As permitted by FRS 13, debtors and creditors that mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity Risk

The Agency's net revenue resource requirements are mainly financed by resources voted annually by Parliament to the Department for Transport.

The Agency is not therefore exposed to significant liquidity risks.

Interest Rate Risk

All of the Agency's financial assets and its financial liabilities carry nil or fixed rates of interest and the Agency is not therefore exposed to significant interest rate risk.

Exchange Rate Risk

The Agency undertook a small number of foreign currency transactions only to cover overseas travel and conference costs and is not exposed to significant exchange rate risk.

Fair Values

Set out below is a comparison in book values and fair values of the Agency's financial obligations in respect of its PFI contracts.

	31st March 2007		31st March 2006	
	Book value £000	Fair value £000	Book value £000	Fair value £000
Financial Liabilities:				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	1,208,278	628,724	973,179	479,602
	1,208,278	628,724	973,179	479,602

Basis of Fair Valuation

The fair value has been calculated using the net present value (NPV) of future capital payments at a discount rate of 6% per annum (which is the rate implied in the contracts).

21. Contingent Liabilities and Assets disclosed under FRS 12

21 (a) Contingent Liabilities	31st March 2007 £000	31st March 2006 £000
Land & property acquisition	463,598	507,724
Tunnels	123,600	-
Engineering & construction services	4,627	55,620
Other	14,597	16,852
Gross balance	606,422	580,196

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 Targeted Programme of Improvements (TPI) 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 TPI 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 balance sheet 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.

Tunnels

Transposition into UK regulations of the EU Tunnels Directive (to bring long tunnels on the Trans-European Roads Network up to new safety standards) is currently making its way through Parliament. In that context, the Highways Agency has recognised a commitment of some £123,600,000 contingent upon reaching preferred bidder stage on the overall M25 widening PFI project later in 2007-08. The tunnels related works are scheduled to be completed before the deadline of 2014 set out in the EU Tunnels Directive, subject to endorsement by the Department for Transport and Secretary of State's approval where necessary. The Highways Agency has also set up at 31 March 2007, a resource provision of some £138,087,000 for the costs.

Other Contingent Liabilities

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

21 (b) Contingent Assets

The Highways 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 2006-07 amounts totalling £176,000 (2005-06 £1,128,000) were received under these arrangements.

22. Related Party Transactions

As stated on page 54 the Highways 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, The Department for Communities and Local Government, the Central Office of Information, the Valuation Office Agency, the 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 and Yorkshire Forward, an organisation sponsored by the Department of Trade and Industry.

Any interest in third party transactions of Board members is disclosed on page 57.

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

23. Accountability Disclosure under Government Accounting

Government Accounting 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.

The amounts involved are as follows:

	31st March 2007 £000	31st March 2006 £000
Losses:		
Bookkeeping/cash losses: 158 cases (2005-06 379 cases)	2,765	4,871
Fruitless payments: 6 cases (2005-06 7 cases)	7	122
Claims abandoned/store losses: 3,375 cases (2005-06 3,776 cases)*	8,530	8,276
Special Payments:		
Ex-gratia compensation: 1 case (2005-06 4 cases)	40	168

* Includes 3,172 cases valued at £6,879,000 (2005-06 3,581 cases valued at £7,679,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

Included in the above losses and special payments are amounts over £250,000. In 2006-07 there is one case of £727,000 where debt from a third party has been written off due to book-keeping errors in prior years and a further case of £285,000 where debt from a third party has been abandoned as the time limit for recovery has expired.

24. Third Party Assets

The Agency, under Section 278 of the Highways Act 1980, receives payment 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 Highways Agency as work progresses.

The Agency is acting as a co-ordinator for a new Co-ordination Action under the EU Sixth Framework Programme. It holds a Euro Lloyds TSB bank account where funding from the EU is deposited and subsequently distributed to eleven partners across Europe. Over the three year duration of the project total funding provided by Brussels will be up to 2.5 million euros. A small portion of the funding will be to reimburse costs incurred by the Agency 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:

	31st March 2007 £000	31st March 2006 £000
Lloyds TSB Escrow Bank Accounts	19,057	16,160
Lloyds TSB Euro Bank Account	586	1,022
	19,643	17,182

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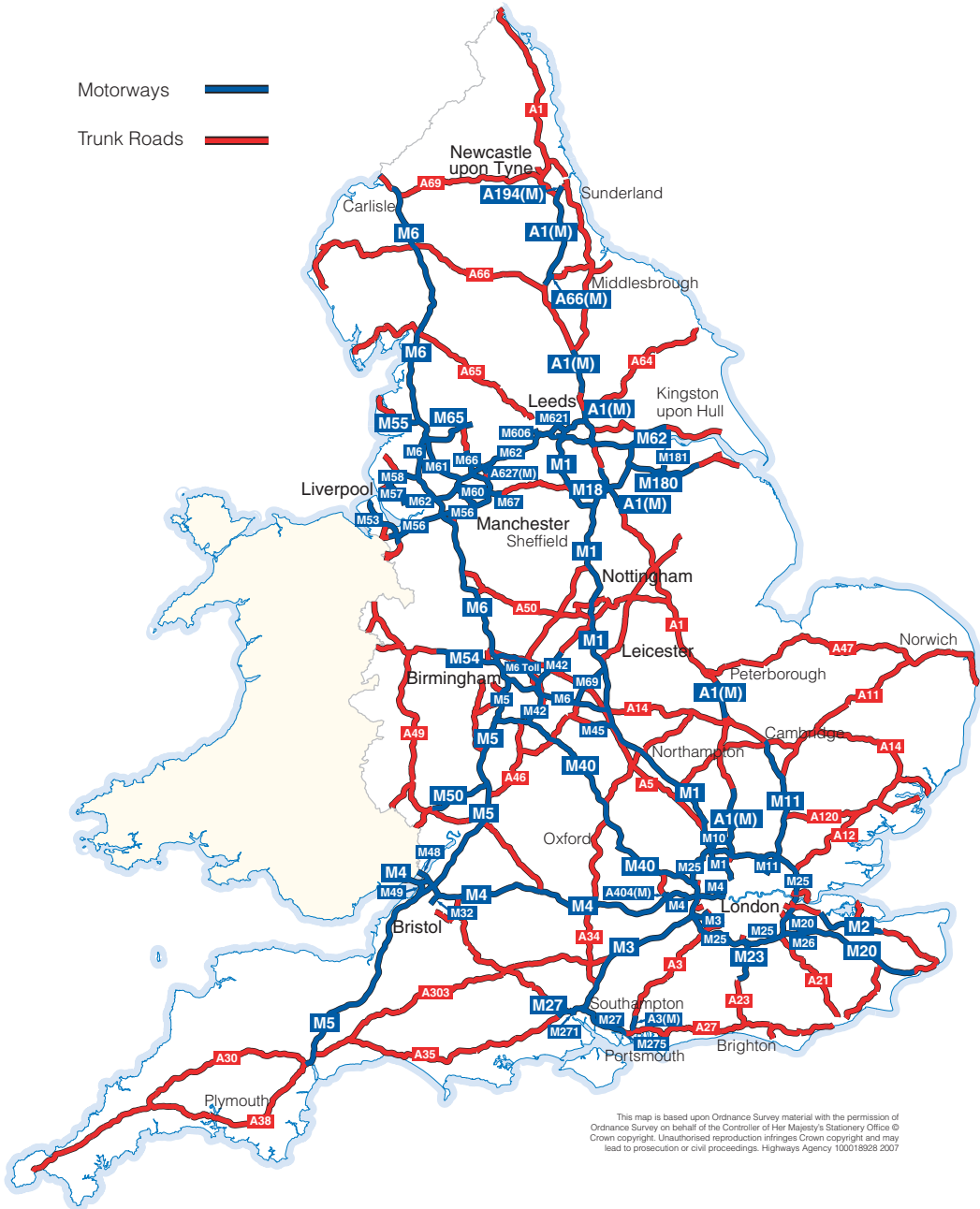
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England's strategic road network

Motorways 
 Trunk Roads 



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