HIGHWAYS
AGENCY

Safe roads, reliable journeys, informed travellers

Highways Agency

Annual Report and Accounts

2012-13

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Highways Agency
Annual Report and Accounts 2012-2013

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Contents

Highlights

Our two M25 widening schemes, between junctions 16 and 23 in Hertfordshire and junctions 27 and 30 in Essex, were both fully opened to traffic in May in advance of the London 2012 Games. The two schemes add an additional lane to both motorway carriageways, delivering much needed extra capacity on one of Europe's busiest motorways.

The Canford Bottom scheme completed in June, improving one of the busiest junctions on the A31 near Wimbourne in Dorset. By opening ahead of the London 2012 Games, it provided better access to the Weymouth and Portland sailing venue.

Accelerated delivery and pinch-point schemes to support economic growth. We forged ahead with detailed design on this programme of more than 100 projects to ease traffic flow at bottlenecks. Our first pinch-point scheme was completed at Penzance in Cornwall in March 2013 – improvements to the A30 Newtown roundabout relieve congestion and support the local economy.

Adverse weather – the Highways Agency met significant challenges from the weather, including floods during the wettest spring for more than 100 years, one of the wettest weeks in the last 50 years in November 2012, and the coldest March since 1962.

M4 Boston Manor Viaduct is a critical structure on our network, linking Heathrow Airport, the Thames Valley and the West of England to the capital. During five months of intensive work, we completed technically advanced strengthening work to this 50-year-old structure, just in time for London to host the 2012 Olympic Games.

London 2012 Games co-ordination – we kept the network running smoothly:

- We had close and successful operational relationships with Olympic and Paralympic stakeholders through the London Transport Co-ordination Centre, as well as at venues.
- An effective 24/7 operation was in place at our National Traffic Operations Centre and in all regions where events took place.
- The Games Lane on the eastbound M4 operated when most of the Games family arrived between 16 July and 4 August, and again between 22 and 29 August – keeping traffic moving into London.

Reduced the impact of incidents – collisions and incidents cause delays for other road users. Our CLEAR initiative sets out how different responders to incidents on the strategic road network will work together to prioritise investigation, repair and reopening. CLEAR is a joint initiative between the Highways Agency, the Department for Transport and the Home Office, along with the police, fire and ambulance services.

Safety milestones

- Our roads maintenance contractor, EnterpriseMouchel, achieving three million injury-free hours at work in our central southern England area.
- 1,000 days since our technology maintenance contractor, Amey, suffered a reportable injury.
- Our M6 managed motorway scheme between junctions 5 and 8 achieving 500,000 hours without a reportable incident.

Awards

Our A3 Hindhead project won the Project, Programme and Portfolio Management Award at this year's Civil Service Awards. The £371 million improvement project, which completed the dual carriageway from London to Portsmouth by bypassing Hindhead village, was recognised for engaging with the local community to preserve and enhance the environmentally sensitive Surrey Hills site. Ben Catchesides, of our intelligent transport systems research group, was also recognised for introducing improved technologies for inductive loops, which are sensors in the road that record traffic data.

Our M4 junctions 19 to 20 and M5 junction 15 to 17 managed motorways scheme near Bristol achieved a Considerate Constructors Scheme gold standard award.

M53 Bidston Moss viaduct strengthening scheme in Merseyside won a Construction News Award. The Bidston Moss project also won a Structural Steel Design Award for excellence in design using steel.

The Highways Magazine Award for Environmental Sustainability in the Highways Sector was awarded for our East and South East asset management framework.

The first 12 graduates, including two from the Highways Agency, were awarded diplomas and postgraduate certificates in strategic leadership at the Highways Agency/Roffey Park Roads Academy – our innovative route to masters level management development.


London (W & C)
Heathrow
(Terminals 1, 2 & 3)
M4
(M40, M1, M11)
Oxford, Watford, Stansted
M25

Foreword by the Chairman

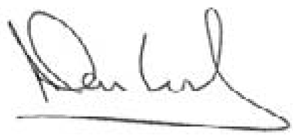
The Highways Agency performed well over the last year, maintaining the motorway and trunk road network in good condition, and focusing effort on managing congestion and incidents. Through an exceedingly wet year, the Highways Agency had to deal with a series of floods that affected some trunk roads on the South Coast and in the North East – a reminder once again of the importance of our climate change adaptation plans that seek to make the road network more resilient in the face of extreme weather events.

The Government's spending review in 2010 set some ambitious goals for the Highways Agency to reduce the cost of maintaining and improving the network. Over the past year we have successfully completed the final steps to secure those cost savings, with mobilisation of two new Asset Support Contracts for road maintenance, and renegotiation of most of the other maintenance contracts to a new specification. The collaborative approach with our supply chain has also delivered capital savings in excess of our targets.

I am pleased to note that the Highways Agency's performance and positive economic impact has again been recognised through the announcement by the Government of substantial additional investment across the strategic road network.

As Chairman, I have continued to strengthen the governance of the Highways Agency and the Board membership, including the appointment of Simon Murray as Non-Executive Director and, at the end of the year, two new Executive Director appointments. This refreshed Board is equipped with the skills and experience needed to take forward the Government's plans for roads reform – delivering a step up in investment in the strategic road network.

I and my fellow Directors now look forward to the conclusion of the Government's roads feasibility study, announced by the Prime Minister last year, and then implementing those conclusions alongside the recommendations of my earlier strategic roads review.



Alan Cook
Chairman

Chief Executive's overview

The last year has been one where the Highways Agency's motorway and trunk road network has been under great pressure – supporting London as host city for the 2012 Olympic and Paralympic Games, keeping traffic moving through a winter of prolonged flooding, and ice and snow conditions, and most importantly in keeping business, commerce and communities connected across the country.

There is a legacy from the London 2012 Games – greatly enhanced working relationships with police forces, with emergency services, and with key transport authorities in planning for major events, and quickly clearing incidents that restrict or block key routes.

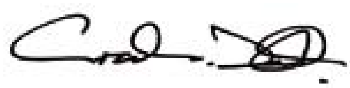
Across the Highways Agency, we are committed to the role of the motorway and trunk road network in supporting the development that is essential for the country's economic prosperity. We have focused our resource to respond quickly to planning applications that affect the road network, and to work closely with developers at the early stages of their planning. Coupled with an ambitious programme of more than 100 medium-size improvement projects targeted at relieving congestion pinch-points, we are making a huge effort to enable that economic growth.

Any business like the Highways Agency depends on the professionalism and dedication of its people – our own staff and our contractors' employees. Their commitment to operating, maintaining and improving the strategic road network is outstanding, and I would like to record my appreciation for all that they have achieved over the last year.

Our road network in England is one of the safest in the world – for road users and for road workers. But despite our significant commitment to improving safety, sometimes things go wrong. In 2011-12, 251 people died and 1,578 were seriously injured on our road network. While this is one of the lowest totals for many years, it remains a heavy toll.

We were all deeply saddened by the fatal injuries sustained by a road worker in Kent in October 2012, who was undertaking routine repairs, and the loss of one of our traffic officers – John Walmsley – on the M25 in September 2012. Both of these tragic deaths serve as a reminder of the hazards faced by our staff and our suppliers everyday on the road network, and strengthen our resolve to create a wholly accident and incident-free working environment.

So 2012-13 was a year of highs and lows for the Highways Agency. It takes real teamwork to deliver the successes and just as much teamwork to manage through the challenges. At the Highways Agency we are lucky to have great people who have a real commitment to the strategic road network and to delivering a good service to all who use or rely on our roads. The response from all those working in the sector to loss of life and serious injury is an enduring example of such teamwork and I again record my appreciation for all that they have done during another demanding year.



Graham Dalton
Chief Executive

1. What we do

Our role

The Highways Agency, created in March 1994, is an executive agency of the Department for Transport. Our role is to help support the sustainability of the UK's economy by operating, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport.

The strategic road network in England is made up of some 4,300 miles of motorways and trunk roads – the most significant A roads (see page 13). While our road network represents only two per cent of all roads in England by length, it carries a third of all traffic by mileage. Significantly, two-thirds of all heavy goods vehicle mileage in England is undertaken on the strategic road network, making it the economic backbone of the country.

Our responsibilities are formally laid down by the Department for Transport in our framework document, which is published on our website at www.highways.gov.uk

Operate

Our network is used by approximately four million vehicles every day. We work hard to deliver a reliable service to customers through effective traffic management, incident clearance and provision of accurate and timely information. Our National Traffic Operations Centre and seven regional control centres work to reduce the number of incidents, to provide information to traffic on the road, and to manage incidents efficiently to minimise delays. The Traffic Officer Service responds to more than 20,000 incidents per month, ranging from debris on the carriageway to major multi-vehicle collisions. Effective traffic management and incident clearance ensures our roads are safe, delays are minimised and journeys are reliable.

Maintain

Our network, valued at more than £109 billion, includes more than 9,000 bridges, nearly 9,000 other structures and 34,000 drainage assets. We carry out routine maintenance and renewal of roads, structures and technology to make the network safe, serviceable and reliable.

We ensure our contractors deliver a high level of service on the strategic road network to support operational performance and the long-term integrity of the asset.

Improve

We undertake large-scale improvements on our network through our programme of major schemes. Improvements tackle bottlenecks and increase the capacity of the network. Our managed motorways programme has increased capacity and delivered substantial cost savings over conventional motorway widening. Our programme of maintenance renewal and improvement schemes delivers improved reliability, safety and asset integrity for the future. In the past two years, we have made available more than 160 miles of extra lanes on key routes.

The Highways Agency is overseen by a Board which includes a Non-Executive Chairman, three Non-Executive Directors, the Chief Executive and five Executive Directors, as shown in Annex A. Further details of our governance arrangements can be found in Section 5 of this report.

Vision and goals

The Highways Agency has set itself the challenging task of becoming the world's leading road operator by 2015. We have identified five goals which will help us achieve our vision:

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

To support these goals we have set out a values statement. This communicates the behaviours required of staff and contractors to ensure the delivery of our goals and the fulfilment of our organisational objectives.

Delivering a professional and affordable service through innovation and partnership working.

Our plans for 2013-14

The 2013-14 financial year is the third year of the Government's four-year spending review (SR10) period. The SR10 settlement announcement in October 2010 set budgets for the four-year period 2011-12 to 2014-15. Within the constraints of a tight public spending settlement, the Government prioritised investment in infrastructure, such as transport to support economic growth. The SR10 settlement included a programme to start 14 new major schemes in the four years to 2014-15, and we have met the reduced budgets for maintenance and renewals.

The national infrastructure plans, published in November 2011, announced additional investment in transport infrastructure projects as a driver of economic growth and earmarked specific projects to tackle congestion and improve the national road network. This included funding for six additional and two accelerated major schemes and a programme of smaller projects to improve pinch-points on our network (£287 million in total in 2013-14). In addition, a further announcement in November 2012 allocated a further £227 million in 2013-14.

Looking to the future

The strategic roads review, published at the end of 2011, recommended a package of measures to deliver efficiencies for the operation, maintenance and improvement of the strategic road network. The Highways Agency and the Department for Transport have been working to respond to its recommendations, including:

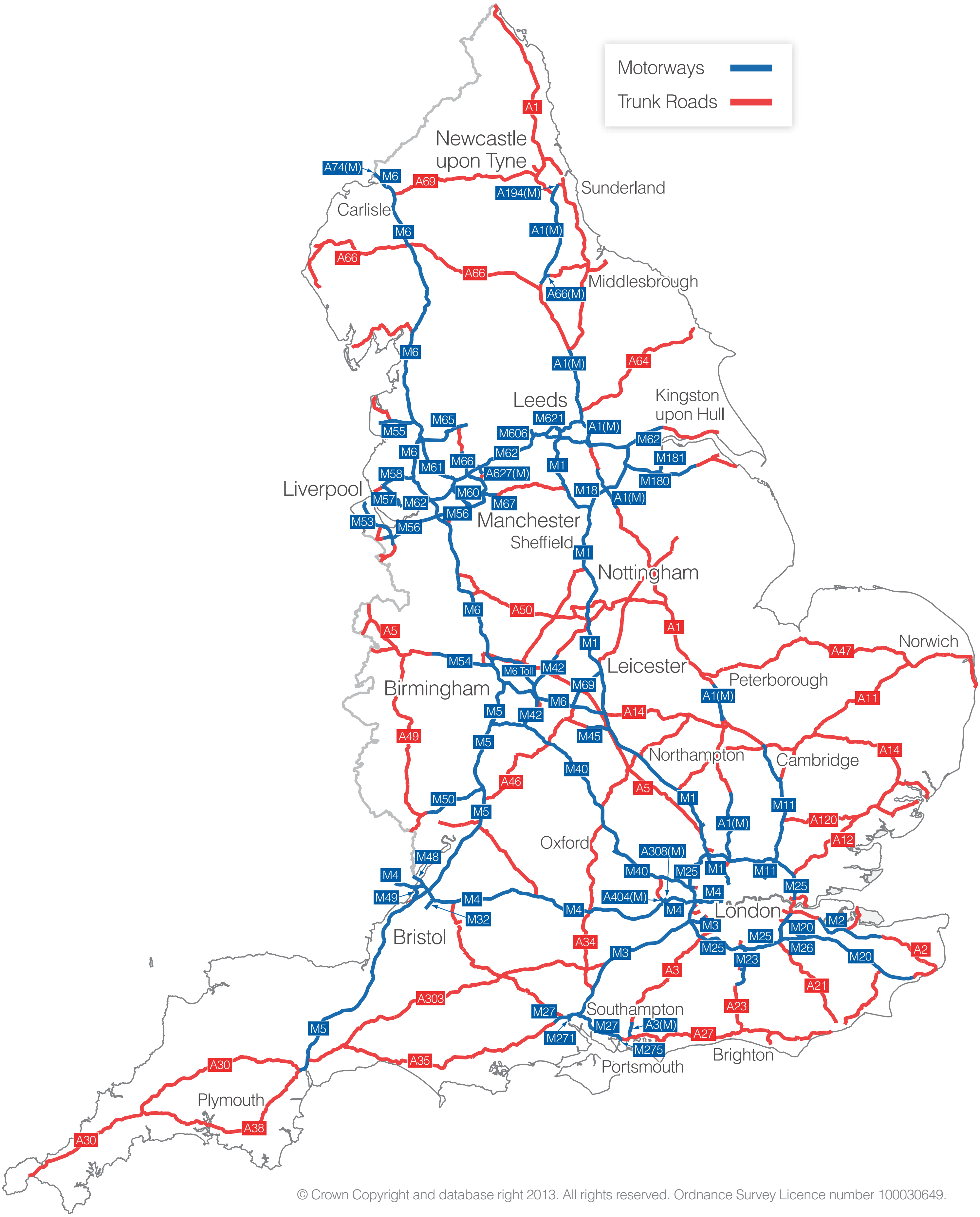
- performance specification – outlines high-level outcomes, outputs and special requirements for England's strategic road network
- route-based strategies – the Highways Agency has published our first three route-based strategies for the M62 between Leeds and Manchester, the A1 west of Newcastle, and the A12 between its junction with the M25 and A14 and the A120 east of Colchester.

The outlook remains challenging – maintaining the existing asset is a higher priority than building new assets, and an ageing asset means large sections of road carriageway and associated structures need repairing and replacing.

2013-14 budget	Resource £m	Capital £m	Total £m
Roads PFI service payments	459	-	459
Major schemes	-	610	610
Capitalised provisions	-	37	37
Network management (including staff costs)	79	14	93
Traffic Officer Service (including staff costs)	79	1	80
Technology PFI service payments	64	-	64
Technology projects	13	61	74
Maintenance (including renewals)	274	399	673
Smaller schemes and research and development	51	43	94
Other (including other income)	(11)	-	(11)
Office estate and capitalised staff	-	29	29
Depreciation and impairment	868	-	868
Administration (including depreciation)	67	-	67
Total SR10 budget	**1,943**	**1,194**	**3,137**
Growth review announcement, Nov 2011	-	287	287
Growth review announcement, Dec 2012	-	227	227
Total budget	**1,943**	**1,708**	**3,651**

Full details of our plans can be found in the *Highways Agency Business Plan 2013-14*, available on the Highways Agency's website at www.highways.gov.uk

Our strategic road network



2. Our Performance in 2012-13

1. Overview

The *Highways Agency Business Plan 2012-13*, which was agreed with the Department for Transport, set 12 key performance measures for the Highways Agency (summarised in Annex B) covering:

- Delivering a reliable network
- Minimising delays due to incidents
- Delivering safe roads for road users, our workforce and suppliers' staff
- The development and construction of major roads projects
- Customer satisfaction, measured through comprehensive road user surveys
- Minimising our carbon emissions
- Maintaining the condition of the road network
- Using our resources efficiently and effectively

Nine of the measures show performance has improved or is broadly similar to 2011-12. However, a deterioration in journey reliability, incident clearance and customer satisfaction demonstrate that the Highways Agency continues to operate in a very challenging environment.

There is a positive position to report on the financial aspects of managing the strategic road network. The Highways Agency has lived within its budget and the cost of operating and maintaining our network has reduced when compared to 2011-12. Our major construction schemes and programme of road improvements have been delivered below target cost and ahead of schedule.

The condition of the network has improved marginally despite the slightly reduced spend on maintenance and the adverse weather. However, the asset is subject to increasing stress with more emergency work on structures required and imminent end-of-life issues on a significant proportion of carriageways.

Journey reliability has deteriorated over the year due, to a large extent, to the adverse weather over the winter months, in particular the flooding that occurred in early 2013. In total, 77.6 per cent of journeys were 'on time' compared to 83.9 per cent in 2011-12. This has had a consequent impact on customer satisfaction levels, with a 0.75 per cent reduction to 90.73 per cent satisfaction.

Of our motorways, the M25 continues to score lowest in satisfaction scores. We continue to take forward various actions across many activities such as managing roadworks, engagement with our maintenance contractors, and analysis and follow-up of Highways Agency Information Line (HAIL) enquiries with the objective of improving satisfaction.

We have invested time and resource in new ways of working, aimed at shortening the time it takes to clear incidents. The Collision, Lead, Evaluate, Act, Reopen (CLEAR) initiative is a good example of this. However, while the overall number of incidents has fallen slightly, there is an increasing proportion of incidents with a duration in excess of two hours. This can be partly attributed to flooding and snow, which puts additional pressure on our operations. The average time to clear incidents on motorways has increased from 26 to 28 minutes (rolling year basis). We continue to look at more innovative ways to reduce incident times where possible, without compromising safety.

On safety, road user fatalities continue to reduce in number, as do the accident frequency rates for road workers. Final verified figures for 2012 are due for release in July 2013, after publication of this report. Results of performance in this area will be published on the Highways Agency's website.

We continue to make good progress in reducing our carbon emissions. We achieved a 6 per cent reduction in carbon dioxide emissions in 2012-13. While a proportion of this reduction is due to a change to Defra's greenhouse gas emission factor for electricity, there has been a substantial reduction in energy consumed. However, we have now completed all the easily obtainable savings and, going forward, further reductions will be much harder to achieve.

2. Financial outturn

Living within our means

Following the Government's spending review in 2010 (SR10), we were set the challenge of continuing to effectively manage the delivery of our roads programme, remaining focused on our priorities, while driving out costs to deliver within funding levels that reduce from £2.6 billion in 2010-11 to £2.0 billion in 2014-15 (excluding depreciation and annually managed expenditure). Three key programme areas were identified where we committed to lower levels of funding and the SR10 assumed these reductions:

- **Major schemes** – where we agreed to start a defined programme of 14 schemes by 2014-15 within a funding envelope that delivered at least 20 per cent efficiencies. We are currently anticipating over-delivery of these efficiencies over the SR10 period.
- **Traffic management** – where we committed to a broad range of operational improvements to our Traffic Officer Service and other traffic management functions while also cutting costs by 20 per cent by the end of 2013-14. We are on schedule to deliver this.
- **Maintenance** – where we expect to reduce annual spending from an average of more than £900 million to an average of about £700 million over the four-year SR10 period. As new contracts are awarded we are achieving this level of saving.

In addition, the SR10 set the Highways Agency a challenging 30 per cent reduction to its administration budget. With early decisions around estates and information technology, the Highways Agency is ahead of schedule to meet these reductions by the end of the SR10 period.

Our financial performance in 2012-13

Our total budget for 2012-13 was £3,813 million and was divided into DEL and AME:

- Departmental expenditure limit (DEL) budgets, which are the firm budgets (resource and capital) set in SR10 and supplemented by the autumn statements.
- Annual managed expenditure (AME) budgets, which apply to items that are volatile and which the Highways Agency could not be expected to absorb within the firm DEL plans.

	Actual £m	Budget £m	Variance £m
Resource DEL (excluding depreciation)	996	1,038	41
Resource DEL depreciation	858	914	56
Resource AME	390	827	437
Total net operating cost [1]	**2,245**	**2,779**	**534**
Capital DEL [2]	963	1,034	71
Capital AME	(61)	0	61
Total capital	**902**	**1,034**	**132**
Total budget	**3,147**	**3,813**	**666**

[1] Net operating costs include £24 million of EU grants for capital projects and exclude a write-back of £83 million relating to the M25 gain-share receivable (see below). These items are treated differently in the accounts and are excluded from the statement of comprehensive net expenditure which therefore shows lower net operating costs.

[2] Net capital expenditure in the accounts is £843 million, £83 million less than capital DEL. The £83 million relates to a gain-share receivable by the Highways Agency following the completion of the M25 widening project. For budgeting purposes, this is treated as a consolidated fund extra receipt.

During 2012-13 we:

- **completed 752 lane miles of carriageway resurfacing**
- **made more than 7,000 inspections across our structural assets and undertook 880 maintenance interventions**
- **carried out 2,200 maintenance interventions on our technology assets**
- **replaced more than 28,000 individual technology components – replacing in full 708 signs and signals and 42 miles of the digital communications network**
- **installed 8,140 new technology assets including 1,290 signs and signals, more than 28 miles of new communication cabling infrastructure and more than 50,000 technology components.**

A segmental analysis of our 2012-13 expenditure is included at Note 2 to the accounts.

The most significant segments are:

- **Maintenance** – The infrastructure of the strategic road network is one of the single most valuable public assets, and the maintenance of it consumed a high proportion of the Highways Agency's spend in 2012-13 (more than 37 per cent of the total DEL expenditure excluding depreciation).

  The work includes replacing and maintaining surfaces, bridges and other structures (780 renewal schemes were delivered in the year). It also includes the associated upkeep of fencing, drainage, lighting and signage, and the cost of keeping the network open in winter.

- **Public Finance Initiative (PFI)** – The Highways Agency has 12 PFI contracts, 11 of which are for the design, build, finance and operation of sections of the network including the 30-year M25 widening and maintenance contract. The expenditure is included in the major improvements segment and details of these contracts are included in Note 18 of the accounts.

  Approximately 52 per cent of the Highways Agency's resource DEL expenditure (excluding depreciation) relates to the service payments on these contracts.

- **Major Capital Improvements** – During 2012-13, £462 million was invested in major projects on the strategic road network, including the completion of major investments on the M25 and the M1.

  New schemes were started on the M6, the A453 widening, the M1, the A11 and the M25. Further details of all these schemes can be found in Section 5 (Improving the network).

Resource DEL (excluding depreciation)

The positive variance of £41 million (4 per cent) compared to budget reflects:

- higher savings from the implementation of new operating models in the Traffic Officer Service
- reduced costs for traffic management activity
- savings in the delivery of smaller local schemes
- lower than anticipated inflation resulting in payments on PFI contracts below initial forecast
- generation of more income than originally expected.

Resource DEL depreciation

The final depreciation charge of £821 million against the infrastructure asset was three per cent lower than budgeted. As well as the level of expenditure on capital renewals, the depreciation charge is impacted by the condition of road surfaces and indexation of the network valuation. Both of these factors are difficult to predict accurately in advance and both have moved in a way that generates a favourable variance. In addition, during the year, the Highways Agency has undertaken a detailed review of the standard costs and dimensions for structures to ensure a robust and auditable position. This work has resulted in a small decrease in the value of structures and an associated decrease in the depreciation charge.

Resource AME

The main item within this budget is the non-cash write-down of the infrastructure asset to reflect the difference between the actual cost of construction and the standard replacement cost. Further details of this valuation policy can be found in Note 1.4 of the accounts. The level of write-down is very dependent on the volume and type of schemes undertaken by the Highways Agency. The under spend of £437 million, which had been forecast from early in the year, reflects the difference between the prudent assumptions used at the time of deriving the AME write-down budget and the actual capital investment programme for 2012-13 that was subsequently agreed as part of the SR10 settlement.

Capital budget

The positive variance on the capital investment programme is mainly due to:

- over-delivery of efficiencies on major projects
- changes to the profiling of activity on major projects
- additional efficiency savings from capital renewal activities where the full programme has been delivered at lower cost.

Prompt Payment Initiative (PPI)

The Highways Agency has a PPI target to pay 98 per cent of all supplier invoices within terms (usually 30 days) and a further target to pay 80 per cent of all invoices within five working days. During the year the Highways Agency paid 99.77 per cent (2011-12: 99.62 per cent) of all invoices within terms and 94.10 per cent (2011-12: 92.79 per cent) within five working days.

Payments to Small and Medium Enterprises (SMEs)

The Highways Agency continues to make a key contribution to the Government agenda to accelerate cash flow and give certainty of payment timing through our supply chain. While the Highways Agency's direct spend with SMEs is relatively small (around three per cent of expenditure), a significant proportion of our expenditure ends up with SMEs via our main contractors.

It is the Highways Agency's policy to introduce project bank accounts (PBAs) on all new large contracts. These accounts enable subcontractors and suppliers to draw payment at the same time as the main contractor is paid, and offer us much more transparency over expenditure with SMEs. Over the next three years, we will see more than £2.5 billion of payment passing through PBAs, which will account for more than 70 per cent of the Government target for PBA spend and benefit hundreds of SME suppliers working on Highways Agency projects.

We are working to collate data to monitor this SME spend. Initial indications suggest that at least 28 per cent of the Highways Agency's expenditure (excluding PFI payments) flows to SMEs spread across the country.

3. Olympics and Paralympics

Delivery for the London 2012 Games

The Highways Agency was a key delivery partner for London 2012 Games. Our job was to support the success of the Games by keeping traffic on the strategic road network moving and co-ordinating with other transport network operators. Operational relationships with Olympic and Paralympic stakeholders through the London Transport Co-ordination Centre were a real success.

Preparation for the Games

The Highways Agency delivered a number of planned improvements on schedule ahead of the Olympics in July:

- The A31 Canford Bottom junction in Dorset used to experience significant congestion at peak times and weekends. Work was undertaken to remove this bottleneck on the route to the Games sailing regatta at Weymouth and Portland. The scheme was completed ahead of schedule.
- Major projects to add capacity on the M25 between junctions 16 and 23 and between junctions 27 and 30 were both completed ahead of schedule and well in time for the Olympics.
- The Games Lane on the M4 was delivered to a challenging timetable. The Highways Agency successfully operated this lane, helping to get the Olympic family, including athletes and officials from Heathrow Airport, into central London and to the Olympic Village. The M4 Games Lane was a success, with good compliance observed.

In addition, the Highways Agency had to respond promptly to a major issue on Boston Manor Viaduct – located on the M4 between junctions 2 and 3 – when cracks were discovered in the structure.

M4 Boston Manor Viaduct

In early July 2012, Boston Manor Viaduct – which carries the M4 in west London – was closed for emergency repairs after a crack was found in a highly stressed zone above the 0.6-mile-long structure's bridge supports. Previous repair work had been taking place since April after a routine inspection found cracks in the structure in the spring of 2012, but by preventing heavy vehicles from using the viaduct, we had kept the road open to 90 per cent of all traffic.

After intricate engineering work, with our contractors working night and day, the M4 was reopened just a few days later with a weight restriction in place. This allowed for the smooth transport of athletes and officials, arriving at Heathrow Airport, to and from the Olympic Village.

Repair work on the mid-1960s structure continued throughout the summer and was eventually completed in October 2012, allowing the weight restriction to be removed for up to 100,000 vehicles that use that section of the M4 every day.

Operations for the London 2012 Games

The Highways Agency devised and implemented detailed operational plans to actively support the London 2012 Games, from when the torch relay first arrived in Cornwall on 18 May until when the last Paralympian left Heathrow Airport on 14 September. Our plans were developed in close consultation with Olympic Delivery Authority, the London operating committee and Transport for London. We focused on the two key transport objectives of supporting the success of the Games while keeping England moving. Action we took included:

- significantly extending our traffic officer patrols and recovery services along the route to Weymouth
- pre-positioned resources where they could most effectively support the Games and worked closely with venues such as Lea Valley, Eton Dorney and the football stadiums – with our staff joining venue transport teams to ensure success
- responding swiftly to clear significant incidents threatening access to Games venues across the country by operating a round-the-clock command structure during the Games, with volunteers working night shifts to make this happen
- staffing a 24/7 Highways Agency desk at the Olympic Transport Co-ordination Centre in London. Our traffic officers, vehicle recovery service, incident support units and police partners were all on heightened readiness to respond to incidents
- making full use of fixed and portable variable message signs and regularly updating our Traffic England website to ensure accurate and targeted messages for those planning journeys
- contributing strongly to Transport for London's travel demand management campaign, with direct messages on our electronic motorway signs near venues and around London.

Case study

The Highways Agency supported a number of staff who volunteered to be Games Makers. **Julie Smith was one of London 2012's 70,000 Games Makers, supporting the Haiti team during the Paralympics:**

"My role was to be the link between LOCOG and the Haiti delegation during the Paralympics. This involved jobs ranging from doing the paperwork and escorting athletes and officials on sightseeing trips, to cheering them on at their events and generally, being their friend, sister and "mamma".

"Like when one of my athletes, Josué Cajuste, got a new leg. Josué was born with one leg shorter than the other with his foot at about knee-height. He has therefore spent 29 years on crutches, with a huge, debilitating limp.

"In the village there was a German company, OttoBock, which repaired wheelchairs, prosthetics and orthotics. We asked their advice on what we could do in the future for Josué, so we could work on fundraising for him. The next day they rang to ask us to bring him in to see them. They'd made him a leg. Within two days he had gained four metres on his personal best in the javelin!

Julie was a National Paralympic Committee assistant for the Haiti team

"I learned loads from these guys – they were all here to achieve personal bests with had a desire to compete, just like anyone else. In the village, disabilities genuinely didn't matter. Everyone helped each other, regardless of nationality or background.

"So, as I stood at the closing ceremony among dignitaries, receiving standing ovations for being a Games Maker, with tears rolling down my cheeks, I knew I would never forget this unbelievable opportunity."

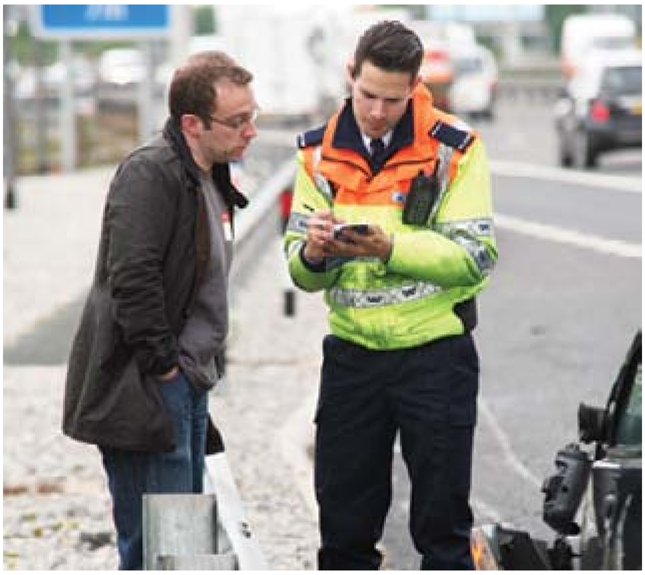
4. Operating the network

With more than four million customers a day, operating England's strategic road network is a 24/7 business. Our National Traffic Information Service supports our National Traffic Operations Centre and seven regional control centres – these manage around 3,250 variable message signs and more than 1,600 closed-circuit televisions. Through these, the Highways Agency focuses on:

- keeping the road network open by responding rapidly to incidents
- providing up-to-date information to customers.

Managing incidents

The Highways Agency responds to more than 6,000 carriageway impact incidents a month. These are typically breakdowns in a live lane, clearance of debris, or road traffic collisions. Incident duration is monitored closely and the Highways Agency strives to minimise the impact of all incidents on road users.



The Department for Transport's Business Plan, updated in 2012, formally set the objective of implementing measures to reduce the congestion and costs associated with motorway closures following incidents. One action taken to address this was establishing the Collision, Lead, Evaluate, Act, Reopen (CLEAR) joint initiative between the Highways Agency, the Department for Transport, Association of Chief Police Officers, Chief Fire Officers Association, and Association of Ambulance Chief Executives.

These organisations, together with the Vehicle Operators Services Agency (VOSA), have endorsed and progressed the CLEAR initiative's 10-point action plan, in many cases exceeding the requirements. The objectives of the plan have been achieved and a final report has been produced.

The 10-point plan set out actions related to incident analysis, developing understanding, creating a bank of case study incidents, reviewing the Road Death Investigation Manual, promoting and reviewing multi-agency and police training, exploring technology to improve incident clearance, and monitoring performance.

The three themes prioritised for action were the clarification of roles and responsibilities of incident responders, the use of new technology, such as laser scanners, and a focus on incident prevention initiatives for heavy goods vehicles.

This has led to significant achievements. There has been closer joint-working and co-operation between incident responders, and the use of laser scanners has led to incident scenes being surveyed more quickly. These save an average of 40 minutes during the investigation time for motorway incidents.

Other significant achievements have been an insight into longer duration incidents, the production and dissemination of a booklet and training film focusing on roles and responsibilities, a review of the Road Death Investigation Manual 2013, wider use of technology, such as towing load cells to clear the carriageway quickly, and incident screens to stop rubbernecking. In addition VOSA is continuing to take action on non-compliant heavy goods vehicles.

Continuing actions include further data gathering, analysis and reporting of incident durations, the piloting and roll out of new incident management technology, and embedding CLEAR principles in operational guidance. More importantly all stakeholders are committed to learn from best practice and to develop the joint working and cooperation that embodies CLEAR to reduce the impact of incidents on road users.

Weather – flooding and snow

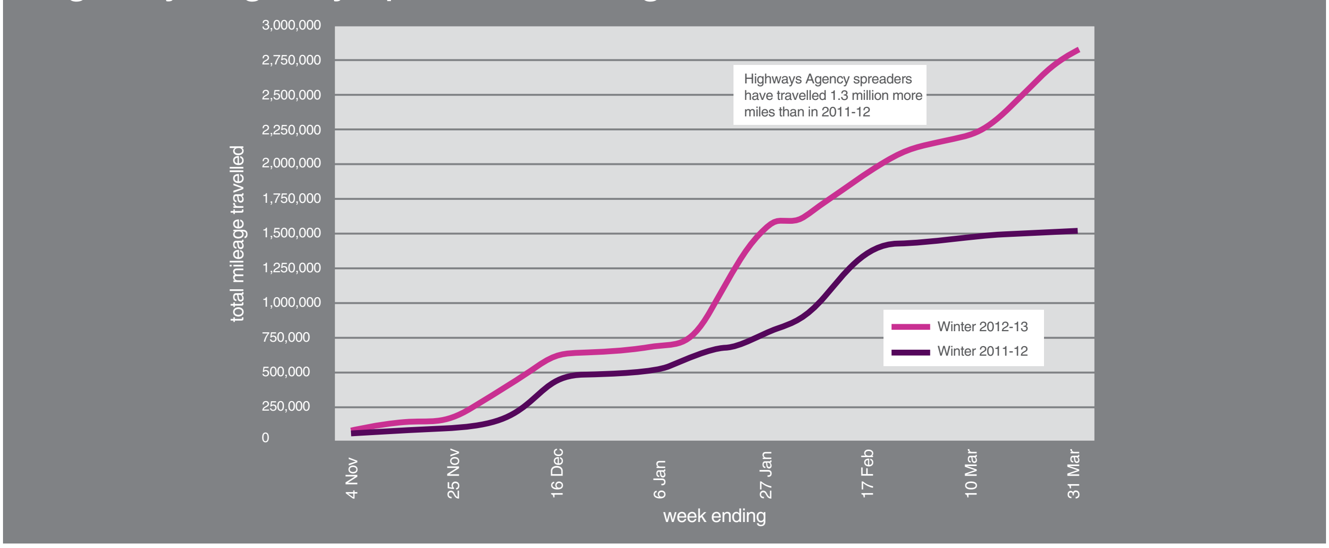
Severe weather events can be challenging for England's transport network and 2012-13 saw significant and prolonged snow and rainfall, which required the Highways Agency to respond. The Highways Agency has developed severe weather plans specifically tailored to the local requirements in each of our regions. New guidance for contractors this year included advice on treating the network in extreme cold conditions.

The Highways Agency launched a comprehensive winter communication campaign in October 2012, which ran in unison with the Cabinet Office's *Get ready for Winter* and Scotland's *Ready Scotland* campaigns, to encourage drivers and passengers to be informed and be prepared when considering their journey.

The Highways Agency also distributed its campaign toolkit to more than 300 partners and worked closely with more than 100 key partners – including the AA and RAC, the Institute of Advanced Motorists, and trade bodies including the Road Haulage Association and the Freight Transport Association, as well as local authorities, airports, shopping centres and fuel companies. By working in partnership with them, we have delivered our winter messages through their own communication channels. Campaign information was also displayed on Highways Agency information points at 100 motorway service areas, ports and airports.

The Highways Agency has its own modern fleet of 437 winter service vehicles. With the addition of vehicles owned and operated by our contractors, more than 500 winter service vehicles are available for use on England's motorway and trunk road network.

Highways Agency spreader mileage



During a winter season, the Highways Agency's winter fleet typically covers around 1.5 million miles while treating our network. In 2012-13 this increased to more than 2.75 million miles in response to the higher frequency of cold weather events in the final quarter of the year. The Highways Agency also introduced its new weather information service, which takes data from more than 200 weather stations on the strategic road network, together with forecast information that is used by operational teams.

Severe weather updates on social media

The Highways Agency winter driving information is now on Facebook and Twitter. We can be followed on Twitter at @winterhighways

This channel provides road users with seasonal advice, the latest weather and 'gritting' news, as well as updates on any major incidents on our network and weather warnings from the Met Office. We have an index of more detailed traffic information for Highways Agency motorways and major A roads and eight regional feeds on our website.

Like us on Facebook

The Highways Agency's Facebook page provides information about how we help to keep the motorways and major A roads clear during the winter, along with advice and information. As well as updates on our timeline, there are also useful Facebook apps to choose from…

- Weather Watch – latest information from Met Office colleagues based in our National Traffic Operations Centre
- Live flood alerts – an interactive map in association with the Environment Agency
- Winter kit – reminders about what you should keep in your car during severe weather
- Traffic on Twitter – all our Twitter traffic feeds in one place
- Links to our YouTube and Flickr pages, providing photos and videos

In September 2012 stretches of the road network around the A1 at Catterick and near Morpeth in Northumberland, and the A66 to the east of the A1, were closed due to flooding. The A19, which acts as the strategic diversion route for the A1 through North Yorkshire and Durham, was also down to one lane in places and nearly closed. The flooding happened after what the Met Office described as the most intense September storm for 30 years, with up to 100mm of rain falling locally within 24 hours on ground that was saturated by the wettest summer for 100 years. Much of the region received at least a month's rain in just three or four days.

Four days of around-the-clock efforts to clear floodwater from our strategic road network ensued. Work to clear the floodwater included:

- a Jetvac cleaner that can suck up 3,000 litres of water at a time
- deploying a sweeper – a vehicle with automated brushes and vacuum
- pumps – including a high-volume pump provided and operated by the West Yorkshire Fire and Rescue Service, which pumped 15 million litres (equivalent to six Olympic swimming pools) of water over 30 hours.

This equipment was used at the main trouble spots as rain continued to fall, compounding the original incidents.

We trialled the use of the Environment Agency's flood forecasting system in one of our regions. Our severe weather plans include an assessment and mapping of flooding risks which are recorded in our schedule of vulnerable locations.

Adapting to climate change

Over the longer term, the Highways Agency is having to adapt to operating within a changing climate and ensuring that its road network is dynamic and resilient. The Highways Agency has assessed the potential risks that climate change poses to the ongoing operation, maintenance and improvement of our road network. We are factoring in anticipated climatic changes into the delivery of our business and developing appropriate management and mitigation solutions to remove or reduce these risks. These risks are recorded in the Highways Agency's climate change risk assessment, which has been published on our website.

We use the latest scenarios from the UK Climate Impacts Programme to further inform our work on adaptation, as well as contribute to internal guidance to ensure that the changing climate is factored into our new advice, technical standards and specifications.

Informed travellers

Road users are at the heart of everything we do. We support the public in using our network by providing them with information to:

- enable them to plan their journeys
- inform road users what to expect during their journey.

We do this through our National Traffic Information Service, which supports our National Traffic Operations Centre and seven regional control centres. We also have a uniformed Traffic Officer Service which operates from our regional centres. Traffic officers patrol the key parts of the strategic road network, helping road users first hand by managing incident clearance and making sure that risks to the travelling public are minimised.

Provision of tourist signs

Tourist signs have a role to play in informing travellers. Their provision balances road safety with the strategic needs of the tourism industry and how this can support economic growth.

In response to valid criticism, including indications that the costs of signs was disproportionately high, the Highways Agency has worked closely with other Government bodies, for example the Department for Culture, Media and Sport and Visit England, as well as key tourism stakeholders to consider options for revised criteria for the provision of tourist signs on the strategic road network, and to provide a more streamlined process to deliver new signs. A new process has been launched and costs are now much clearer and proportionate.

Road user satisfaction survey

We carry out regular road users satisfaction surveys to develop a detailed understanding of customer experiences when using the strategic road network, and gathering their views on our services. The data collected from these surveys allows the Highways Agency to provide services which are cost effective and targeted to the needs of road users.

The surveys provide national and regional data, enabling us to highlight regional differences in perceptions. In 2012-13, 91 per cent of road users were satisfied with their most recent journey on the strategic road network. This is measured across the following five areas:

- Safety
- Routine maintenance
- Journey time reliability
- Information provision
- Roadworks

As well as finding out about the last journey made on the road network, we ask road users about driving in severe weather conditions, the Traffic Office Service, variable message signs and general satisfaction with the Highways Agency. The results from the surveys, together with feedback received through the Highways Agency Information Line and correspondence, help us to improve our understanding of the needs of our customers, which in turn helps us to communicate more effectively and improve the services we provide.

Stakeholder engagement

We engage with our stakeholders on a daily basis, often at project level with local stakeholders.

We manage our relationships with key strategic stakeholders through an account management system and 'memorandums of understanding' to develop reciprocal partnerships that assist in the delivery of the Highways Agency's business objectives.

At present we have three national committees – National Road User Committee, National Environment Committee and in 2012 we created a Vulnerable Road User Committee. All three committees allow the Highways Agency to consult, inform and learn from specific groups of stakeholders, ensuring that the interests and opinions of stakeholders are heard and that we better understand organisational and members' needs.

The committees meet twice a year, chaired by Highways Agency senior managers, allowing us to continue to develop strategic partnerships with stakeholders. We worked in partnership with the committees and their members to deliver the *Make Time for Winter* partnership marketing campaign.

In addition to the committees, we also work to establish partnerships with organisations that have an active interest in managing the roads and traffic information. This includes developing and maintaining partnership agreements with local authority partners, strategic traffic generators and other highways authorities.

We explore joint working opportunities to co-ordinate the communication of driving and safety campaign messages. The Highways Agency has been working closely with cycling stakeholders to develop a programme of interventions to improve safety and accessibility, and to encourage cycling as a form of transport. This has been targeted at locations on the strategic road network where we can provide a connection between housing and services, and where there are safety or perceived safety issues which may discourage them from making the journey by bike.

Through liaising with cycling stakeholders, we identified that highway engineers need to consider the requirements of cyclists during scheme design, and we are addressing this by developing a training package.

5. Improving the network

Enabling growth

Over the four years of the Government's spending review period (SR10), the Highways Agency is planning to invest £2.3 billion on major roads improvements, including £1.4 billion to start 14 new schemes. This new investment is a key enabler for economic growth. In addition, the Government's National Infrastructure Plan, published in November 2011, announced additional investment in transport infrastructure projects as a further driver for economic growth. This earmarked specific projects to tackle congestion, including a programme of investment in pinch-point schemes.

Three major schemes completed in 2012-13:

M25 junctions 16 to 23 – We successfully completed the construction work to add a fourth lane in each direction of the north-western section of the M25, between the M40 and A1(M). After just under three years of work, the whole length (more than 22 miles) was open to 70mph traffic more than eight weeks ahead of schedule and well in time for the London 2012 Olympics in July. The project included reconfiguring nine junctions, widening a viaduct and demolishing and reinstalling a footbridge. In total 81 gantries were installed, including the longest spanning gantry in the UK – across 10 lanes – to allow the introduction of variable speed limits above this section of the M25.

M25 design, build, finance and operate (DBFO) contract

The M25 DBFO scheme comprised the upgrade of the M25 to dual four-lane controlled motorway standard and the refurbishment of Hatfield Tunnel.

The project materials strategy focused on the use of recycled materials. Inert demolition waste from other sites was used to produce recycled aggregate, along with waste glass from domestic recycling; in total 92 per cent of aggregate was recycled.

Innovative pile design reduced the amount of steel required by 30 per cent. By using this innovation and 100 per cent recycled steel, 55,000 tonnes of carbon dioxide equivalent of greenhouse gas emissions were avoided across the project.

Lighting can be turned off on the main carriageway, but remains switched on at junctions. This allows potential energy savings in the future operational life of the motorway. The design of new tunnel equipment includes features such as variable lighting levels, which can reduce driver stress, as well as energy consumption.

Wildlife protection included a capture programme which saw 2,500 newts and reptiles moved to new habitats. Additionally two otter holts were constructed. Following a captive breeding programme more than 200 water voles were successfully released into new habitats. Other measures to protect wildlife included the provision of artificial hibernacula and log piles for great crested newts, reptiles and invertebrates, the management of retained scrub for reptiles, and the provision of bird and bat boxes.

The scheme received a number of awards:

- Winner of a CEEQUAL Outstanding Achievement Award 2013 for Project Management.
- Winner of a CEEQUAL Outstanding Achievement Award 2013 for Land Use.
- Highly Commended CEEQUAL Outstanding Achievement Award 2013 for Material Use.
- Considerate Constructors Scheme silver certificate for 'performance beyond compliance'.

M25 junctions 27 to 30 – This scheme involved widening the north-eastern section of the M25 between the M11 and A13 from three to four lanes in each direction (over 16 miles). It was opened to traffic in May 2012, more than six weeks ahead of schedule and well in time for the London 2012 Olympics. This extra capacity has improved journey time reliability, reduced congestion and improved motorway safety. The scheme also incorporates improved driver information and low noise surfacing.

More than 4,800 personnel worked on this project, accumulating a total of more than four-and-a-half million working hours.

M1 junctions 10 to 13 – This scheme involved introducing the first section of managed motorway technology on the M1 between Luton and Milton Keynes (over 14 miles). Work commenced in December 2009 and the first section became operational in July 2012. Overhead electronic signals display variable mandatory speed limits, and message signs indicate when drivers can use the hard shoulder as an extra lane. In December 2012, testing began on the newly installed managed motorway systems between junctions 11 and 13 and became operational in early 2013.

Four major new schemes commenced during 2012-13:

Project	Purpose	Benefits	Completion Expected
M6 junctions 5 to 8 (Birmingham Box phase 3)	To increase capacity by introducing managed motorway technology on the M6 between junction 5 at Castle Bromwich and junction 8	Relieve congestion and smooth the flow of the traffic, improving safety and journey times over this very busy section of the M6 – supporting economic development in the region	2014-15
A453 widening (M1 J24 to A52 Nottingham)	Upgrade of the section of the A453 between the M1 (junction 24) near East Midlands Airport and the A52 in Nottingham	Improve safety, reduce congestion and provide more reliable journeys for travellers and businesses in the region	Summer 2015
A11 Fiveways to Thetford	To upgrade the last remaining single carriageway section on the strategic M11/A11 route to Norwich to dual carriageway standard	Improve congestion problems, particularly during holiday periods	December 2014
M25 junctions 23 to 27 managed motorway	To increase capacity by introducing managed motorway technology on the northern section of the M25 between the A1(M) and the M11	The project will relieve congestion and smooth the flow of traffic, improving safety and journey times; this will also support economic development in the region	Spring 2015

Pinch-point programme

The pinch-point programme, announced in the Chancellor's 2011 autumn statement, is part of the Government's growth initiative with funding of £217 million allocated for the period 2011-12 to 2014-15. The programme was designed to deliver small-scale improvements to the strategic road network to stimulate local economic growth, relieve congestion and improve safety.

The first tranche of the programme, comprising eight schemes, was announced in July 2012, with a total cost of £18.5 million. The second tranche of 57 schemes, with an investment total of £169 million, followed in October 2012. The third and final tranche was announced in April 2013.

We worked with many local enterprise partnerships and local highway authorities to identify these schemes. They will promote economic growth by improving access to nearby development sites and have the potential to help facilitate the creation of more than 300,000 new jobs and 150,000 new homes.

The programme includes an £11 million scheme to widen and improve junction 4 of the M5 near Bromsgrove, with significant benefits for Longbridge – former home of the MG Rover manufacturing plant. With support from the local authority and enterprise partnerships, it will form part of a development plan that aims to create around 10,000 jobs in the West Midlands.

Our first pinch-point scheme was completed at Penzance in Cornwall in March 2013. The £128,000 scheme involved widening the A30 westbound approach to provide two lanes coming on to Newtown roundabout. This meant a dedicated lane for A30 westbound traffic, separating it from local traffic. Work also included improving the access to a bus stop as well as pedestrian crossing points. Meanwhile we have completed design for many more pinch-point programme projects.

Efficiency in the delivery of major projects – preparing for accelerated delivery

The roads sector has been challenged to deliver major projects faster to help support economic growth. Four schemes have been selected to be part of an accelerated pilot project – three managed motorway projects (M1 junctions 28 to 31, M6 junctions 10a to 13, M3 junctions 2 to 4a) must achieve on-site completion by spring 2015 with the fourth pilot project, A160 Immingham, to complete by autumn 2016.

To support this challenging programme, an accelerated delivery team has been created with a dedicated core team of industry leaders. They have been selected to work with the four project teams to enable and facilitate faster delivery, together with creating the future template for accelerated delivery to apply to the rest of the roads programme.

The Delivery Hub

The Delivery Hub was set up in 2012. The Hub is a team made up of Highways Agency employees, delivery partners, designers and consultants that has been brought together to help facilitate at least a 20 per cent efficiency target across the roads programme by supporting all major project schemes. Its aim is to develop and embed new ways of working across organisations and projects; by doing so it intends to fully exploit a programme management approach in order to drive continuous improvements in the efficiency and effectiveness of project delivery.

Category management

Significant progress has been made with embedding category management across the Highways Agency and our supply chain. The gantries and carriageway (aggregate, surfacing and concrete) enabled frameworks are already directly supporting the delivery of forecasted savings on the cost of delivering our major projects programme, which is exceeding the 20 per cent savings target agreed with ministers. Further opportunity will soon be realised through the introduction of an enabled temporary traffic management framework. Category management is playing a key role in driving cultural change in the industry and unlocking value through our supply chain.

Localism and promoting economic development

Following the introduction of the Localism Act 2011, we have been working closely with local authorities as they progress their local development plans. We continue to work with developers, local planning authorities and local enterprise partnerships to facilitate growth, while fulfilling our responsibilities for the strategic road network. This includes working closely with partners on enterprise zones. Our programme of major and small schemes will improve the performance of the network and encourage economic growth.

Planning

In our role as delivery partner, we engage with developers, planners, enterprise partnerships and local authorities to support the timely delivery of local and national growth objectives. We continue to identify opportunities to improve our network for the safe movement of people and goods around the country. We will be working with the Department for Transport to issue new planning guidance that better reflects our economic role and responsibility, and emphasises the important contribution that the road network plays in enabling and sustaining economic activity.

In 2012-13 we received 2,762 planning applications, responding to 99.62 per cent within statutory deadlines. This has resulted in social and economic benefits including developments costing some £13 million, with retail or residential rental values of £5 million, 78,000 new homes, and thousands of new jobs.

In December 2012 the Highways Agency launched four new planning protocols. These provide clarity about how we work with local authorities and developers to support the delivery of projects, in turn generating economic growth while still ensuring the safe and effective operation of the strategic road network.

www.highways.gov.uk/publications/planning-protocols-for-planning-and-development

The new planning protocols cover:

- the local planning process
- local development orders and neighbourhood development orders
- the planning application process
- the section 278 agreement process where the Highways Agency is commissioned by developers to construct small links to the network.

We have also launched the Highways Agency's planning improvement plan – our commitment to continue challenging and improving how we perform in supporting the Government's economic growth agenda. Actions are identified against 11 key areas and we will be submitting a report on our progress against each of them twice-yearly to the Department of Communities and Local Government, the Department for Business, Innovation and Skills and HM Treasury. The first report on our progress was submitted in January 2013.

The delivery of the actions within the plan involves colleagues across the Highways Agency, demonstrating a joined-up approach towards supporting the national growth agenda.

6. Maintaining the network

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

- **Routine maintenance** – such as clearing debris, litter and hazardous defects, treating ice and snow, clearing drains, and cleaning and replacing signs.

- **Roads renewals** – including new road surfaces, and other roadworks such as footways, cycle tracks, safety fences and drains.
- **Structures renewals** – for example the repair and rebuilding of bridges and underpasses, tunnels and gantries.
- **Technology renewals** – including repair of variable message signs, cameras, emergency telephones and equipment in control centres.

Maintenance of the road network consumes a high proportion of the Highways Agency's spend – around a third of the budget in 2012-13. The service is delivered by our 12 area-based contractors.

Litter

Since April 2011, the *Bag it. Bin it!* campaign has seen the amount of litter on the Highways Agency's roads reduce by an estimated 25 per cent – but road workers still collect more than 180,000 sacks of rubbish every year. Safety for both road users and road workers is a top priority, and clearing litter from along the carriageway can put workers at risk.

Litter isn't just unsightly – it can cause accidents, block drains and present a danger to wildlife. The Highways Agency estimates that it costs £10 million of taxpayers' money each year to collect litter from motorways. This money could be far better spent on priorities such as road safety improvements.

The Highways Agency works closely with Defra and Keep Britain Tidy to support the Love Where You Live campaign. As part of the *Bag it. Bin it!* campaign, which ran during February 2013, the Highways Agency used electronic roadside messages and Twitter channels to remind road users to take their litter with them and dispose of it safely.

Asset support contracts

The first asset support contract (ASC) for the operational maintenance of the strategic road network started in July 2012, with Atkins/Skanska managing the road network in Area 2, covering Somerset, Avon, Wiltshire and Gloucestershire. The second ASC started in November 2012, with Balfour Beatty Mott McDonald taking responsibility for Area 10, covering Cheshire, Merseyside, Greater Manchester and parts of Lancashire.

The third ASC was awarded to EnterpriseMouchel in June 2013, covering Area 3 in central southern England. The remaining area-based maintenance contracts will all move to ASCs by 2016.

The new style ASCs will gradually replace the existing arrangements, known as managing agent contractor (MAC) contracts. They will form the basis of the delivery of operational maintenance and the identification and delivery of renewal and improvement work across England's motorway and trunk road network.

The new contracts will deliver efficiencies through the inclusion of new operational requirements for asset maintenance and achieve better value for money.

These new requirements are outcome-based and less prescriptive about how and when work is delivered, without compromising safety. They set out the outcomes and deliverables we require, together with any mandated processes and procedures which must be adopted. The contractor now has more flexibility to decide how the required outcomes are to be achieved – encouraging innovation and continuous improvement.

The provision of technology maintenance is also changing as part of the switch to the ASC. Regional technology maintenance contracts are new region-based contracts that are responsible for routine technology maintenance work and repairs, such as to traffic light signals and traffic monitoring equipment.

Delivering efficiency – the 'lean' journey

The adoption of lean principles as a means of developing a continuous improvement culture in the Highways Agency and its supply chain started in 2009. Since then, 240 improvement projects have been started and 115 completed, generating planned savings of nearly £90 million.

Among these projects have been successes such as the use of collaborative planning and lean visual management to reduce timescales on the repairs to M4 Boston Manor Viaduct, and using collaborative planning on the renewals programme in Area 9 (in the West Midlands) to deliver £6 million savings on the overall programme.

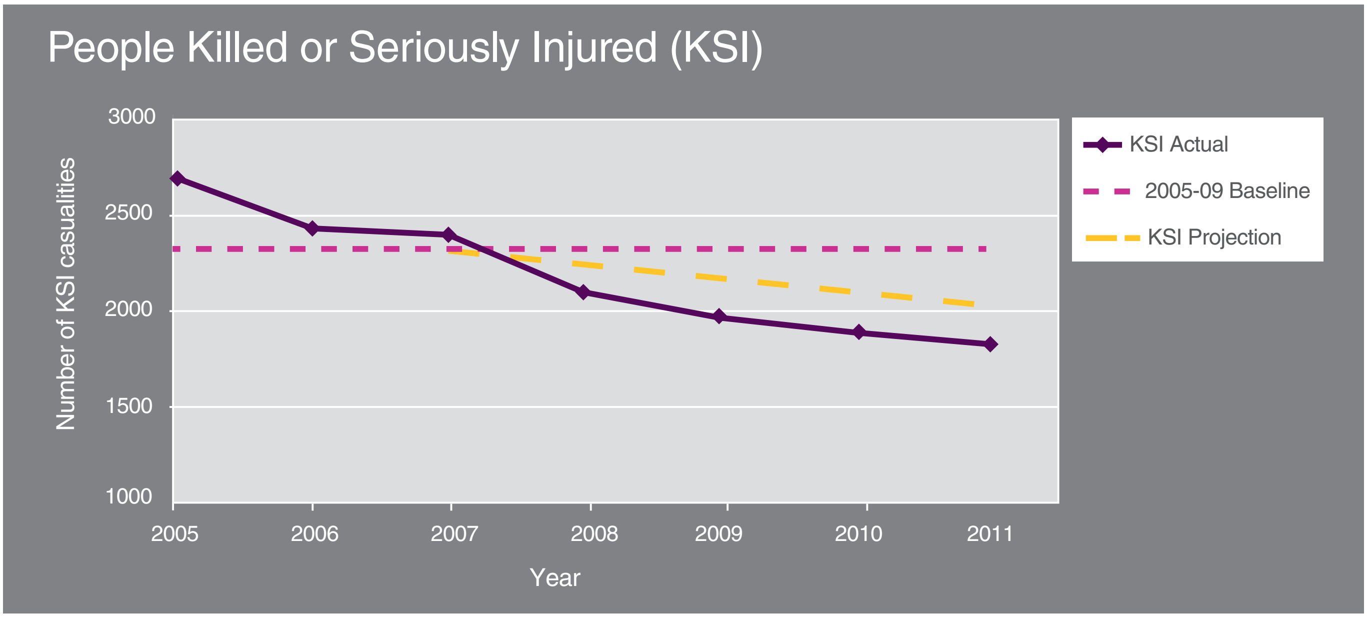
Since 2009, 270 individuals – from the Highways Agency and its supply chain – have received lean training, with 84 people having undertaken training towards practitioner level during 2012.

The delivery partners' lean group in the Delivery Hub are working at programme level to give savings during pre-construction for all major road schemes, including a new process aimed at reducing delivery times by up to six months.

From 2013, lean is being used to seek efficiencies within the Highways Agency's cross-cutting and end-to-end processes – such as the approvals process. In total 12 projects are under way as part of the first wave, with more to come, especially in terms of on-road traffic management.

Lean is also recognised as a key enabler for supporting the Highways Agency's change initiative – an internal organisational change programme – by managing a series of lean improvement projects.

7. Road safety



Safe roads and casualty reduction

The number of people killed or seriously injured on the strategic road network has continued on a downward trend.

The Highways Agency has worked closely with the Department for Transport to develop the future performance specification for road safety, reducing the number of avoidable incidents that will enable us to further improve safety.

We have now rolled out regional safety reports, which summarise the safety performance of regional routes and planned local-level interventions, and ensure compliance with the EU directive for road safety infrastructure management.

Through collaboration with the Conference of European Directors of Roads' road safety panel, as well as the devolved administrations within the UK, we have been able to oversee a cost-neutral implementation of the directive. A further benefit from this closer working approach has been to influence a number of cross-European joint research topics that will be of mutual benefit, as well as to provide a more cost-effective approach for looking at a road safety research programme.

In November 2012, we published the highways standard for the assessment of safety risk on the strategic road network. This provides an overview of the Highways Agency's safety risk management framework and sets the context within which safety risk management decisions are taken across all the populations affected by the road network.

This year our vehicle restraints team has worked closely with the British Standards Committee on amendments to the European standard for road restraint systems. The team has also worked closely with the Construction Products Regulations to ensure mandatory compliance with European Union regulations for vehicle restraint products installed in the UK; they now need to be CE marked to meet the requirements of the EU directive.

8. Collaboration

The Highways Agency continues to benefit from a number of collaborative working arrangements:

CHARM

Over the past four years, the Highways Agency and its Dutch equivalent, Rijkswaterstaat, have worked together to share knowledge and approaches to solving common problems. This relationship is embedded in a joint 'memorandum of agreement'. A programme of collaborative activities has been established, overseen by a joint programme team.

CHARM (Common Traffic Model Highways Agency, Rijkswaterstaat and Mobility and Works) is one of the key traffic technology delivery projects, which aims to investigate and address the current constraints that impact on traffic management technology. The objective is to define a new generation of technologies for traffic control centre use, and to identify the options available for potential future procurement.

The project is part-funded by a grant of €2.8 million from the European Union.

European collaborative research

Following completion of the European-sponsored ERA-NET ROAD project the Highways Agency has continued to collaborate on research with other European national road administrations. We do this through the Conference of European Directors of Roads (CEDR) and separate collaborative agreements, identifying common needs and taking forward co-funded research programmes. This initiative enables the Highways Agency to benefit from exchanging knowledge, peer reviews, performance benchmarking, and gaining value for money through cost sharing.

Participation in the Road Safety at the Heart of Road Design programme has helped the Highways Agency to benchmark its approach to the EU directive on Road Infrastructure Safety Management.

The 2010 asset management programme, which is almost complete, provides a wider understanding of asset management from the road user's perspective. This will confirm the direction of the Highways Agency's integrated asset management information system – a new single database of the strategic road network's assets.

This year a new £3.7 million collaborative programme of research has been awarded, with the Highways Agency leading on road worker safety and the use of vehicle restraint systems; this collaboration promises to deliver valuable research that would otherwise have been funded solely by the Highways Agency.

We are members of the CEDR climate change group, reporting on adaptation to climate change. Risks relating to climate change have been shared, along with proposed adaptation planning and examples of good practice from across Europe.

The Highways Agency is taking forward a number of successful research collaborations initiated by European Research Area Networks (ERA-NET). The Energy – Sustainability and Energy Efficient Management of Roads programme is a cross-border funded, trans-national joint research programme that was initiated by ERA-NET ROAD II.

Carriageway surfacing research

The Highways Agency is committed to collaborating with the road construction industry by co-sponsoring research with the Mineral Products Association and the Refined Bitumen Association to meet the practical challenges in providing and maintaining road infrastructure.

The year 2012 saw the culmination of a three-year research programme designed to ensure that the aggregates used in asphalt surfacing on the strategic road network are optimised for safety, sustainability and cost. Asphalt materials conforming to an enhanced specification were laid on the strategic road network and subjected to a rigorous test programme to establish their safety and durability.

These tests demonstrated that changes could be made to the specification without compromising safety. This gives greater flexibility in sourcing, and improves surfacing durability without the loss of performance, thereby enhancing sustainability. Close collaboration with the roads industry has allowed enhanced materials to be available since summer 2012.

3. Our Team

At the end of March 2013, there were 3,220 permanent, full time equivalent staff working directly for the Highways Agency, with 1,596 of these working as part of our Traffic Officer Service. We aim to recruit and retain people who reflect the diverse nature of our customers. We want them all to feel engaged in the workplace and to receive recognition for doing their jobs well.

Building capability

The Highways Agency's resourcing and capability group co-ordinates a range of programmes and activities that support learning and development in line with the Highways Agency's business needs. They work with all directorates and heads of profession to agree delivery priorities. These priorities aim to drive forward capability within the organisation, and are based around four key areas of activity; contract performance, project and programme performance, people performance and operational delivery performance.

The new approach to delivering learning and development across the Civil Service has been introduced into the Highways Agency with over 85 per cent of staff currently registered on Civil Service Learning (CSL). CSL provides access for Highways Agency staff to a wide range of development initiatives across the four key priority areas.

During the year, staff have undertaken in excess of 4,000 e-learning modules and nearly 2,000 staff attended some form of training event.

Staff engagement

We conduct an annual People Survey to build an accurate picture of the views of our staff, which forms part of a wider Civil Service survey. In 2012 our People Survey had a participation rate of 80 per cent, which means that the results give us a meaningful picture of the views and opinions of our staff. The results were less positive than 2011; our overall engagement score – which measures the degree of attachment and commitment to our organisation and work – decreased by one percentage point, and the majority of responses were down on the 2011 survey. We are using local findings to identify commitments to change, helping us to have a positive impact on how our staff feel about being at work.

Another measure which is often associated with engagement is staff sickness absence. We have a very clear management and reporting process to monitor the levels of attendance of our people. This is measured as the average number of days off work due to sickness absence for each full time equivalent employee. In 2012-13 this was 9.5 days, compared to 9.6 days in 2011-12, which remains a cause for concern. We have introduced a new policy and procedures for managing absence and have started a programme of 'wellbeing' activity which we expect will help reduce sickness absence.

Our change initiative

We understand that organisational change will be a constant feature as we adapt to meet different challenges. In September 2012, we looked at the external drivers that impact on our organisation and concluded that the nation requires:

- a more dynamic and effective public sector that can drive better value for money
- the Highways Agency to be a thriving organisation at the forefront of the economy and a foundation for economic growth
- a flexible and responsive organisation that can support the Government quickly and effectively to meet the changing needs of the tax payer.

We spoke with the DfT, our suppliers and our staff in autumn 2012. They told us that they want to work with and in an organisation that is pacy, engaging, effective, appreciative and fun, and they confirmed that change was needed for a variety of reasons.

Our change initiative

Highways Agency staff said that we need to change to:

- support the drive for economic growth
- reduce costs and provide better value for money
- be able to deliver at pace
- ensure our survival.

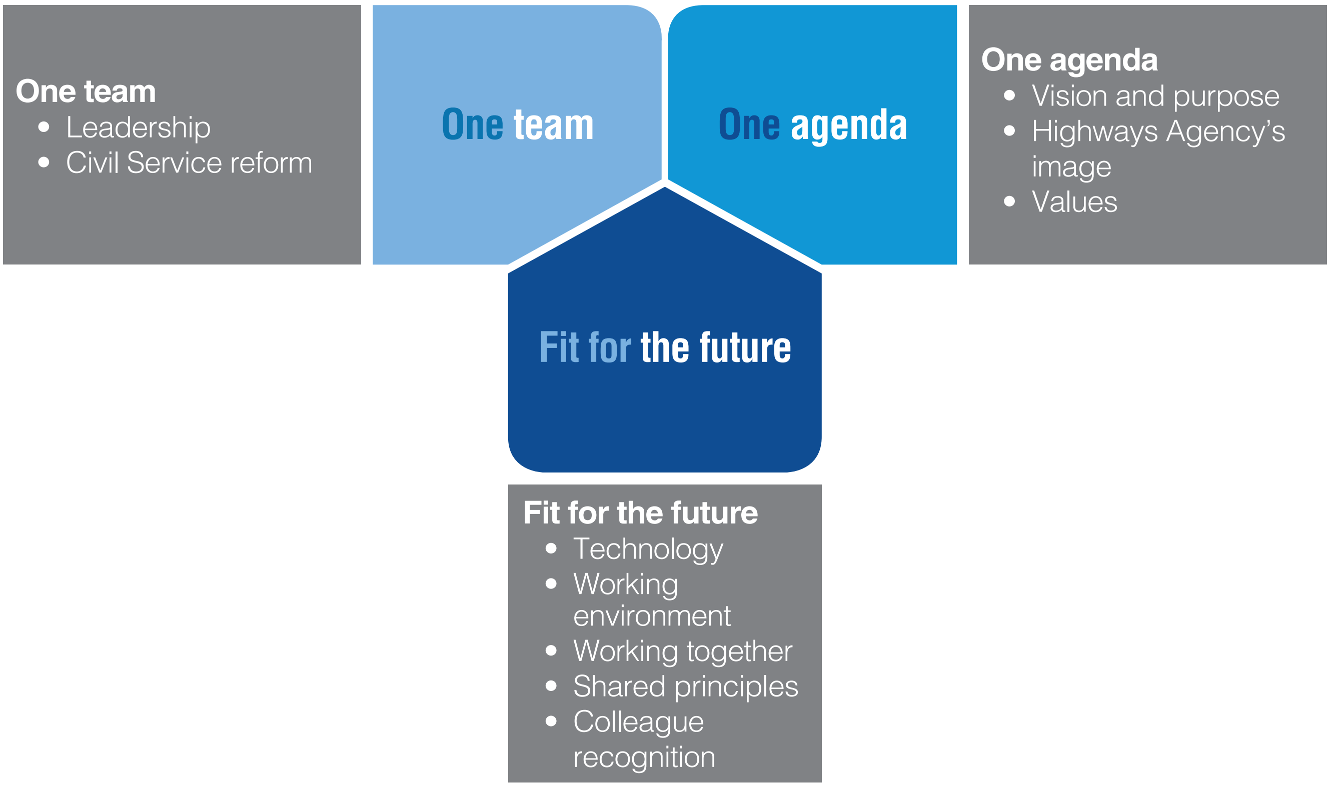
In order to achieve this, we need to:

- break the mould of the short-term investment model
- be clearer about the focus of the Highways Agency's role and image
- be more efficient, and less frustrated and held up by unnecessary processes and bureaucracy
- we need to be more collaborative, flexible and effective as an organisation and with our partners.

As a result of change, we will feel that we:

- have a lively, proactive working environment
- take more individual responsibility and receive and show more respect and recognition
- have quicker, more responsive and up to date IT systems
- can do business easier - a 'can do' culture
- pacy, positive and proud
- engaged, empowered and enjoyable
- confident, skilled, trusted and appreciated.

We have set up three work streams to make changes.



Staff recognition

We want our staff to receive recognition for the good work that they do. In addition to performance pay, we also recognise achievement through our Staff Appreciation and Recognition Scheme (STARS) and annual You Make It Happen awards.

STARS recognises and commends staff who have demonstrated a special achievement by going beyond their normal duties. Anyone can nominate a colleague or member of their team for an award, and nominations are considered in each directorate of the Highways Agency. In 2012-13, 374 staff received a financial STARS recognition.

The Highways Agency's annual You Make It Happen awards recognise outstanding examples of behaviours which bring our values to life, 'Delivering a professional and affordable service through innovation and partnership working'. The scheme is about being valued and recognised. We want to identify the staff who demonstrate our values in exceptional ways and who make the Highways Agency a great place to work. Like the STARS awards, anyone in the organisation can nominate an individual or team.

Supplier recognition

In December 2012 the Highways Agency concluded the second year of its supplier recognition scheme. The scheme again recognised outstanding examples of the important contribution and industry leading performance from our supply chain in:

- health and safety
- managing down cost
- supply chain management
- building and sustaining capability
- delivering sustainable value and solutions.

This year's scheme also provided a special recognition for contribution during the London 2012 Games.

Safety

We are acutely aware that there were around 250 road user fatalities on our network in 2011, the most recent year for which we have validated data; each and every death on our network is one too many. We will continue to work closely with our partners to improve safety on our roads through engineering, enforcement and education, building on the 30 per cent reduction in fatalities compared with 2009's data.

We take health and safety performance very seriously. 'Aiming for Zero' is our strategy for improving the health, safety and wellbeing of our workforce. It sets an unambiguous goal for health and safety performance, confirms the Highways Agency's leadership role in the industry, and brings together health and safety work across the whole organisation. Aiming for Zero covers road workers, construction and maintenance workers, traffic officers and office-based staff.

But working on live carriageways continues to be a hazardous environment for our workforce. This was brought home in the autumn of 2012 by two tragic incidents.

In September 2012, our Traffic Officer Service suffered its first fatality, when traffic officer John Walmsley, who was based at Dartford outstation, died while dealing with an incident on the M25 near Sevenoaks in Kent. John was assisting at the scene of an earlier collision when he was struck and fatally injured by another vehicle. His death reverberated throughout the Highways Agency, attracting tributes from colleagues, partners, people in organisations from as far afield as Australia, and members of the public.

Then in October 2012, just days after John Walmsley's death, a road worker employed by joint venture Balfour Beatty Mott MacDonald was killed in a construction accident while carrying out barrier repairs during roadworks on the A2 in Kent. This was the first road worker fatality since November 2010 and again highlights the risks involved when working on the road network.

We are co-operating with the Health and Safety Executive to establish and take on board the lessons learned from these incidents – developing the risk management arrangements for our Traffic Officer Service, and setting the standards that we expect from our partners in order to maximise safety at construction and maintenance sites.

Case study

Our contractor A-one+ has set the pace in simplifying the way we deploy temporary traffic management signs at roadworks, helping to improve road worker safety. Using this new method, they have removed half the number of traditional warning signs on the approach to roadworks.

Since December 2011, A-one+ has deployed the 'simplified signs layout' more than 6,000 times, saving around 200,000 carriageway crossings and removing more than 2,275 hours that would otherwise have seen road workers exposed to the risk of working in live traffic.

The new layout has been widely welcomed by road workers. Across our supply chain it has led to a 40 per cent reduction in the number of carriageway crossings.

We continue to measure and report the 'accident frequency rate' of our supply chain and work with our suppliers to significantly improve road worker safety. We've implemented temporary traffic management techniques to reduce the risks to road workers who are working on, or close to, the live carriageway. We have also worked in partnership with our supply chain to conduct a number of 'on road' trials, which have provided evidence on the safety of these new traffic management techniques. We have also published guidance that enables signs in the central reserve – used to warn road users that they are approaching roadworks – to be removed during off-peak periods. This will lead to a further reduction in the need for road workers to cross live carriageways on foot. In addition, we have introduced guidance that reduces the time spent setting out the approach taper at off-peak roadworks, further reducing road workers' exposure to risk.

In 2012 we launched our 'raising the bar' initiative, which is a collaborative approach to improving health and safety performance. Working with our delivery partners, we are identifying current best practice and expect this to represent a minimum standard for construction and maintenance activities.

A number of ‘raising the bar’ guides have been published and we’ve established a programme to produce further guides in the future.

We have identified and completed risk assessments for the hazards that our traffic officers are exposed to. We have also implemented an assurance and compliance process for on-road traffic officers to ensure that our people are operating safely and adhering to operational policy and procedures.

Equality and diversity

In April 2012 the Highways Agency published *Making a Difference – our equality objectives for 2012–16*. These emerged following analysis of relevant information, research and consultation with customers, staff and our supply chain to establish activities that would deliver long-term positive outcomes for our diverse range of customers and staff.

Our objectives are to:

- encourage our supply chain to take the next step in improving equality outcomes
- improve our understanding of, and responsiveness to, the needs of protected groups within local communities that are affected by our work on the strategic road network
- promote an inclusive culture where the needs of a diverse workforce are valued and promoted
- successfully encourage talented people from a broad range of backgrounds to join and progress through the Highways Agency.

In January 2013, as part of our public sector equality duty, we published *Gathering Momentum* summarising our progress to date. Our focus has been on embedded activities across our different business areas ranging from those working in partnership with our supply chain to those who provide frontline customer support on our network.

Delivering administrative efficiency

The challenge to become more efficient and make the very best use of taxpayers' money continues to drive many actions across the Highways Agency’s administration.

During the year we:

- closed our central London headquarters in March 2013 following a year-long relocation project. This will result in an annual saving of over £1 million and forms part of a drive to reduce costs and rationalise the Civil Service estate nationally. Posts have been relocated to other Highways Agency offices in Bedford, Birmingham and Dorking
- started to retender our contract for ICT service, following the model developed by Cabinet Office, which should see savings in excess of 25 per cent across all desktop ICT and telephony services
- sub-let space in Highways Agency offices
- started planning for the migration of finance and human resource services to the newly divested the Department for Transport Shared Services centre, which will generate long-term savings through lower transaction costs and ICT licence costs.

4. Sustainability Report

Introduction

Sustainability is founded on bringing full and lasting economic, social and environmental benefits. The challenge for the Highways Agency is twofold; to ensure our network and the surrounding environment are fit for present and future generations, and to make sure our activities and practices have as little adverse impact as possible on people and the wider environment.

Delivering sustainable development requires leadership, cooperation and involvement from all areas of our business and our supply chain and so all of our Executive Directors have objectives to contribute to minimising our impact on the environment and on society. We need to work with partner organisations with an interest in the strategic road network, both from the point of view of its operation and of its impacts. Importantly we need to ensure that the views of communities neighbouring our network form a part of our decision making processes.

The Highways Agency faces long-term challenges in improving reliability and tackling capacity constraints against a backdrop of increasing construction costs, environmental concerns and growing traffic volumes. Finding the right balance between measures to make better use of the existing network, and prioritising network improvements which support economic growth, will be a key challenge over the coming years.

Road transport has a vital role in supporting economic recovery. The strategic road network carries a third of all vehicle traffic and two thirds of all freight journeys in England. Our network is a part of our national way of life, facilitating links between communities and to leisure and cultural centres. We understand this does not come without a cost to the environment or communities adjacent to our network, but we will seek to minimise that impact.

Summary of performance

In 2012-13 we have continued to make strong progress in delivering our commitment to minimising the impact of the strategic road network on the environment. An overview of our sustainability performance is set out in the table below. Details of our sustainability performance metrics are set out in the tables on pages 45 and 46.

Sustainability performance overview	Performance 2012-13	Performance 2011-12
Greenhouse gas emissions (tonnes of CO2 equivalent)	106,985	115,004
Electricity and gas £m	24.015.	22.121
Business travel (tonnes of CO2 equivalent)	1,291	1,202
Business travel £m	3.494	3.136
Whole estate waste (tonnes)	266	252
Office water consumption (cubic metres)	17,670	18,468

Greenhouse gas emissions

Over the year we have continued to implement measures to reduce our greenhouse gas emissions from our office estate, business travel and from the strategic road network. We have achieved a further 6 per cent reduction in greenhouse gas emissions in 2012-13. A significant proportion of this reduction is due to a change to the Defra emission factor for electricity; however a substantial reduction in energy consumption has been achieved through a range of energy saving interventions including:

- switching off lighting on the network at a further two sites
- continuing to replace lighting and roadside equipment with more energy efficient equipment at the end of the existing equipment's useful life
- further reducing energy consumption in our offices. The Highways Agency reduced greenhouse gas emissions by 1.3 per cent on its estate compared with 2011-12. Savings have been achieved by measures such as relocating to more energy efficient premises and by reducing the area of floor space we heat and light at less busy times, although cooler autumn and winter months have meant we have used more energy to heat our offices, so progress on reducing emissions from our offices has been slower than planned

- reduced emissions from our Traffic Office Service vehicles have been achieved through improved deployment strategies, which maintain operational performance while reducing mileage. We are also continuing a phased programme of replacing vehicles with more fuel-efficient vehicles of the same type.

We continue to broaden the scope and improve the quality of the data we collect to help us understand and reduce our carbon footprint.

Supply chain emissions

Although we are a significant source of greenhouse gases emissions, our supply chain emits much more on our behalf. Collaboration with our major suppliers has the potential to deliver significant reductions in greenhouse gas emissions. For example reductions in the use of steel and the use of recycled steel in construction on our M25 junctions 27 to 30 scheme (see case study) has enabled our contractors to avoid greenhouse gas emissions that are the equivalent to over half of the Highways Agency's total annual emissions.

In the last three years greenhouse gas emissions from our supply chain has apparently reduced by more than half. However much reduced construction activity since 2010 naturally leads to less materials, and therefore reduced greenhouse gas emissions.

In 2012-13 we have continued to work with our major maintenance and construction suppliers to improve the way we work together to manage their greenhouse gas emissions. The estimated emissions from construction and maintenance sites are now reported to operation and project managers in the Highways Agency, rather than to central sustainability managers. Operation and project managers are much better placed to instigate action, or innovation to achieve further greenhouse gas reductions. In the future we will produce a per £1 million normalisation of greenhouse gas emissions – this will give a much clearer picture of the efforts of our supply partners to reduce our impact on the environment.

Office waste

The amount we throw away has increased by 14 tonnes compared to 2011-12. Flood damage at Quinton and Woodlands has contributed to the increased volume of waste, and the flood-damaged waste was not suitable for recycling. The closure of our London office and the preparation of office space in our Bedford and Dorking offices also generated increased volumes of waste.

Construction waste

As the quality of data on supply chain carbon emissions improves, so does the data on the volume of waste generated at our maintenance and construction sites. All major projects have a site waste management plan, which is the basis for construction waste reporting.

From all major project construction sites where complete and disaggregated data is available, the total volume of waste sent to landfill in 2012-13 was 347 tonnes compared to 3,185 tonnes in 2011-12, of a total waste volume of more than 297,000 tonnes. See the table on page 46 for more details. In the period from 2009 to 2012 more than 38 per cent of aggregate was purchased from recycled sources.

As with greenhouse gas emissions from construction sites, the volume of waste correlates closely with the level of construction activity. In the future we will attempt to find a meaningful normalisation for construction waste, so our reporting can more clearly demonstrate the achievement of our supply chain partners in minimising construction waste.

Water

We have introduced more accurate reporting for our supply chain's water use on major projects. This is supplemented by advice on how to save water on construction sites, produced jointly with the Strategic Forum for Construction.

We completed a research project to understand how water is used by our service providers and to assess whether this could affect water stress in catchments where we are working, or whether measures to mitigate water stress could impact on our operations. The study found that the volumes of water typically consumed in our operations are unlikely to impact on local water supplies in the UK.

Water management at Stanford depot

A Balfour Beatty Mott MacDonald joint venture is responsible for the management of the Highways Agency's network in Kent. One of the depots is at Stanford near Folkestone.

Water use at this site is sourced from mains water, rainwater harvesting and a 'grey' water recycling system. Surface water runoff is collected from the buildings, workshops and facilities and is stored for recycling. Foul water discharge from the offices and other recycled water is pumped (after cleansing) to on-site wetlands, ecological systems used to treat waste water.

The main water reduction activities are:

- using run-off water for washing down vehicles
- using a brine tank in the on-site salt barn, which is one of the largest in the UK, to produce water saturated with salt. The majority of this water is sourced from an attenuation tank
- installing push-release taps have been installed in site office wash basins. Urinal cisterns are water efficient and funding is being made available for waterless urinals.

This effort to reduce waste was shortlisted for Chartered Institution of Highways and Transportation's 2013 award for sustainability.

Nevertheless, we continue to raise awareness of water use in the civil engineering construction industry and beyond. We contribute to the Green Construction Board's Greening the Industry water sub-group, and will be seeking water use savings on our projects when compared with the benchmark identified by the group.

Biodiversity

The Highways Agency owns around 22,000 hectares of land, referred to as our 'soft estate', which includes the area between highway fences that is not occupied by the carriageway. This soft estate is made up of a range of habitat types, including sites of national importance, designated for their wildlife and natural features. The Highways Agency's activities, including road construction projects and maintenance schemes, have the potential to impact on protected sites, habitats and species.

Following the publication of the *Natural Environment White Paper* (The Natural Choice: Securing the Value of Nature: June 2011) and England's biodiversity strategy (Biodiversity 2020: A strategy for England's wildlife and ecosystem services: 2011), the Highways Agency is giving further consideration to its approach to biodiversity and nature conservation. We aim to contribute to the creation of coherent and resilient ecological networks by maximising opportunities for protecting, promoting, conserving and enhancing our diverse natural environment.

The Highways Agency works in partnership with other stakeholders to deliver biodiversity action at a national and local level. In line with this approach we have established a 'memorandum of understanding' with Natural England to support effective working between the two organisations.

The Highways Agency has also published its own guidance on nature conservation and biodiversity issues, which is included in the *Design Manual for Roads and Bridges*. This guidance is maintained and supplemented through continued research on aspects of environmental best practice relevant to our activities.

Recycling hard hats into wheelie bins

We have begun a trial to recycle our old hard hats and so reduce the amount of waste we send to landfill. Hard hats normally have a life expectancy of about three years, as exposure to sunlight and environmental conditions can cause the plastic to degrade. This means the Highways Agency can dispose of nearly 100kg of hard hats every year, all of which have been sent to landfill.

A company in Bedford now recycles our hard hats, turning them into high-density polythene regrind – this is used to create new products, such as wheelie bins.

M1 junctions 10 to 13 managed motorway scheme

Work to improve the M1 between junctions 10 and 13 by converting it to a managed motorway has relieved congestion by using technology to vary speed limits.

Notable highlights include delivered by the Costain/Carillion joint venture include:

- **managing water** – run-off from the site compound and a dedicated site allotment was collected
- **biodiversity** – invasive alien crayfish species, that were discovered in large numbers in a brook, were humanely destroyed
- **greenhouse gas reduction** – lighting was removed and permanently switched off, with the exception of junctions, their approaches and a short section of the M1 either side of junction 11 which will remain lit. A safety assessment of this section of the M1 using current standards no longer justified the need for lighting.

The scheme's environment work won the Highways Agency's supplier award for sustainable development.

Sustainable procurement

The Highways Agency's procurement strategy is structured around three tenets: value for money, delivery and sustainability.

The Highways Agency's *Sustainable development plan 2012-15* includes specific challenges for procurement, including developing an action plan to achieve level five of the flexible framework by 2015. Work is under way on this by preparing for a full Chartered Institute of Purchasing and Supply accreditation assessment, including a sustainable procurement module.

We work with suppliers to provide over 90 per cent of what we need, our requirements ranging from operating and developing our road network to keeping our offices and staff properly supported.

To maximise the opportunities which the procurement process offers and in line with the priorities set out in the Highways Agency's procurement strategy, we:

- Continue to apply sustainability measures at the pre-qualification stage of the procurement cycle via the Strategic Alignment Review Tool
- Place contracts, which include requirements to deliver sustainable working operations that use resources effectively (reducing waste and maximising recycling/reuse), and reduce energy, water consumption and carbon emissions, as well as implement diversity, equal opportunities and skills/ apprenticeship policies. This approach is being reinforced through the incorporation of Government buying standards
- Monitor sustainable development performance post-contract award by means of sustainability action plans agreed between suppliers and the Highways Agency.

In addition, the Highways Agency raised the profile of sustainability by including a category for 'delivering sustainable value and solutions in its supplier recognition scheme (see case study). The annual awards, first presented in November 2011, are equally open to those in direct contract with the Highways Agency and to those that support delivery through the extended supply chain.

A sustainability e-learning package is currently being developed for the Highways Agency and its suppliers.

A project to build our capability in sustainability has recently been approved. This has resulted in closer liaison with the Dutch road administration, innovations and best practice being spread through the supply chain, and developments to Highways Agency standards.

Noise

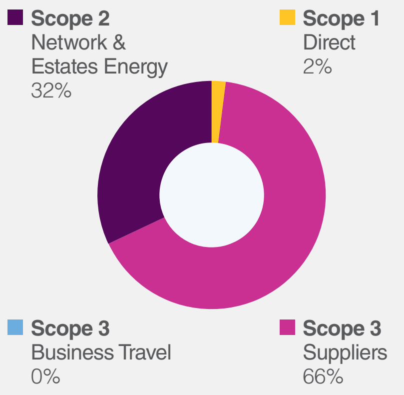
We recognise the impact that excessive noise levels have on those living close to roads. In the past year, we have built on the progress made to minimise this impact through continuing to install low-noise surfacing materials whenever major maintenance is due.

2012-13 Highways Agency Sustainability Report

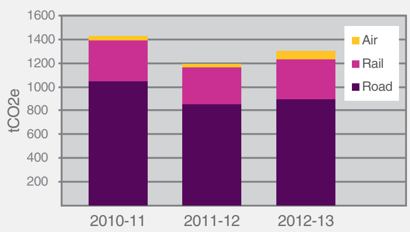
	Greenhouse Gas (GHG) Emissions	2010-11	2011-12	2012-13
Gross Emissions (tonne CO_2e)	Scope 1: Direct traffic officer fuel and estates gas usage	7,110	5,971	5,531
	Scope 2: Indirect emissions from network and estates electricity consumption	119,000	107,891	100,165
	Scope 3 item: Business Travel	1,200	1,202	1,292
	Scope 3 items: Suppliers' emissions	507,000	411,124	207,668
	Total	**634,310**	**526,188**	**314,656**
Related Consumption Data	Estates (HA offices) Electricity (kWh)	3,543,898	3,459,849	3,333,092
	kWh per full time employee	1,774	1,714	1,779
	Estates (HA offices) Gas (kWh)	1,512,680	1,572,247	2,652,695
	kWh per full time employee	1,421	1,202	1,240
	Private car mileage (million road miles)	1.250	1.226	1,253
	Hire car mileage (million road miles)	1.250	1.402	1.620
Financial Indicators	Total energy expenditure (roadside lighting and equipment, offices, RCCs and outstations)	£20.300m	£22.121m	£24.015m
	CRC related expenditure (admin fee and provision for allowances)	£2,240	£1,024,290	£967,290
	Expenditure on business travel	£2,520,000	£3,125,729	£3,493,866

Graphical Analysis

Greenhouse Gas Emissions 2012-13



Business Travel GHG emissions by mode



Performance Commentary Including Measures

Performance commentary – In 2012-13 the Highways Agency achieved a 6% reduction in greenhouse gas emissions compared to 2011-12, although a significant proportion of this reduction is due to a change to the Defra emission factor for electricity.

Commentary on emission factors – Scope 1 direct emissions from the consumption of fuel in traffic officer vehicles reduced by 7.5%, we have reduced consumption of diesel by 265,000 litres through implementing a more efficient vehicle deployment strategy.

Scope 1 direct emissions from the consumption of gas in our offices has increased by 60%. Much higher than expected emissions were caused in part by the need to heat our offices for longer in the cooler autumn and winter months. However, less than 1% of Highways emissions derive from the consumption of gas, so this increase has very little impact on our overall level of greenhouse gas emissions. Plans remain in place to achieve our planned reduction by March 2015.

Scope 2 indirect emissions from the consumption of electricity in our offices and regional control centres has fallen slightly, again the need to heat our offices during the cold weather has meant that we have reduced energy consumption less than planned.

Scope 2 indirect emissions from the consumption of electricity in lighting, communication, signs and signals on the strategic road network and in our outstations and depots has reduced by 6% as energy reduction measures continue to be implemented. However, a significant proportion of the decrease is due to the change to the Defra emission factor for electricity.

Scope 3 indirect emissions from business travel have increased by 7%. Some data for business travel in March 2013 is not yet available, an estimate has been made using data from the previous March.

Controllable Impacts Commentary

Performance commentary – Total Scope 3 emissions from our supply chain, made when maintaining and enhancing the strategic road network have (almost) halved in 2012-13 when compared to 2011-12.

The majority of our suppliers' greenhouse gas emissions are embodied in the construction materials used, so there is a strong correlation between the level of emissions and the level of construction activity on the network. The reduction in supplier greenhouse gas emissions is due to reduced construction activity on our network. However there have been significant efforts right across our supply chain to reduce our impact on the environment, some of which are highlighted in the case studies above.

The Highways Agency and our suppliers will continue to collaborate to improve our management of greenhouse gas emissions associated with highways maintenance and construction. A more informative metric is the amount of greenhouse gas emissions per £1 million of capital spend. For future years, we will report normalised carbon emissions of our supply chain.

Overview of Influenced Impacts

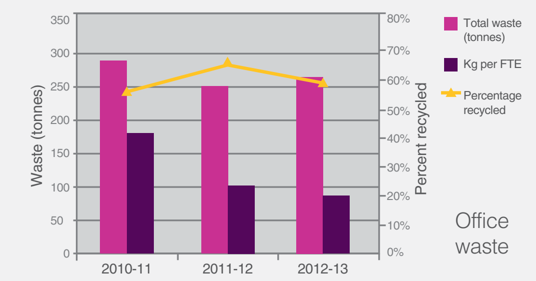
Performance commentary – Clearly, the greatest source of greenhouse gas emissions associated with the strategic road network is the emissions from vehicles travelling on our network. Although road user travel emissions are outside the Highways Agency greenhouse gas footprint accounting boundary, the Highways Agency has an important role to play to help to make road user journeys as carbon efficient as possible. For example, good information can help road users to avoid fruitless journeys and needless detours, effective use of variable speed limits can help to reduce road user emissions by minimising the time spent in queues.

We seek to engage employees in reducing our (and their) environmental impact, like celebrating Climate Week, by launching a competition, inviting everyone across the Highways Agency to take part, with a prize for the best ideas on how to make our buildings more sustainable.

The Highways Agency also seeks to influence the greenhouse gas emissions of its employees commuting to and from our workplaces. Flexible working, car parking policy, car share schemes, etc all contribute to minimising commuter.

Waste		2010-11	2011-12	2012-13
Non-Financial Indicators	**Total admin waste (tonnes)**	287	252	266
	Recycled waste (tonnes)	155	168	162
	Kg per FTE	184	100	90
	Percentage recycled	54%	67%	60%
Non-Financial Indicators	**Construction waste (tonnes)**		355,716	297,888
	Percentage waste to landfill		0.9%	0.1%
	Non-hazardous waste (tonnes)		354,725	296,700
	Percentage recovered		99%	99%

Graphical Analysis



Performance Commentary including Measures

Estates waste – Figures in the above table are for the whole office and control centre estate, but outstations and depots are excluded. Figures for 2010-11 exclude waste from our offices in Manchester and Bristol.

The Highways Agency has increased the total volume of waste generated at its offices by 14 tonnes. Of the total volume of waste, 60% was recycled compared with 67% in 2011-12. The increase in the volume of waste is due, in part, to the need to dispose of flood damaged equipment (most of which was not suitable for recycling or re-use), the closure of our London office has also generated additional waste.

We are working with all of our Facilities Management partners to better understand how our waste is treated, with the aim of minimising the volume of waste we sent to landfill.

Controllable Impacts Commentary

Construction waste – We are continuing to improve the scope and the quality of data that we collect on waste generated at our major projects construction sites, we have also worked with our contractors to develop materials management strategies to maximise the use of recycled materials and to minimise waste from our major projects.

Figures in the table are based on Site Waste Management Plans from our major projects in their construction phase in 2012-13 where complete and disaggregated data is available. Almost 87% of all construction waste was reused and 12% recycled. Our landfill diversion rates remain very low by any industry.

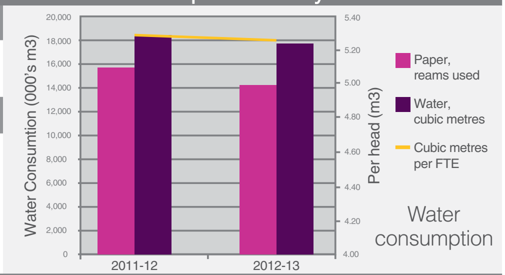
Overview of Influenced Impacts

See section on “Litter removed from the network” on page 30

Finite Resource Consumption

Paper Use		2010-11	2011-12	2012-13
Non-Financial Indicators	**Reams used**	no data	15,601	14,047
Water Consumption		**2010-11**	**2011-12**	**2012-13**
Non-Financial Indicators	Estates water m^3	13,900	18,468	17,670
	Estates water tonnes (tonne CO_2e)	4.2	6.1	6.0
	m^3 per FTE	4.6	5.3	5.28
	Water use at construction sites	no data	212,725	

Graphical Analysis



Performance Commentary including Measures

Office water – The figures for 2012-13 in the table include estimates for water consumption at our Birmingham and London offices. The estimates are based on the average per head consumption across the rest of our office estate.

We have reduced out consumption of water at our offices and regional control centres by 4%. Most of the reduction has been achieved by the installation of waterless urinals in our regional control centres and in some of our offices.

Paper – We have reduced our paper consumption by 10% compared to 2011-12. This has been achieved by further reducing the number of printers and setting double sided printing as the default. We minimise the number of paper copies of corporate publications, like this Annual Report.

Controllable Impacts Commentary

We have introduced more accurate reporting of water use by our supply chain on major projects. This was supplemented by the provision of advice produced jointly with the Strategic Forum for Construction to save water on construction sites.

Water consumption at construction sites was lower than in 2011-12, but just as greenhouse gas emissions correlate directly with the level of construction activity, so does water consumption.

Overview of Influenced Impacts

Sustainable procurement – We seek to maximise the opportunities which the procurement process offers in relation to sustainability, and in line with the priorities of our Procurement Strategy, see text above for details.

Notes to the tables:

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

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

Note 3: Electricity consumption road lighting and roadside equipment is normally through unmetered supplies. Electricity consumption is determined by the suppliers, for example for street lighting the calculation is based on the number of active streetlights and the hours of darkness. The calculation of greenhouse gas emissions from unmetered electricity consumption is based on annual statements of consumption from our electricity suppliers. The Highways Agency does not attempt its own estimates of unmetered electricity consumption.

Note 4: We have made a small change to our reporting on emissions from our office estate. In previous years, for locations where our office space was shared with other government bodies, we reduced the emissions reported by the proportion of our floorspace occupied by others. This year all emissions for such shared locations are reported here. This brings this report in line with the requirements for other reports, eg for the CRC Energy Efficiency Scheme.

Note 5: At present estimation methodologies in relation to utilities is considered separately by each different responsible unit. Each estimation method used has been documented in the commentary above. Best practice for the Highways Agency has been developed and will be applied to each business unit as facilities management contracts allow.

We have continued to make good progress in implementing the processes set out in Defra's noise action plans, as required by the Environmental Noise (England) Regulations. We consulted with local authorities on the results of our investigations at 1,347 locations which Defra identified as those most severely affected by road traffic noise – 'Important Areas with First Priority Locations'. We also used innovative geographic information system techniques to complete investigations at the remaining 1,061 'important areas' identified by Defra and will be consulting with local authorities on the results of these investigations during 2013, with a view to installing any noise mitigation identified in 2014 and beyond.

Governance

We monitor our sustainability performance as an integral part of our performance management processes. Risks on our preparedness for climate change and our ability to manage our greenhouse gas emissions are escalated to and monitored through the Highways Agency's corporate risk register. The Directors of the Network Services and Finance and Business Services directorates are responsible for ensuring that appropriate mitigating action is planned and delivered.

The Highways Agency's Board receives regular reports on sustainability performance, both in terms of business plan measures, such as reducing carbon emissions, and performance against external requirements such as the Greening Government Commitments laid down by Cabinet Office for all central government organisations. Also diversity statistics and action to encourage the achievement of our equality and diversity objectives are reported regularly to the Highways Agency's Executive Committee.

An internal audit regularly reviews internal sustainability reporting, focussing on validating the data that supports external reports as part of the Carbon Reduction Committee Energy Efficiency Scheme, and verifying claimed performance against our business plan measures.

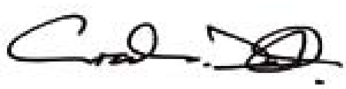
Financial Statements

The financial statements cover the period 1 April 2012 to 31 March 2013 and have been prepared in accordance with a direction issued by Her Majesty's Treasury 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 Highways Agency are audited by the Comptroller and Auditor General (C&AG), head of the National Audit Office. The financial statements have been prepared in accordance with the 2012-13 Financial Reporting Manual (FReM) issued by HM Treasury.

Past and present employees are covered by the provisions of the Principle Civil Service Pension Scheme. Details of the costs associated with this can be found at Note 1.11 and Note 3(a) of the financial statements in Section 9.

Auditors

In so far as the Accounting Officer (AO) is aware, there is no relevant audit information of which the entity's auditors are unaware, and the AO has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the entity's auditors are aware of that information. The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and costs £275,000 (2011-12 £275,000). In addition £16,500 plus VAT (2011-12 £14,000) was paid to the NAO in respect of the audit of the 2011-12 Dartford-Thurrock Road User Charging Scheme account, and a charge of £14,000 (2011-12 £14,000) was made for the audit of the 2011-12 Severn Bridges account. No amounts were paid to the NAO for non-audit work.



Graham Dalton
Accounting Officer
25 June 2013

5. Governance Statement

Introduction

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

HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011. The new code builds on the principles of the original code published in July 2005, focusing on the role of boards, since these provide leadership. I have provided details below, of how the Highways Agency's system of corporate governance has operated during 2012-13, including any areas where the system has not operated in line with the Code.

Role of Accounting Officer

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

Highways Agency Governance

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

The key elements of the Highways Agency's system are:

- the Highways Agency Board, Executive Committee and its sub-committees
- the Highways Agency Audit Committee and its Counter Fraud Sub-Committee
- a good governance culture
- a sound system of internal control including an independent audit and assurance activity.

Each of these areas is explained more fully in this statement, and illustrated in the diagram of the governance framework on page 61.

Highways Agency Board, Executive Committee and its sub-committees

The Highways Agency is managed by a formal Board and an Executive Committee, supported by a Senior Appointments Committee, and two sub-groups of the Executive Committee.

Highways Agency Board

The Highways Agency Board (HAB) meets frequently to consider the plans, performance, strategic direction of the Highways Agency, the most important risks to successful delivery of those plans, and the Highways Agency's stewardship of public assets. The composition and attendance during 2012-13 was as follows:

Attendance at Board meetings		
Member	Board	Audit Committee
Alan Cook (Non-Executive Chairman)	10(10)	
Graham Dalton (Chief Executive)	10(10)	3(4)[1]
Peter Adams (Major Projects)	10(10)	
Ginny Clarke (Network Services)	10(10)	
Stephen Dauncey (Finance and Business Services)	10(10)	4(4)[1]
Simon Sheldon-Wilson (Traffic Management)	8(10)	
Derek Turner (Network Development and Delivery) [2]	10(10)	
Tracey Barlow (Non-Executive Board Member) – Until Jul 2012	4(4)	2(2)
David Hughes (Non-Executive Board Member)	10(10)	4 (4)
Simon Murray (Non-Executive Board Member) – From Nov 2012	4(4)	1(1)
Tim Walton (Non-Executive Board Member)	10(10)	4(4)

Note: Figures in table denote meetings attended (meetings available for individual to attend); eg 10 (12).

[1] Graham Dalton and Stephen Dauncey are not members but are invited to attend the Audit Committee. They have no voting rights.

[2] David Brewer has been appointed to the new role of Director, Asset Delivery and to the Board of the Agency, succeeding Derek Turner on his retirement.

The Board is chaired by the Non-Executive Chairman who gives assurance to the Secretary of State for transport on the quality of the running of the Highways Agency and its effectiveness in meeting its objectives. The purpose of the Board is to advise the Accounting Officer in the course of his duties and to ensure that the Highways Agency is organised, resourced and motivated to deliver its objectives efficiently and effectively, giving collective leadership to the Highways Agency by:

- providing strategic direction to the Highways Agency and ensuring that the wider, cross-cutting and longer term issues are properly considered
- ensuring that the Highways Agency has sufficient resources and staff with the skills, knowledge, motivation and support to deliver its objectives
- ensuring appropriate standards of corporate governance are in place and are observed
- listening to, and tackling, the concerns of staff and promoting good management
- communicating with staff and representing the Highways Agency's collective interests to the outside world.

Key items discussed by the Board this year were:

- monthly corporate performance reports
- quarterly health and safety updates
- corporate risk reviews
- quarterly reviews of the Spending Review 2010 implementation plans
- London 2012 Games updates
- 2013-14 business planning
- the future strategy for the Highways Agency.

The Board commissioned an internal board effectiveness evaluation in April 2012, reflecting on performance during 2011-12. Following discussion of the findings of the evaluation the Board has undertaken action to improve in areas including leadership and development, succession planning, Board skills and experience and training for Board Members.

During the 2012-13 period, Tracey Barlow completed her tenure as Non-Executive Board Member and was replaced by Simon Murray, who was appointed to the Board on 5 November 2012 for a two year period.

Highways Agency Audit Committee

The Highways Agency Audit Committee (HAAC) is responsible for providing assurance, to me as Accounting Officer that the Highways Agency's system of internal control is operating effectively. It meets approximately every quarter and reviews the Board's assessment of corporate risk, considering wider Departmental risk as appropriate. In addition, it considers reports from the Counter Fraud Sub-Committee and monitors progress with the internal audit programme, health and safety audits, Network Delivery and Development (NDD) contract assurance and other assurance processes operating across the Highways Agency, ensuring recommendations arising are implemented. It also monitors the performance of internal and external audit functions.

In line with HM Treasury's Audit Committee best practice guidance, the HAAC is made up of the Highways Agency's three Non-Executive Board Members, one of whom has been appointed as chair. The chair of the Highways Agency's Audit Committee also sits on the DfT Audit Committee and meets with his fellow Audit Committee Chairmen regularly throughout the year. The composition and attendance of the Committee during 2012-13 is shown above:

The HAAC Chairman advises, as appropriate, on key risk and control issues arising from the work of the Committee.

During 2012-13 the Audit Committee specifically reviewed or considered various topics including the:

- annual report and accounts
- internal audit annual report and opinion
- year-end 2011-12 and mid-year 2012-13 stewardship (management assurance) reports
- Highways Agency's corporate risk register
- reporting of instances of identified fraud, together with assurance over the relevant central enforcement, as appropriate
- internal audit and NAO audit strategies and progress for providing assurance to the Chief Executive, as accounting officer
- NAO value for money work
- Dartford river crossing and Severn bridge accounts 2011-12
- planning and accounting policy changes for 2012-13, including network valuation and depreciation
- health and safety audit programme and sources of assurance analysis
- strategy and planning for the contract assurance regime over NDD supply chain contracts
- HAAC's terms of reference and related matters.

The HAAC reviews its effectiveness on an annual basis and takes forward actions to improve its performance. The last exercise was undertaken in April 2013 and actions were agreed by the Committee at their June meeting. Progress on implementation is monitored throughout the year and results incorporated into its next exercise.

Highways Agency Executive Committee

The Executive Committee meets frequently to consider the day-to-day administration of the Highways Agency. The Executive Committee is chaired by the Chief Executive and is responsible for ensuring that the appropriate plans are in place to allow the Highways Agency to meet business plan objectives and live within its budget. Key items discussed this year were:

- Executive performance reports
- communications forward looks
- 2010 spending review implementation plans
- Highways Agency resource plans.

The Board and Executive Committee are supported by a Senior Appointments Committee, a Delivery of the Investment Programme Sub-Committee, the Highways Agency Audit Committee and a Network Performance Group.

Senior Appointments Committee

The purpose of the Senior Appointments Committee (SAC) is to ensure that succession planning and progression/developmental strategies are in place for senior roles across the Highways Agency. The SAC is a sub-committee of the Board and meets on a quarterly basis or more regularly if required.

This year the SAC focused on:

- ensuring that succession planning is in place for all senior appointments including those to the Executive for both the longer term and for emergency needs
- providing moderation and agreement to high level objectives for all senior staff
- ensuring that progression for senior staff is also mapped to include both personal and developmental objectives
- agreeing performance and pay recommendations on an annual basis.

Delivery of Investment Programme Sub-Committee

The Delivery of Investment Programme (DIP) Sub-Committee is responsible for monitoring the capital investment programme, tracking the delivery of efficiencies and ensuring a strategic approach to supply chain and commercial activities. It provides reports to the Executive Committee of any material risks to the delivery of the principal capital investment programmes set out by the Department for Transport for the Highways Agency to deliver. Copies of the minutes of meetings are provided to the HAB for information.

This year the DIP focused on:

- monitoring progress in the delivery of the Highways Agency's capital investment programme with specific review of potential under or over spends in the year, including considering the mitigation of these variances, either within the Highways Agency or, in conjunction with finance functions, across the Department
- tracking the outcomes from Project Control Framework stage gate and OGC gateway reviews, with common themes identified and learning and best practice shared with the business
- challenging the financial outcomes of Spending Review 2010 delivery plans (existing cost plans) to ensure clarity and the existence of a strong evidence base for claimed efficiency savings
- tracking the efficiencies delivered by the supply chain using unit cost information captured within the Major Projects and Network Development and Delivery directorates
- assessing the spend profiles and performance of the supply chain across all directorates against a range of measures and using intelligence to inform the strategic supply chain direction
- supporting consistency across all directorates in how the Highways Agency engages contractors and consultants and ensures best practice in cost and commercial management is maintained across all directorates
- reviewing sector activity delivery risks and mitigating actions and, where appropriate, ensuring strategic risks are captured and assigned and key lessons are being applied to future investment planning
- reviewing the pipeline of procurement opportunities in line with the Highways Agency's future procurement strategy ensuring that strategic procurement opportunities are considered, that the procurement strategy delivers reduced bureaucracy, incentivise's consistent high performance and collaborative working at fair market prices with appropriate risk transfer.

Network Performance Group

The Network Performance Group (NPG) is responsible for driving improvements in the performance of the strategic road network. The operation and performance of the network is at the core of the service that the Highways Agency offers to its customers, and NPG is key in driving a mindset and culture that ensures that the customer experience is consistent with our aspiration to be the world's leading road operator. NPG focuses in particular on:

- safety
- traffic performance
- network availability (including winter and severe weather service)
- customer service (information and feedback)
- network development.

NPG takes the lead in facilitating cross-directorate communication, collaboration and issue resolution relating to all of the above issues. Key elements discussed in 2012-13 were the London 2012 Games, network performance and network strategy.

Highways Agency Counter Fraud Sub-Committee

The Counter Fraud Sub-Committee is chaired by the Director of Finance and Business Services and its membership comprises: the Highways Agency's Fraud Management Advisor, the Head of Audit and Assurance, the Procurement Director, a representative from the Department's legal function and a Non-Executive Board Member, with additional representation from the business, as required. The sub-committee meets approximately every quarter, in line with the HAAC and reports of the business handled by the sub-committee are provided to the HAAC for information.

During 2012-13 the sub committee undertook the following:

- A review of the current case load that has been identified through the counter fraud and whistle blowing facility.
- Directing the appropriate body (internal audit; human resources or business managers) to conduct further work or investigation to establish if an allegation is correct to enable remedial action to be taken.
- A review of the 2012-13 fraud horizon scan (which was undertaken by the Fraud Management Advisor through a series of workshops) to determine the current risk environment where the potential for fraud is more significant. Results and ongoing actions will be monitored through the sub-committee and reported to HAAC, as appropriate.
- Oversight of the exercise to provide clarity on the Highways Agency's business operations in relation to the Bribery Act and the potential risk of non compliance.

The sub-committee reviews its own effectiveness on an annual basis and takes forward actions to improve its performance. The last exercise was undertaken in April 2013. Progress on implementation of actions arising is monitored throughout the year and results incorporated into the next annual exercise.

The Governance Culture

The Highways Agency recognises that the culture of the organisation can impact substantially on its success in terms of good governance and compliance with required risk and internal control policies and processes. As Civil Servants, all staff of the Highways Agency are bound by the Civil Service Code. The Highways Agency values statement; 'providing a professional and affordable service through innovation and partnership working' supplies the foundation of its culture.

A key element of culture is the engagement of staff. In 2012 the Civil Service Staff Engagement Survey results showed that the Highways Agency's engagement index decreased by 1 per cent to 52 per cent compared with the previous year. The results against the majority of engagement questions are less positive than last year, and less positive than the Civil Service overall. We are focusing on several areas to ensure we deliver real improvements and make the Highways Agency a better place to work.

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

The Highways Agency does not make grants to locally governed organisations.

System of Internal Control

There are a number of internal control processes, which provide a framework for managers and staff to successfully and efficiently deliver the Highways Agency's objectives. These processes are designed to manage risk to an optimum level rather than to eliminate all risk of failure; as such, compliance can only provide reasonable and not absolute assurance of effectiveness.

All Highways Agency processes have an assigned owner and are documented on the Highways Agency's intranet through the 'Way we Work' system. This is supported by a clear Process Management policy, which requires Process Owners to regularly review their processes and seek assurance on both compliance and their suitability.

The key processes of internal control, which provide the basis of delivering all of the Highways Agency's objectives, include the following, with further details on each below:

- Risk management
- The identification and mitigation of conflicts of interest
- Business planning
- Performance management
- Financial management
- Project and contract management
- Compliance with standards and requirements

Risk Management

The Highways Agency's Executive Directors and other senior managers are responsible for risk management within their commands. The Highways Agency has a published risk management policy which is available to all staff via the intranet. The guidance outlines key aspects of the risk management process, including the main reporting procedures and the system for identifying and escalating risks. Senior managers have received training in risk management tailored to their responsibilities and concerns.

Staff and managers are required to identify new or increased risks and opportunities as part of the routine performance reporting process. Risk is a standard agenda item in team meetings in many areas of the Highways Agency. Risks are reviewed, the effectiveness of mitigating actions and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk owners include reports on their handling of operational risk as part of their wider stewardship reports. The Board allocates the management of strategic risks to a nominated Director, as a single responsible owner, who then reports back as appropriate through the year.

My staff work closely with their counterparts in the Department 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's risk appetite is set to ensure that:

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

The Highways Agency Board has a Corporate Risk Register, which is the main tool used to monitor the management of the most significant risks in the Highways Agency. This is included in the monthly performance report reviewed by the Board at its Governance meeting. In addition the Board has an in-depth risk review every four months, considering changes to the operating environment as part of this review.

In 2012-13 the most significant risks represented on the corporate risk register included:

- a terrorist incident on the network results in serious congestion
- the Highways Agency being unable to maintain the network in a serviceable condition
- loss, irregular disclosure or corruption of important data
- failure to manage the additional pressures of the London 2012 Games.

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

I am keenly aware that risks to the public arise from many aspects of the development and operation of the strategic road network. While developing new works, the Highways 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 Department Road Safety Strategy.

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

Identification and mitigation of conflicts of interest

The Highways Agency delivers the significant part of its responsibilities through the procurement of goods and services. As such, I recognise that it is extremely important that the Highways Agency has sound processes for identifying and mitigating potential or real conflicts of interest.

The Highways Agency has clear, documented requirements for staff in relation to:

- completing declarations of interests forms – The Highways Agency is required to disclose related third party transactions in its Annual Accounts. An audit of this disclosure is undertaken by the Highways Agency's internal audit function to provide me with assurance that the process is operating correctly
- completing hospitality and gifts registers – Register entries for Board Members are published on our website.

The declarations of interests are regularly used by our procurement function to ensure that there are no conflicts of interest in relation to procurement decisions.

During 2012-13 there was one conflict of interest case that required management intervention when a conflict was self reported. Appropriate action was taken to remove the individual from internal decisions, and subsequently, the individual removed himself from the arrangements giving rise to the conflict.

Business Planning

It is vital that the Highways Agency has a clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning. I work closely with the Department to achieve this. Before the start of each financial year the Highways Agency publishes a business plan to cover the deliverables for the coming year along with confirmation of the budget within which we have to deliver.

In addition to business plan commitments, the Executive Committee also set internal supporting objectives for the Highways Agency which are communicated at the start of the year by means of a scorecard.

Performance Management

The Highways Agency has clear performance management processes, which include requirement for reporting progress to the Board. Each directorate has its own performance management function and produces performance reports covering its own internal operations and progress on corporate targets/measures. Formal reporting takes place monthly to ensure that any areas of concern are identified for management action as soon as possible.

Performance management processes are designed to link non-financial and financial reporting with risk management procedures.

Financial Management

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

- a mandatory Investment Control Framework, which encompasses HM Treasury Green Book and Department investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers affordability, prioritisation, risk and strategy. These arrangements dovetail with those of our parent Department for larger investments that require approval from DfT or Ministers
- the Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's Managing Public Money and other requirements
- an Oracle financial accounting system with embedded controls
- asset management procedures to record and account for all assets
- a Counter Fraud Sub-Committee meets regularly to oversee the handling of any significant issues or allegations, all of which are taken seriously by the Highways Agency and fully investigated
- an Investors in People accreditation which is a proven business improvement framework that significantly improves financial performance, productivity and employee involvement and focus.

Project and Contract Management

We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality. Control systems include:

- a Project Control Framework, which specifies the detailed governance processes and procedures that major projects must follow to ensure they deliver the required outputs of each project phase on time and to budget. The framework also defines the project lifecycle, roles and responsibilities and project deliverables
- use of the Gateway Review method of providing project assurance. Competent programme and project management ensures that issues are not overlooked, time and money is not wasted, and resources are effectively deployed
- centralised procurement function for contracts more than £15,000, which are handled by a central division and any single tender action requires the personal approval of the Procurement Director
- the use of earned value management on all key investments to inform and enable meaningful challenge
- compliance by service providers to their contracts is checked through the Service Quality Review process undertaken within regional teams. Assurance over the management of contract risk is provided through the Highways Agency's contract assurance regime work carried out by the internal audit function.

Compliance with Standards and Requirements

Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements. The Highways Agency's arrangements include:

- a dedicated team that deals with compliance with the statutory processes for the acquisition, management and disposal of land and property in connection with the Highways Agency's activities. Other teams deal with the statutory requirements concerning road building, and the management and maintenance of the strategic road network
- technical governance procedures to ensure that the Highways Agency conducts its business in accordance with the appropriate technical standards, and include measures to govern any necessary departure from engineering standards
- compliance with European Union legislation and standards where appropriate regarding several areas including procurement and health and safety.

Audit and Assurance

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive Managers within the Highways Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I am advised on the implications of the effectiveness of the system of internal control by the Board and the Audit Committee.

Internal Audit

My head of Audit and Assurance provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit Standards, and an annual independent opinion on the adequacy and effectiveness of the Highways Agency's system of internal control together with recommendations for improvement. The implementation of recommendations is monitored closely by the Highways Agency Board and is included on the performance scorecard. The head of Internal Audit's opinion for the year 2012-13 is that on the basis of the evidence obtained during the year a Reasonable assurance rating can be provided on the adequacy and effectiveness of the Highways Agency's arrangements for corporate governance, risk management and internal control, ie that they are generally established and effective, with some minor weaknesses or gaps identified. In her opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Governance Statement.

Our Performance Audit Framework (PAF), an assurance and process improvement function concerning our supply chain community, was replaced in 2012-13 with a Contract Assurance Regime, which moved away from assessing our service provider's compliance with their contracts and assessed their ability to manage core risks within the contract. The function continues to combine technical specialists with experienced auditors and forensic accountants, delivering to an agreed methodology, offering a consistent and informed challenge to the way business is conducted within the supply chain community. Results from this year's work has established that risks are being managed at a reasonable level by the supply chain and although issues were identified at a regional level, there are no significant weaknesses that fall within the scope of issues that should be reported in the Governance Statement.

Counter Fraud Arrangements

Building on an earlier assessment of risk of liability under the 2010 Bribery Act, the focus during the year was to incorporate bribery awareness into the fraud awareness programme.

During the course of 2012-13 the Highways Agency recorded 84 whistle blowing allegations from both internal and external sources. The majority of these proved to be either related to another body (such as a local authority), or were low level issues resolved by the relevant operational area. However, eight cases were deemed worthy of investigation by the Highways Agency's internal audit function, none of which resulted in any fraudulent or improper activity being identified.

The supplier related fraud identified and reported in my 2011-12 Governance Statement, which saw the Highways Agency being charged for a number of fictitious schemes (or over-scoped schemes), and the consequent review of controls by internal audit, resulted in a number of recommendations for improvements in the control environment of suppliers. These have been taken forward and implemented. Results of a recent contract assurance review showed a significant improvement in the supply chain's management of this risk. All amounts identified as part of the original fraud were identified and have been recovered from both the current service provider and the preceding Managing Agent. The Highways Agency worked with the Police during their criminal investigation and is awaiting the outcome of the court hearings due in early summer 2013.

Stewardship Reporting

Twice a year, Highways Agency Board Directors provide stewardship reports that take account of management assurance from Divisional Directors and others who report on the full range of delegations, policies and procedures laid down by the Highways Agency. Directors report on:

- compliance within their division
- the adequacy of the arrangements within their division
- what remedial action is being taken where assurance cannot be provided.

The process lays down stringent evidence requirements for managers to rate their assessments by. These are reviewed by the relevant internal process owners along with the action plans proposed to address deficiencies in compliance. Over the year, overall assurance ratings have shown a gradual improvement, with the majority of processes now achieving the targeted level of assurance.

Senior Information Risk Officer's (SIRO) Assessment

During this year the Highways Agency continued to comply with the Cabinet Office guidance on information risk management. My Senior Information Risk Owner (SIRO) assessment of information risk performance is that the Highways Agency's information assets held on the Highways Agency's business and operational IT infrastructure are being managed effectively and that appropriate and proportionate risk controls are in place.

All staff including Executive and Non-Executive Board Members are required to sign up to an Acceptable Use Policy before gaining access to our business ICT systems and have been trained in data handling. A revised data-handling training policy has been implemented to reinforce the requirement for all new starters and key roles to undertake data handling training and refresher training.

We continue to pursue a policy of continuous improvement in our controls and have recently had our HMG Security Policy Framework compliance assessment independently audited to support that improvement process. The results of this have identified that there are weaknesses in some of our compliance processes, including the evidence supplied to support the statements. The Highways Agency will work this year to improve the situation. The Highways Agency has no personal data related incidents to report. Following a successful trial, we have rolled out end port control software to ensure unauthorised devices cannot work on our business ICT systems.

Throughout the year our Records Management Team has been working with a number of key business areas to support them in moving from paper to electronic filing processes. This has seen a significant reduction in our paper records file creation and storage costs. Further training workshops regarding improving records management processes and usage of the Agency Electronic Document and Records Management System (EDRMS) has also been delivered. The Highways Agency is in the process of upgrading its current EDRMS platform, and a work stream is planned for delivery across the next financial year to further improve both the utilisation of the system and improved information management to introduce efficiencies to our core processes and our information management.

The Highways Agency has welcomed the Cabinet Office review of the current HMG Protective Marking Scheme. A new HMG Security Classification Scheme will be implemented in April 2014. A number of briefings have already been given to Senior Managers and Board Members regarding the changes and the potential benefits of a simplified policy. Training will be rolled out across the organisation and to our third party suppliers nearer the go-live date.

Project Management Assurance

We have maintained an open and close working relationship with the Major Projects Authority (MPA). Its confidence in our approach to Gateway Reviews and Government Major Projects Portfolio (GMPP) scrutiny appears to be strong and has resulted in the delegation of increased levels of responsibility to our Centre of Excellence. We have the authority to manage high risk Gateway Reviews, in addition to the medium and low risk that we were already delegated. During 2012-13 we negotiated the removal of the Managed Motorway programme from the GMPP in recognition that the Highways Agency has developed a mature management approach that has increased delivery confidence and moved the programme to a position of business as usual.

Quality Assurance Framework for Business-Critical Models

The Highways Agency maintains an appropriate quality assurance framework for its business critical models. An up-to-date list of business critical models is publicly available.

Other explicit assurance reviews:

Managing the risk of financial loss – In October 2010, following a cross-Government Financial Systems Risk Review, HM Treasury introduced new guidance and tools to support a review of processes, which had an associated risk of financial loss. A financial loss in this context was defined as a loss of monetary assets in relation to deliberate or accidental errors during the processing of financial transactions. The Highways Agency completed a review of all relevant processes and associated controls during 2011-12 and the majority of processes were found to have the necessary levels of control in place. Where weaknesses were found, action plans were developed and remedial action taken during 2012-13 to improve areas where control was not deemed to be at the appropriate level – although no areas were considered to be at a critical risk. An internal audit review of action plan implementation reported that the majority of actions had been implemented.

For the remainder it was suggested that actions be incorporated into the periodic reviews undertaken by process owners as part of their quality management responsibilities.

Controls around the Highways Agency's Shared Services arrangement – The Highways Agency is party to the DfT group Shared Service Centre (SSC) for the provision of payroll and human resource services, governed by a service level agreement and managed through the Single Client function within the DfT. The Highways Agency monitors the performance of the SSC through the Single Client Function and the Single Client Board of which the Highways Agency Chief Executive is a member. The Highways Agency's SSC Relationship Manager is a member of the Department's Single Client Team, reviewing system and service performance and participating in governance and change management decisions. A service level agreement is in place and monthly Key Performance Indicator reports provide evidence of SSC performance against the contracted service requirements.

The Highways Agency receives a quarterly management assurance report that is based primarily on Shared Services management's risk and control monitoring activities and reporting processes. This assurance also draws upon internal audit reports provided by the Department's own internal audit function, and other relevant risk/control reports and sources of assurance. Through this, the SSC has reported to the Highways Agency that its system of internal control met the criteria for effective internal control, although a small number of exceptions remain in relation to controls that did not directly impact the financial statements. The most critical of these related to succession planning, the completion of its disaster recovery policy, and a system for archiving/disposing of records. For these areas, the SSC determined that the level of residual risk did not warrant any further action prior to divestment. Shared Services also maintains a tracker of outstanding internal audit recommendations and the Highways Agency receives independent assurance from the Department's Chief Internal Audit Executive regarding any significant control weaknesses.

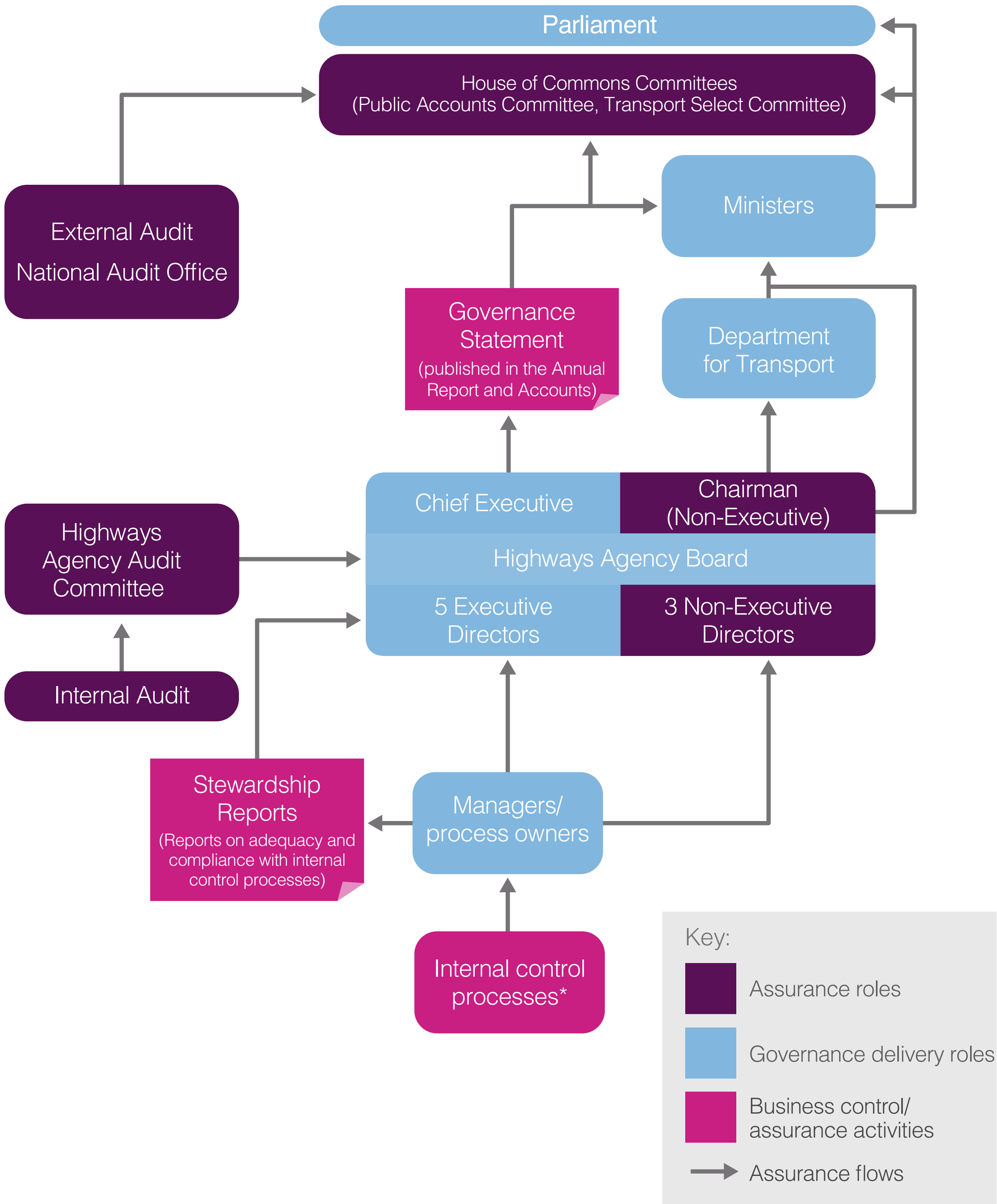
Throughout the year, the Highways Agency has continued to take responsibility for ensuring that controls and processes are operating effectively. These factors, combined with the quarterly reports from Shared Services, ensure that the combination of controls is appropriate and adequate in terms of our overall internal and assurance requirements.

In February 2013, the Department successfully divested the SSC to the private sector. The contract was awarded to arvato, part of the Bertelsmann group, who took over ownership of, and responsibility for, provision of service from 3 June 2013. The Highways Agency is currently working with the Cabinet Office, the Departmental Shared Service Futures team and arvato to support the design of the post divestment services and to ensure that appropriate governance, control and assurance processes are established for the migration of the Highways Agency's finance and HR systems to the new SSC platform in October 2014. In April 2013, the Highways Agency's project team received an amber rating in relation to the confidence of delivery from its first Gateway review and the team are currently working on developing and implementing an action plan to deliver the recommendations arising from this.

I have taken all necessary steps to make myself aware of any relevant audit information and to establish that the Highways Agency's auditors are aware of that information. In so far as I am aware, there is no relevant audit information of which the Highways Agency's auditors are unaware.

Graham Dalton
Accounting Officer
25 June 2013

Highways Agency Governance Framework



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

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

6. Remuneration Report

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

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

Pay and Performance Committee

The Pay and Performance Committee comprises the Department for Transport's Permanent Secretary (as Chairman), all DfT Directors General and a Non-Executive Board Member.

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

The reward package for the SCS in the Highways Agency comprises four elements:

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

Pay System and Performance Management

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

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

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

- Pay band 1 (Deputy Director) £58,200 - £117,800
- Pay band 2 (Director) £82,900 - £162,500
- Pay band 3 (Chief Executive) £101,500 - £208,100

SCS in the Highways Agency have objectives in the following categories:

- Leadership objectives – the DfT common leadership objective plus leadership behaviours and providing direction for the organisation; delivering results; and building capability in the organisation to address current and future challenges.
- Business delivery objectives – defining business outcomes for the specific post, and assigning accountability and responsibility for each business plan or structural reform plan commitment.
- Finance/efficiency – capturing what the jobholder will do to ensure that costs are minimised and budgets are managed to ensure maximum value to the taxpayer.

- People/capability objectives – ensuring that individuals, the Department and civil service have the right capability to deliver business outcomes now and in the future.
- Personal development objectives – Emphasis on the importance of continuous personal development and an individual's growth in competence.

Objectives incorporate diversity by embedding it in business, people/capability or finance/efficiency objectives, or through a separate diversity objective.

Performance against objectives, and relative to SCS peers, determines allocation to a performance group, to which non-consolidated variable pay is linked. There are three performance groups:

- Top – top 25% of performers
- Achieving – next 65% of performers
- Low – bottom 10% of performers

To be allocated to the top performance group an individual must deliver to the highest standards in all objective categories.

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

A performance group is the starting point for non-consolidated performance pay determination. For 2012/13, only the top 25% of performers, those in the top performance group, will receive an award.

In 2012/13, no base pay increases are available for members of the SCS.

Remuneration policy for Non-Executive Board Members

The Highways Agency undertook a review of the fees payable to Non-Executive Directors during 2008, comparing them with other DfT agencies. As a result rates were increased with effect from 1 September 2008. No changes have been made to the rates since then; however following a HM Treasury led review, in line with the requirements set out by the DfT Permanent Secretary in July 2012, all payments for new or renewed contracts will be processed through the payroll system rather than payables. Existing Non-Executives have confirmed that income taxation and national insurance obligations have been met.

Service contracts

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

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

Non-Executive Board Members 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 Board Members who served during the year are:

	Date of initial appointment	Unexpired terms (months remaining at 31/03/13)
Executive Directors serving at 31/03/13		
Graham Dalton	30/06/2008	Open - ended
Peter Adams	09/01/2012	Open - ended
Ginny Clarke	02/07/2001	Open - ended
Stephen Dauncey	02/02/2009	Open - ended
Simon Sheldon - Wilson	01/02/2010	Open - ended
Derek Turner	07/03/2005	2
Executive Directors leaving before 31/03/13 [1]	-	-
Non-Executive Board Members serving at 31/03/13		
Alan Cook [2]	01/01/2011	15
David Hughes [3]	15/07/2009	3
Tim Walton [4]	10/01/2011	3
Simon Murray [5]	05/11/2012	19

1 David Brewer has been appointed to the new role of Director, Asset Delivery and to the Board of the Highways Agency, succeeding Derek Turner on his retirement.
2 Alan Cook, a Non-Executive Board member of the DfT, joined the Highways Agency on 1 January 2011 on a 12 month contract which has been extended until 30 June 2014.
3 David Hughes' contract expires on 14 July 2013 and the Highways Agency will be seeking an extension.
4 Tim Walton's contact was extended for a further six months and is now due to expire on 9 July 2013.
5 Simon Murray was appointed as a Non-Executive Board member on the 5 November 2012 for a two year period.

Salary and pension entitlements (audited)

The following sections provide details of the remuneration and pension interests of the Highways Agency's Executive Directors.

	2012-13			2011-12		
	Salary £000	Bonus payments £000	Benefits in kind (to nearest £100)	Salary £000	Bonus payments £000	Benefits in kind (to nearest £100)
Officials						
Graham Dalton	145-150	-	-	145-150	-	-
Ginny Clarke	105-110	5-10	-	105-110	-	-
Stephen Dauncey	115-120	-	-	115-120	5-10	-
Simon Sheldon-Wilson	90-95	5-10	-	90-95	5-10	-
Derek Turner	140-145	-	-	140-145	10-15	-
Peter Adams	115-120 -	- -	- -	25-30 FYE [1] 115-120	- -	- -
Nirmal Kotecha	- -	- -	- -	80-85 FYE 150-155	35-40 -	- -
Steve Williams	- -	- -	- -	10-15 FYE 105-110	- -	- -

[1] Full-year equivalent (FYE) salaries are included for those Directors joining or leaving the Highways Agency part way through the year. Peter Adams joined the Board on 9 January 2012.

Salary

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

Bonus payments

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

Benefits in kind

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

Median remuneration of staff (audited)

	2012-13	2011-12
Midpoint of salary range and bonus of highest paid Director (£)	147,500	155,000
No of staff	3,400	3,512
Median point	1,700	1,756
Median remuneration (£)	25,687	25,420
Ratio	**5.74**	**6.10**

- Midpoint of salary range and bonus of highest paid Director is calculated by summing the midpoint of the relevant £5k salary range with the mid point of the relevant £5k bonus range.
- Median salary is the full time equivalent salary, and includes TRA and shift allowance where appropriate. ERNIC, superannuation contributions and bonus payments are not included.
- Temporary staff have been included but not consultants/contractors. In the absence of relevant data these have been assumed to be paid at the average salary for the grade of the post (or if not known, PB7).

The median remuneration of the Highways Agency's staff in 2012-13, based on full time equivalents, is £25,687, which slightly increased from the previous year due to natural pay progression. The ratio between the median remuneration and the mid point of the banded remuneration of the highest paid Director is 5.74, which has fallen due to changes in Directors and corresponding salaries.

Pension benefits (audited)

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

	Accrued pension at pension age as at 31/3/13 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/13 £000	CETV at 31/3/12 £000
Graham Dalton	25-30 no lump sum	0-2.5 no lump sum	425	387
Ginny Clarke	45-50 plus 145-150 lump sum	0-2.5 plus 0-2.5 lump sum	1,042	984
Stephen Dauncey	10-15 no lump sum	-	261	219
Simon Sheldon-Wilson	-	-	-	-
Derek Turner	15-20 no lump sum	0-2.5 no lump sum	354	308
Peter Adams	5-10 no lump sum	2.5-5.0 no lump sum	85	56

	Real increase in CETV as funded by employer £'000	Employer contribution to partnership pension account Nearest £100
Graham Dalton	13	-
Ginny Clarke	2	-
Stephen Dauncey	25	-
Simon Sheldon-Wilson	-	11,400
Derek Turner	25	-
Peter Adams	17	-

The Cash Equivalent Transfer Value (CETV)

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

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

Real increase in the value of the CETV

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

Remuneration of Non-Executive Board Members (audited)

The Non-Executive Board Members received the following remuneration for their services during the year ended 31 March 2013:

	2012-13 £000s	2011-12 £000s
Alan Cook [1]	35-40	35-40
David Hughes [2]	25-30	25-30
Tim Walton	10-15	10-15
Simon Murray [3]	5-10	-
Tracey Barlow	0-5	10-15

[1] Alan Cook is also a Non-Executive Director at the DfT, but his remuneration for that role is disclosed separately in the DfT accounts.

[2] David Hughes is a member of the DfT Audit Committee and his remuneration for that role is included in this total.

[3] Simon Murray joined the Board on 5 November 2012.

[4] Tracey Barlow left the Board on 31 July 2012

The amounts reported above were paid to the individual or the individual's company and are exclusive of travel & subsistence and VAT. We do not regard these payments as being of a third party nature. We have received confirmation that where the Non-Executive Board Member is engaged off-payroll that income taxation and national insurance obligations have been met in relation to their role.

Graham Dalton
Accounting Officer
25 June 2013

7. Statement of Accounting Officer's Responsibilities

Under the Government Resources and Accounts Act 2000, HM Treasury has directed the Highways Agency to prepare for each financial year, resource accounts detailing the resources acquired, held or disposed of during the year and the use of resources by the Highways 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 Highways Agency at the year-end and of its income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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 Officers' Memorandum, issued by HM Treasury and published in Managing Public Money. Details may be accessed online at www.hm-treasury.gov.uk

8. Certificate and Report of 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 2013 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditors

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

the financial statements give a true and fair view of the state of the Highways Agency's affairs as at 31 March 2013 and of the net operating cost for the year then ended; and

the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000
- the information given in Sections 1 to 5 of the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP
26 June 2013

9. Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2013

		2012-13			
	Note	Staff costs £000	Other costs £000	Income £000	2011-12 £000
Administration costs					
Staff costs	*3*	21,821	-	-	21,575
Other administration costs	*4*	-	42,588	-	41,646
Operating income	*6*	-	-	(2,166)	(1,746)
Programme costs					
Staff costs	*3*	95,556	-	-	98,508
Programme costs	*5*	-	2,071,001	-	2,278,966
Income	*6*	-	-	(66,343)	(61,345)
EU income		-	-	(23,971)	(1,978)
Totals		**117,377**	**2,113,589**	**(92,480)**	**2,375,626**
Net operating cost				**2,138,486**	**2,375,626**

Other Comprehensive Expenditure

	Note	2012-13 Total £000	2011-12 Total £000
Net (gain)/loss on revaluation of property, plant and equipment	*7, 9*	(2,101,414)	(2,752,080)
Total comprehensive (income)/expenditure for year ended 31 March 2013		**37,072**	**(376,454)**

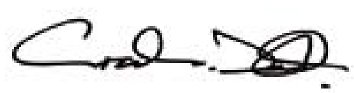
All income and expenditure is derived from continuing activities.

The Notes on pages 77 to 113 form part of these accounts.

Statement of Financial Position as at 31 March 2013

	Note	31 Mar 2013 £000	31 Mar 2012 £000
Non-current assets			
Property, plant and equipment	*7*	109,600,436	108,483,417
Intangible assets	*8*	902	5,306
Trade and other receivables	*12*	365,753	340,988
Total non-current assets		**109,967,091**	**108,829,711**
Current assets			
Assets classified as held for sale	*9*	12,314	17,620
Inventories	*11*	45,202	56,249
Trade and other receivables	*12*	206,653	124,271
Cash and cash equivalents	*13*	31,467	17,377
Total current assets		**295,636**	**215,517**
Total assets		**110,262,727**	**109,045,228**
Current liabilities			
Trade and other payables	*14*	689,347	638,285
Provisions	*15*	52,761	119,840
Total current liabilities		**742,108**	**758,125**
Non-current assets less net current liabilities		**109,520,619**	**108,287,103**
Non-current liabilities			
Provisions	*15*	139,821	137,066
Other payables	*14*	2,056,854	2,054,170
Total non-current liabilities		**2,196,675**	**2,191,236**
Assets less liabilities		**107,323,944**	**106,095,867**
Taxpayers' equity			
General fund		42,775,161	43,321,466
Revaluation reserve		64,548,783	62,774,401
Total taxpayers' equity		**107,323,944**	**106,095,867**

The Notes on pages 77 to 113 form part of these accounts.



Graham Dalton
Accounting Officer
25 June 2013

Statement of Cash Flows for the year ended 31 March 2013

	Note	2012-13 £000	2011-12 £000
Cash Flows from operating activities			
Net operating cost		(2,138,486)	(2,375,626)
Adjustment for non-cash transactions	*4, 5*	1,170,618	1,279,356
(Decrease) in inventories		11,047	32,505
(Increase) in trade and other receivables		(107,147)	(17,812)
less movement in receivables relating to items not passing through the SCNE		(3,325)	(2,154)
Increase in trade and other payables		53,745	357,158
less movement in payables relating to items not passing through the SCNE		(97,050)	(22,570)
Use of provisions		(94,005)	(97,569)
Non-cash movement in classification of provision	*15*	(953)	-
Release from grant deferred reserve		-	(1,978)
Capital grant income		-	4,449
Adjustment for capital and interest element of PFI payments		58,215	52,443
Net cash outflow from operating activities		**(1,147,341)**	**(791,798)**
Cash flows from investing activities			
Purchase of property, plant and equipment	*7(a)*	(855,085)	(1,290,143)
Proceeds of disposal of assets held for sale		11,878	8,624
Capital element of movement in provisions	*15*	29,477	59,920
Net cash outflow from investing activities		**(813,730)**	**(1,221,599)**
Cash flows from financing activities			
From consolidated fund (supply): Current year		1,968,094	2,072,880
From consolidated fund (supply): Prior year		65,282	29,120
Capital element of payments in respect of on balance sheet PFI contracts		(58,215)	(52,443)
Net financing		**1,975,161**	**2,049,557**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the consolidated fund		14,090	36,160
Payments of amounts due to consolidated fund		-	(128)
Net increase/(decrease) in cash and cash equivalents in the period		**14,090**	**36,032**
Cash and cash equivalents at the beginning of the period	*13*	**17,377**	**(18,655)**
Cash and cash equivalents at the end of the period	*13*	**31,467**	**17,377**

The Notes on pages 77 to 113 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2013

	Note	General fund £000	Revaluation reserve £000	Restated grant reserve £000	Total reserves £000
Balance at 31 March 2011		**39,899,014**	**58,131,655**	**4,409**	**98,035,078**
Change in accounting treatment of infrastructure asset		34,040	-	-	34,040
Change in accounting treatment of EU grants		-	-	(4,409)	(4,409)
Restated Balance at 31 March 2011		**39,933,054**	**58,131,655**	**-**	**98,064,709**
Changes in taxpayers' equity for 2011-12					
Net gain on revaluation of property, plant and equipment		-	2,752,080	-	2,752,080
Adjustments to non-current assets		3,552,214	2,030,256	-	5,582,470
Reversionary interest on M6 toll road		6,120	-	-	6,120
Non-cash charges - auditors' remuneration	*4*	275	-	-	275
Transfers between reserves		139,590	(139,590)	-	-
Net comprehensive expenditure for the year		(2,375,626)	-	-	(2,375,626)
Total recognised income and expenses for 2011-12		**1,322,573**	**4,642,746**	**-**	**5,965,319**
Funding from the Department for Transport		2,102,000	-	-	2,102,000
CFERs payable to the consolidated fund		(36,162)	-	-	(36,162)
Balance at 31 March 2012		**43,321,466**	**62,774,401**	**-**	**106,095,867**
Changes in taxpayers' equity for 2012-13					
Net gain on revaluation of property, plant and equipment		-	2,101,414	-	2,101,414
Adjustments to non-current assets		(483,972)	(201,432)	-	(685,404)
Reversionary interest on M6 toll road		13,952	-	-	13,952
Non-cash charges - auditors' remuneration	*4*	275	-	-	275
Transfers between reserves		125,600	(125,600)	-	-
Net comprehensive expenditure for the year		(2,138,486)	-	-	(2,138,486)
Total recognised income and expenses for 2012-13		**(2,482,631)**	**1,774,382**	**-**	**(708,249)**
Funding from the Department for Transport		2,033,376	-	-	2,033,376
Supply payable		(13,853)	-	-	(13,853)
CFERs payable to the consolidated fund		(83,197)	-	-	(83,197)
Balance at 31 March 2013		**42,775,161**	**64,548,783**	**-**	**107,323,944**

The Notes on pages 77 to 113 form part of these accounts

Notes to the Highways Agency's Accounts

1. Statement of accounting policies

The financial statements have been prepared in accordance with the 2012-13 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits the choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Highways Agency for the purpose of giving a true and fair view has been selected.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment.

1.2 Other recent accounting developments

Standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2013, and have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods:

- Phases 1 and 2 of IFRS 9 Financial Instruments, which will replace parts of International Accounting Standard (IAS) 39, deals with the classification and measurement of financial assets and financial liabilities. IFRS 9 is intended to improve and simplify the reporting of financial instruments. The completed phases require financial assets and liabilities to be measured according to their classification, and simplify the classification structure. According to the IASB, application of this standard is required for reporting periods beginning on or after 1 January 2015, though earlier application is permitted. This will have no material effect on the Highways Agency's financial statements.
- IAS 1 – an amendment will come into effect from 1 April 2013, relating to the presentation of items in the Statement of Other Comprehensive Expenditure. It requires that items that may be reclassified to profit or loss should be presented separately from those items that may not. It also requires that, where items are presented before tax, the tax effects of the reclassifiable items should be presented separately from the tax effects of non-reclassifiable items. This is likely to reflect the presentation of items in the Highways Agency's Statement of Other Comprehensive Expenditure, though not the amounts. Other changes due to come into effect after 2012-13 are considered to have no impact on the Highways Agency.

FReM

There were no accounting changes affecting the 2012-13 Highways Agency financial statements.

1.3 Prior period adjustments

Material adjustments applicable to prior periods arising from either changes in accounting policy, correction of material errors, or the value of trunked/detrunked roads are accounted for as prior year adjustments. Opening balances are adjusted for the cumulative effect of the prior year adjustment and comparative figures for the preceding period are restated in accordance with International Accounting Standard IAS 8.

1.4 Non-current assets: Property, plant and equipment

Property, plant and equipment is sub-categorised into:

i) Network infrastructure assets – these relate to the motorways and all-purpose trunk roads (APTRs) in England, which form a single integrated network. The network infrastructure consists of carriageways, including earthworks, tunnelling and road pavements, roadside communications, bridges and other structures, and land and buildings within the highway's perimeter.

ii) Non-network assets – these include land and buildings outside the highway's perimeter, non operational buildings, plant and equipment and information technology. All residential properties owned by the Highways Agency and not part of an existing scheme under construction are reported as dwellings.

Capitalisation policy

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

Non network assets (excluding Land)	£2,000
Land	No minimum value
Network Infrastructure – new build [1]	No minimum value
Road and structures renewals [1]	No minimum value

[1] Major projects and road and structure renewals thresholds have been changed to a no minimum value to ensure administrative efficiency.

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

Expenditure on construction schemes in the course of design or construction is capitalised when it is reasonably certain the scheme will go ahead. Where a scheme is subsequently withdrawn from the capital programme, cumulative design expenditure is written off to the SoCNE. Any retained land and property is transferred to surplus land and buildings or dwellings, as appropriate. Surplus land, buildings or dwellings to be sold within one year are valued and reported as assets held for resale, in accordance with IFRS 5.

Internal staff costs that can be attributed directly to the construction of an asset, including capital renewal schemes, are capitalised.

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

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

Technology equipment is capitalised from inventory when a project is under construction.

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

Valuation

Network infrastructure assets

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

The network infrastructure assets are specialised (ie a market value is not available) and therefore must be valued using Gross Replacement Cost (GRC) in accordance with the FReM, before applying depreciation.

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

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

External professional surveyors undertake a full valuation of the network at intervals not exceeding five years. The valuation is not based on historic actual cost of construction for individual assets. Rather, the Highways Agency determines standard costs for the network based on accounting estimates that use the actual cost of recent schemes together with physical assets records and the best information available to provide unit rates for all elements and components of the network.

Standard costs unit rates are determined for the following elements of the network infrastructure: road, structures, technology equipment and land. When calculating the unit rates for the various elements of the network, a number of accounting assumptions are implicit in determining the network valuation. These assumptions are reviewed every five years when the Highways Agency seeks to provide a new valuation of the network. A full valuation of the network infrastructure was carried out by EC Harris LLP, professional surveyors during the year ended 31 March 2010.

Unit Cost	Unit cost determination
Road	The standard costing for roads has a series of road types created to identify all roads and determine the unit costs. Each road types will have a width for the carriageway, hard-strip or hard-shoulder, central reservations, etc.
Structures	*Non-special structures* – Unit rates for bridges, tunnels, gantries and retaining walls are based on a number of standard road types and standard structure types, which are extrapolated where necessary. *Special structures* – These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, eg the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.
Land	Land is an integral part of the road network and forms an important part of the valuation. Although some of the land occupied by the network may not actually be owned by the Highways Agency, it is considered that, as the Highways Agency had an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. The unit costs rates for land is determined by a series of rates calculations based on external sources including the Royal Institute of Chartered Surveyors (RICS) market surveys.
Technology	Technology equipment unit costs are developed using rates from technology frameworks currently in place between the Highways Agency and its contractors and bulk purchase prices for materials procured direct by the Highways Agency. The unit costs also include a percentage of the subcontractors' preliminaries and other on-costs where applied to construction works.

Information on infrastructure assets is held on a number of operational asset management systems. Where appropriate, dimensional data is used from these systems to inform the valuation of individual roads and structures. The application of professional judgement by engineers will impact the variability of dimensional data which in turn will impact the valuation of the infrastructure asset.

Indexation

Various indices are applied to the valuation of the network to ensure the final valuation is at current replacement cost. Indexation of the network valuation is applied as follows:

Indexation		
Roads and structures	Five year revaluation	Unit costs are calculated from projects opened to traffic over the last 5 – 10 years to value carriageways, structures and technology. Unit rates from projects with different opening dates are brought to a common baseline using RoadCon, a construction industry index. This index is calculated from tenders for highway works and reflects contractor's output costs.
Roads and structures	Year end revaluation	Road Construction Resource Cost Indices (ROCOS) is the index applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS is published on a quarterly basis by the Department for Business, Innovation and Skills (BIS).
Technology		ROCOS is the index applied to all technology assets.
Land		Land indexation is determined by the Highways Agency in consultation with external consultants and independent external sources, including the Royal Institute of Chartered Surveyors (RICS) market surveys and other reputable market analysis published nationally in England.

Indexation based on these indices is applied to all elements of the network. However there may be occasions where the use of indices for particular network assets may give an unrealistic outcome. This may happen for example where there has been substantial technological change when changes in the cost of specific assets are known to have been significantly different from the changes in the index; or where the historical purchase cost of assets was affected by special circumstances unlikely to be repeated and for which no allowance can be made. In such circumstances the gross current replacement cost is based on expert opinion or other evidence of the current cost of assets or groups of assets having a similar service potential.

The valuation of the network is based upon a non recoverable VAT rate of 20% which reflects a consistent long-term approach to valuing the network. Certain special structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

Assets under construction

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

The difference between a project's actual cost of construction and the current replacement cost is treated as a write down which is charged to the SoCNE.

Write-downs

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

i) One of the assumptions in the standard cost is that all construction is new build on a 'green-field' site. This is not always the case; therefore cost of new constructions can be much higher due to building in non-rural areas or replacing existing roads etc

ii) Generally it is cheaper to build a three lane motorway in the first instance rather than two lanes initially and then to widen at some point thereafter. In a road widening scheme, a significant amount of cost will be in traffic management and therefore will be written-down.

The Highways Agency uses standard write-down percentages for different types of projects. These percentages are based on projects constructed over the previous five years. The write down percentages are applied to construction projects lasting more than one year, this ensures the Highways Agency writes-down the asset on an on-going basis rather than when the project is opened for traffic. When a project is open for traffic, a formal calculation of the write-down required is completed and compared with the cumulative write-down; adjustments are made as necessary.

Land and buildings, including dwellings

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

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

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

Asset	Valuation date	Undertaken by
Federated House	17 March 2010	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2011	Valuation Office Agency (VOA)
Motorway Service Areas	31 March 2010	VOA
Surplus properties (including dwellings)	31 December 2010	VOA
Regional Control Centres	31 March 2011	VOA
National Traffic Operations Centre	31 March 2011	VOA

Plant and equipment

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

Information technology

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

1.5 Depreciation

Network infrastructure assets

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

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

All parts of the network infrastructure, apart from land which has an unlimited useful life, are depreciated. However, the land element of the network infrastructure is not depreciated as land has an unlimited useful life.

Road depreciation

The road surface asset comprises:

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

For the purpose of depreciation, the road surface is recognised as a single asset and depreciation is calculated in two parts:

1. Capital renewal maintenance expenditure on network road surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed, and is therefore reflected as a depreciation charge in the SoCNE. The value of materials replaced by subsequent expenditure is derecognised from gross book and accumulated depreciation values.
2. The condition of the road surface is measured by rutting, obtained from the Traffic Speed Road Assessment Condition Survey (TRACS). Rutting is a good overall indicator for the condition of the road surface and is a measurement of the deterioration of the wearable element of the road surface. The condition of the road surface, as assessed by condition surveys, is undertaken and any movement in the condition is taken to the SoCNE as a depreciation charge or conversely an improvement credit.

Structures

Depreciation for structures is determined in two parts as follows:

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

Structure	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

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

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

Technology

The depreciation charge for technology assets is based on the linear 'straight line' depreciation method based on an assigned design life. This overall anticipated life span of technology equipment varies according to the type of equipment between 15 to 50 years.

Impairment

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

Non-network assets

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

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

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

1.6 Non-current assets: Assets held for sale

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

Non-current assets: Intangible assets

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

Internally developed intangible assets, such as software or databases, are recognised as intangible assets if:

i) the software can be run on different hardware platforms

ii) there is an identifiable asset that will produce future benefits

iii) the cost can be determined reliably.

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

1.7 Inventories

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

1.8 Research and development

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

Non-current assets acquired for use in research and development are depreciated over the life of the associated project

1.9 Operating income

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

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

1.10 Administration and programme expenditure

The SoCNE 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. In line with other Arms Length Bodies, the classification applied by the Highways Agency was reviewed and clarified as part of the SR10 exercise. This resulted in some expenditure being reclassified between the two categories to ensure the Highways Agency's approach was consistent with that now being applied across central government.

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

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

1.11 Pensions and other employee benefits

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 3. The defined schemes are unfunded and are mostly non-contributory except in respect of dependants' benefits. The Highways 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 Highways Agency recognises the contributions payable for the year.

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

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

1.12 Leases

At their inception, leases are classified as operating or finance leases, based on the extent to which the risks and rewards of ownership lie with the Highways Agency. In making the classification, the Highways Agency does not separate the land and buildings elements of arrangements which cover both elements. Where we are the lessor (when all risk and reward has been transferred to the lessee) we will adopt the accounting principles set out in IAS17.

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

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

1.13 Service concessions

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

The Highways Agency recognises the infrastructure associated with service concessions as an asset and recognises the related liability. The asset is accounted for in a manner consistent with other assets of that type. Interest on the liability and expenditure on services provided under the service concession are recognised in the SoCNE as they accrue. Unitary Charges are apportioned between three elements: an element to pay for services; an element to pay interest on the liability and an element to repay the initial liability.

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

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

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

1.14 Provisions and financial liabilities

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

1.15 Contingent liabilities

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

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

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

1.16 Financial instruments

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

1.16.1 Financial assets and liabilities

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

1.16.2 Loans and receivables

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

1.16.3 Available for sale financial asset

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

1.16.4 Financial liabilities

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

1.16.5 Embedded derivatives

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and reported at fair value with gains and losses being recognised in the SoCNE. The Highways Agency has carried out a review of its contracts and has determined that, as at 31 March 2013, it had no arrangements meeting the criteria to require separation.

1.16.6 Determining fair value

Fair value is determined by reference to a quoted market price for that instrument or by using a valuation model that makes use of market inputs wherever possible. However, investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are shown at cost.

1.16.7 Impairment of financial assets

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

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

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

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

1.17 VAT

Most of the activities of the Highways 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 non-current 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 Highways Agency include the valuation of the trunk road network where the application of indices and standard costs generate a valuation.

1.19 EU grants

EU grants are not recognised in the accounts until it is certain they will be received. Grants that relate to specific capital expenditure are credited to deferred income on the SoFP and then credited to the SoCNE over the asset's construction period. Grants for revenue expenditure are credited to the SoCNE.

1.20 Segmental reporting

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

1.21 Trunkings/detrunkings

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

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

2. Segmental reporting

	2012-13					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Major Improvements	458,908	(34,419)	424,489	369,889	(5,170)	364,719
Maintaining the Network	298,164	(11,773)	286,391	421,504	-	421,504
Technology Improvements	57,778	(19,391)	38,387	3,801	-	3,801
Traffic Management	48,447	(3,473)	44,974	5,257	-	5,257
Smaller schemes and R&D	36,318	(557)	35,761	35,508	-	35,508
Running costs - Programme	98,537	-	98,537	-	-	-
Running costs - Admin	62,314	(2,163)	60,151	19,321	-	19,321
Other	129	(20,704)	(20,575)	2,315	-	2,315
	1,060,595	**(92,480)**	**968,115**	**857,595**	**(5,170)**	**852,425**
Unallocated costs						
Depreciation & write downs	1,165,225	-	1,165,225	-	-	-
Other	5,146		5,146	(2,510)	-	(2,510)
Highways Agency total	**2,230,966**	**(92,480)**	**2,138,486**	**855,085**	**(5,170)**	**849,915**

	2011-12					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Major Improvements	390,667	(28,322)	362,345	830,529	(8,624)	821,905
Maintaining the Network	444,728	(9,345)	435,383	373,367	-	373,367
Technology Improvements	70,388	(1,855)	68,533	11,270	-	11,270
Traffic Management	57,442	(3,046)	54,396	15,174	-	15,174
Smaller schemes and R&D	30,636	(1,078)	29,558	34,854	-	34,854
Running costs - Programme	100,964	-	100,964	-	-	-
Running costs - Admin	60,651	(1,742)	58,909	16,763	-	16,763
Other	152	(19,681)	(19,529)	1,505	-	1,505
	1,155,628	**(65,069)**	**1,090,559**	**1,283,462**	**(8,624)**	**1,274,838**
Unallocated costs:						
Depreciation & write downs	1,294,796	-	1,294,796	-	-	-
Other	(9,729)	-	(9,729)	6,681	-	6,681
Highways Agency total	**2,440,695**	**(65,069)**	**2,375,626**	**1,290,143**	**(8,624)**	**1,281,519**

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

Segmental income

- Major Improvements income includes contributions from private developers who make contributions to highways works by entering into an agreement with the Secretary of State under section 278 (s278) of the Highways Act 1980 and also contributions from local authorities.
- Maintaining the network income is mostly attributable to where the Highways Agency claims compensation from users of the network who damage the network.
- Traffic Management income is generated from the national vehicle recovery programme.
- Running costs – Admin income is mostly attributable to rent recoveries where the Highways Agency sub lease parts of their office space.
- Other income is primarily interest received from Severn River Crossing Ltd and Midland Expressway Ltd (MEL).

3. Staff numbers and related costs

3. (a) Staff costs

Staff costs comprise:	2012-13			2011-12
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	104,289	4,948	109,237	109,271
Social security costs	8,266	-	8,266	8,235
Other pension costs	18,967	-	18,967	19,214
Sub total	**131,522**	**4,948**	**136,470**	**136,720**
Capitalised staff costs	(18,980)	-	(18,980)	(16,567)
Less recoveries in respect of outward	(113)	-	(113)	(70)
Highways Agency total	**112,429**	**4,948**	**117,377**	**120,083**

Permanent staff are those staff with a permanent employment contract with the Highways 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 Highways Agency on a contract to undertake a project or task. The payment of legitimate expenses is not part of salary.

Pension costs

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

For 2012-13, employers' contributions of £18,857,344 were payable to the PCSPS (2011-12 £19,105,015) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 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 £102,726 (2011-12 £105,204) were paid to one or more of the panel of three appointed stakeholder pension providers.

Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £6,820 (2011-12 £7001), 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £14,457. Contributions prepaid at that date were £nil.

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

3. (b) Average number of persons employed

	2012-13			2011-12
	Permanent staff	Other	Total	Total
Staff funded from administration budgets	482	2	484	518
Staff funded from programme budgets				
Traffic officer staff	1,531	5	1,536	1,652
Direct support to front line projects and service delivery	895	12	907	958
Staff engaged on capital projects	398	5	403	347
Average FTE persons employed	**3,306**	**24**	**3,330**	**3,475**

Over the course of the financial year, the actual full time equivalents (FTE) reduced from 3,385 to 3,250.

See Note 1.10 for details of administration and programme classifications.

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

During the year, no payments were made which were not covered by the Civil Service Compensation Scheme. (2011-12: one payment was made between £25k and £50k).

4. Other administration costs

	Note	2012-13 £000	2011-12 £000
Communication		1,077	1,138
Consultancy		150	300
Information technology		18,211	18,896
Maintenance		766	552
Professional services		210	296
Recruitment and training		1,485	1,336
Rent, rates and building costs		5,487	4,699
Stationery, postage and printing		389	494
Travel and subsistence		947	920
Other administration costs		4,923	4,002
		33,645	**32,633**
Rentals under operating leases:			
Hire of plant and machinery		70	72
Other operating leases		6,511	6,096
		6,581	**6,168**
Non-cash items:			
Depreciation:			
Property, plant and equipment	*7*	1,571	2,086
Impairment of non-current assets	*10*	34	-
Amortisation:			
Intangible fixed assets	*8*	13	65
Loss on disposal of property, plant and equipment		-	-
Notional costs:			
Auditors' remuneration and expenses:			
Annual audit		275	275
Provision for doubtful debt		(6)	-
Provisions provided for in year	*15*	475	419
		2,362	**2,845**
Total: Other administration costs		**42,588**	**41,646**

5. Programme costs

	Note	2012-13 £000	2011-12 £000
Research and development expenditure		4,623	3,747
Maintenance and similar activities		382,601	536,740
Interest on PFI finance leases		139,375	119,707
PFI service charges		350,812	314,814
Information technology		4,902	4,860
Traffic Management vehicle costs		7,413	7,453
Carbon emissions licence		966	1,008
Other programme costs		12,052	14,127
		902,745	**1,002,456**
Non-cash items:			
Depreciation:			
Property, plant and equipment	*7*	719,007	680,650
Property, plant and equipment held under PFI finance leases	*7*	112,390	55,770
Impairment of non-current assets	*10*	17,888	33,136
Amortisation:			
Intangible fixed assets	*8*	4,391	5,066
Write down of network assets	*7*	309,930	506,593
Notional costs:			
Loss on disposal of property, plant and equipment		636	294
Provision for doubtful debt		1,078	(475)
Provision for slow moving stock		2,253	6,152
Provisions provided for in year	*15*	683	(10,676)
		1,168,256	**1,276,510**
Total: Programme costs		**2,071,001**	**2,278,966**

6. Operating income

Operating income principally arises from:

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

Operating income analysed by classification and activity is as follows (all Appropriated in Aid):	2012-13 Total £000	2011-12 Total £000
Administration income		
Fees and charges to external customers	-	-
Cost recoveries/rental income	1,281	767
Other income	885	979
	2,166	**1,746**
Programme Income		
Fees and charges to external customers	17,849	10,546
Rental income from properties	4,166	4,031
Claims for damage to network	10,415	8,219
Interest receivable	20,601	19,467
Recovery of costs incurred on M6 toll scheme	5,083	9,270
National Vehicle Recovery	2,994	2,794
Sales of strategic salt stock	236	179
Other income	4,999	6,839
	66,343	**61,345**

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

Disclosure under HM Treasury Managing Public Money

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

	2012-13			2011-12		
	Income £000	Full cost £000	Surplus/ (deficit) £000	Income £000	Full cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	17,849	17,849	-	10,546	10,546	-
Cost recoveries/rental income administration	189	189	-	227	227	-
Rental income from programme properties	4,166	4,194	(28)	4,031	4,549	(518)
Claims for damage to network	10,415	11,380	(965)	8,219	8,885	(666)
National vehicle recovery	2,994	6,375	(3,381)	2,794	5,403	(2,609)
Recovery of other costs from MEL	282	270	12	1,190	1,156	34
Recovery of costs incurred from schemes	1,300	1,300	-	2,883	2,883	-
Sales of strategic salt stock	236	236	-	179	179	-
Other income	4,447	4,447	-	4,233	4,233	-
	41,878	**46,240**	**(4,362)**	**34,302**	**38,061**	**(3,759)**

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury Managing Public Money. The purpose of the above table is to comply with the disclosure requirements of HM Treasury Managing Public Money.

7. (a) Property, plant and equipment 2012-13

	Infrastructure assets £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information technology £000	Total £000
Cost or valuation								
At 1 April 2012	125,846,897	753,628	148,275	161,022	60,980	113,443	1,144	127,085,389
Detrunking	-	-	-	-	-	-	-	-
Restated sub-total	**125,846,897**	**753,628**	**148,275**	**161,022**	**60,980**	**113,443**	**1,144**	**127,085,389**
Adjustments to opening position	(1,396,936)	13,952	-	-	-	239	-	(1,382,745)
Capital additions	393,038	462,047	-	-	-	-	-	855,085
Write down	(393,038)	(309,930)	-	-	-	-	-	(702,968)
Disposals	-	-	(1,000)	(395)	(993)	(10,875)	(1,000)	(14,263)
Revaluation	2,201,425	-	(48)	74	(168)	8,090	20	2,209,393
Impairments	(21,889)	-	(54)	-	(840)	(60)	-	(22,843)
Transfers	560,505	(565,582)	778	-	3,842	457	-	-
Reclassifications to assets held for sale	-	-	(3,329)	(716)	(2,106)	-	-	(6,151)
At 31 March 2013	**127,190,002**	**354,115**	**144,622**	**159,985**	**60,715**	**111,294**	**164**	**128,020,897**
Depreciation								
At 1 April 2012	18,458,270	-	-	80,538	-	62,078	1,086	18,601,972
Detrunking	-	-	-	-	-	-	-	-
Restated Sub-total	**18,458,270**	**-**	**-**	**80,538**	**-**	**62,078**	**1,086**	**18,601,972**
Adjustments to opening position	(711,293)	-	-	-	-	-	-	(711,293)
Valuation adjustments	(393,038)	-	-	-	-	-	-	(393,038)
Impairment	(5,612)	-	-	-	-	(26)	-	(5,638)
Charged in year	821,692	-	-	3,948	-	7,302	26	832,968
Disposals	-	-	-	(140)	-	(10,865)	(1,000)	(12,005)
Revaluation	101,939	-	-	-	-	5,544	12	107,495
Reclassifications to assets held for sale	-	-	-	-	-	-	-	-
At 31 March 2013	**18,271,958**	**-**	**-**	**84,346**	**-**	**64,033**	**124**	**18,420,461**
Net book value at 31 March 2013	**108,918,044**	**354,115**	**144,622**	**75,639**	**60,715**	**47,261**	**40**	**109,600,436**
Net book value at 31 March 2012	**107,388,627**	**753,628**	**148,275**	**80,484**	**60,980**	**51,365**	**58**	**108,483,417**
Asset financing								
Owned	106,522,414	152,047	144,622	72,932	60,715	47,261	40	107,000,031
On-balance sheet PFI contracts	2,395,630	-	-	2,707	-	-	-	2,398,337
M6 reversionary interest	-	202,068	-	-	-	-	-	202,068
Net book value at 31 March 2013	**108,918,044**	**354,115**	**144,622**	**75,639**	**60,715**	**47,261**	**40**	**109,600,436**

7. (b) Property, plant and equipment 2011-12

	Infrastructure assets	Assets under construction	Land	Buildings	Dwellings	Plant and machinery	Information technology	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cost or valuation								
At 1 April 2011	114,458,369	1,120,578	129,306	89,468	57,060	123,610	52,242	116,030,633
Detrunking	-	-	-	-	-	-	-	-
Prior period adjustment	-	34,040	-	-	-	-	-	34,040
Restated sub-total	**114,458,369**	**1,154,618**	**129,306**	**89,468**	**57,060**	**123,610**	**52,242**	**116,064,673**
Adjustments to opening position	7,502,123	6,120	-	-	-	(2,759)	-	7,505,484
Capital additions	345,103	945,040	-	-	-	-	-	1,290,143
Valuation adjustments	(345,103)	(506,593)	-	-	-	-	-	(851,696)
Disposals	-	-	(997)	(998)	(788)	(1,761)	(51,098)	(55,642)
Revaluation	3,099,322	-	18,014	69,316	6,509	2,854	-	3,196,015
Impairments	(47,765)	-	(137)	(1,972)	(363)	0	-	(50,237)
Transfers	834,848	(845,557)	441	2,274	6,596	1,398	-	-
Reclassifications to assets held for sale	-	-	1,648	2,934	(8,034)	(9,899)	-	(13,351)
At 31 March 2012	**125,846,897**	**753,628**	**148,275**	**161,022**	**60,980**	**113,443**	**1,144**	**127,085,389**
Depreciation								
At 1 April 2011	15,784,192	-	-	23,231	-	59,927	51,661	15,919,011
Detrunking	-	-	-	-	-	-	-	-
Restated Sub-total	**15,784,192**	**-**	**-**	**23,231**	**-**	**59,927**	**51,661**	**15,919,011**
Adjustments to opening position	1,919,896	-	-	-	-	(2,197)	-	1,917,699
Valuation adjustments	(345,103)	-	-	-	-	-	-	(345,103)
Impairment	(17,129)	-	-	(296)	-	-	-	(17,425)
Charged in year	727,557	-	-	2,852	-	7,574	523	738,506
Disposals	-	-	-	(252)	-	(1,715)	(51,098)	(53,065)
Revaluation	388,857	-	-	51,474	-	2,018	-	442,349
Reclassifications to assets held for sale	-	-	-	3,529	-	(3,529)	-	-
At 31 March 2012	**18,458,270**	**-**	**-**	**80,538**	**-**	**62,078**	**1,086**	**18,601,972**
Carrying value at 31 March 2012	**107,388,627**	**753,628**	**148,275**	**80,484**	**60,980**	**51,365**	**58**	**108,483,417**
Carrying value at 31 March 2011	**98,674,177**	**1,154,618**	**129,306**	**66,237**	**57,060**	**63,683**	**581**	**100,145,662**
Asset financing								
Owned	105,022,323	565,512	148,275	77,731	60,980	51,365	58	105,926,244
On-balance sheet PFI contracts	2,366,304	-	-	2,753	-	-	-	2,369,057
M6 reversionary interest	-	188,116	-	-	-	-	-	188,116
Carrying value at 31 March 2012	**107,388,627**	**753,628**	**148,275**	**80,484**	**60,980**	**51,365**	**58**	**108,483,417**

Network assets

Adjustment to opening position

The infrastructure asset valuation as at 1 April 2012 was restated to include the following adjustments:

- During the year the Highways Agency managed a project to check and update dimensional information for all structures across the network. This work resulted in an decrease in structures valuation by £740,848,000.
- Dimensional changes to other areas of the network, including pavements, resulted in a increase in the valuation by £55,205,000; this represents improved formation on network infrastructure.
- During the year the Highways Agency continued a programme of data improvement for the network. There was no material effect of this work on the valuation during the year.

Valuation adjustments

This consists of the following:

- **Capital renewal** – the Highways Agency has a yearly programme of renewal of the network to ensure the infrastructure continues to deliver according to the service potential. This yearly renewal expenditure is classified as Capital and the Highways Agency spent £393,038,000 during the year. This expenditure will provide significant benefits for the network in future years.
- **Write-down** – the infrastructure valuation is based on standard cost and indexation, as required by Government financial reporting. Standard cost is based on a number of assumptions and is an accounting estimate of the cost of replacing the network. The write-down is calculated by comparing the actual cost of constructing a scheme with the standard cost valuation, this difference is the write-down. During the year the write-down was £309,930,000. The level of write-down is determined by the type of schemes under construction or opened to traffic during the year.

Revaluation

The total revaluation of the network infrastructure was £2,099,486,000 and consists of the following:

Financial reporting standards require that an indexation factor must be applied to the network valuation to reflect current prices etc. The Highways Agency uses ROCOS for this purpose and the result was an increase of £1,988,819,000 in the valuation of the network.

During the year, the Highways Agency reviewed and amended standard cost for structures to ensure this was robust and included relevant accounting estimates. The revised standard cost reflects the valuation of structures at current price. The impact of the change in standard cost for structures was £110,667,000.

Depreciation

The network is depreciated on a yearly basis to reflect the current condition of the network. The depreciation charge for the year was £821,692,000. This included a charge of £32,431,000 for the deterioration in the road condition.

Assets under Construction

The 1 April 2012 opening position was adjusted to include an additional £13,952,000 of reversionary interest for the M6 toll road.

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

	2012-13 £000	2011-12 £000
Freehold buildings (96.7%)	211,560	219,681
Long leasehold buildings (50+ years)	-	-
Short leasehold buildings (less than 50 years)	8,701	9,078
Total	**220,261**	**228,759**

8. Intangible assets

	Software licences £000	Developed costs £000	Total £000
Cost or valuation			
Balance at 1 April 2011	6,417	76,088	82,505
Additions	-	-	-
Disposals	-	-	-
Balance at 1 April 2012	**6,417**	**76,088**	**82,505**
Additions	-	-	-
Disposals	-	-	-
Balance at 31 March 2013	**6,417**	**76,088**	**82,505**
Amortisation			
Balance at 1 April 2011	6,340	65,728	72,068
Charged in year	65	5,066	5,131
Disposals	-	-	-
Balance at 1 April 2012	**6,405**	**70,794**	**77,199**
Charged in year	12	4,392	4,404
Disposals	-	-	-
Balance at 31 March 2013	**6,417**	**75,186**	**81,603**
Net book value at 31 March 2013	**-**	**902**	**902**
Net book value at 31 March 2012	**12**	**5,294**	**5,306**

9. Assets classified as held for sale

	Land and buildings £000	Dwellings £000	Plant and machinery £000	Total £000
Balance at 1 April 2011	7,865	4,654	-	12,519
Disposals	(2,809)	(3,531)	-	(6,340)
Revaluation	(964)	(622)	-	(1,586)
Impairment	(103)	(221)	-	(324)
Reclassifications from property plant and equipment	5,317	8,034	-	13,351
Balance at 1 April 2012	**9,306**	**8,314**	**-**	**17,620**
Disposals	(7,418)	(2,838)	-	(10,256)
Revaluation	(288)	(196)	-	(484)
Impairment	(372)	(345)	-	(717)
Reclassifications to/from property plant and equipment	4,045	2,106	-	6,151
Balance at 31 March 2013	**5,273**	**7,041**	**-**	**12,314**

10. Impairments

	2012-13 £000	2011-12 £000
Total Impairment charge through Statement of Comprehensive Net Expenditure	17,922	33,136

The impairment charge for 2012-13 mainly comprised of:

- £2,207,000 of communication and electrical equipment impairment (2011-12: £5,344,000), removed from the network as damaged or obsolete
- £14,071,000, the Highways Agency demolished and scrapped a number of bridges and gantries as part of the ongoing renewal of the network infrastructure (2011-12: £12,713,000).

11. Inventories

	31 Mar 2013 £000	31 Mar 2012 £000
Communication/electrical equipment for strategic road network	31,712	40,450
Highway damage repair items - barriers and parts for the repair of bridges, tunnels and special structures	987	1,279
Salt	12,092	14,096
Uniforms for traffic officers working on the strategic road network	411	424
Total	**45,202**	**56,249**

Inventory of communication/electrical equipment has fallen with the ongoing roll-out of Managed Motorway schemes across the network. Salt holdings have remained stable. The net realisable value of salt has been reduced to reflect market conditions; although the Highways Agency's objective remains full cost recovery on sales of salt.

12. Trade and other receivables

12. (a) Analysis by type

	31 Mar 2013 £000	31 Mar 2012 £000
Amounts falling due within one year		
Trade receivables	89,049	5,004
Deposits and advances	7,652	6,252
VAT	89,113	85,560
Midland Expressway Limited M6 concession	11,509	11,446
Prepayments and accrued income	8,739	15,623
Finance leases	68	-
Other receivables	523	386
	206,653	**124,271**

	31 Mar 2013 £000	31 Mar 2012 £000
Amounts falling due after more than one year		
Severn River Crossing Plc subordinated loan	108,322	105,011
Severn River Crossing Plc deferred interest	74,721	64,361
Midland Expressway Limited M6 concession	167,664	162,634
Deposits and advances	8,417	8,947
Finance leases	6,614	-
Staff relocation housing loans	15	35
	365,753	**340,988**
Total	**572,406**	**465,259**

Trade receivables include the Highways Agency's share of a gain sharing arrangement with the contractors on the M25 upgrade.

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 currently predicted the concession period will end in May 2018. 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 Highways Agency on 28 February 1992 to build and maintain the M6 toll road. The debtor balance represents costs incurred by the Highways Agency in their capacity as agents for land acquisition and compensation payments. The reimbursement of the above costs to the Highways Agency started in October 2010.

12. (b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2013 £000	31 Mar 2012 £000	31 Mar 2013 £000	31 Mar 2012 £000
Balances with:				
Other central government bodies	89,854	86,419	-	-
Local authorities	2,178	4,004	6,614	-
Public corporations and trading funds	2	211	-	-
Total intra-government balances	**92,034**	**90,634**	**6,614**	
Balances with bodies external to government	114,619	33,637	359,139	340,988
Total	**206,653**	**124,271**	**365,753**	**340,988**

13. Cash and cash equivalents

	31 Mar 2013 £000	31 Mar 2012 £000
Balance at 1 April 2012	17,377	(18,655)
Net change in cash and cash equivalent balances	14,090	36,032
Balance at 31 March 2013	**31,467**	**17,377**
The following balances at 31 March were held at:		
Commercial banks	1,122	45
Government Banking Service	30,345	17,332
Balance at 31 March 2013	**31,467**	**17,377**

14. Trade and other payables

14. (a) Analysis by type

	31 Mar 2013 £000	31 Mar 2012 £000
Amounts falling due within one year:		
Other taxation and social security	4,594	4,475
Trade payables	28,562	3,078
Accruals and deferred income	423,043	500,197
Current part of imputed finance lease element of on balance sheet PFI contracts	61,891	57,574
Consolidated fund extra receipts due to be paid to the Consolidated Fund:		
Received	-	-
Receivable	83,204	6
Amounts due to DfT in respect of Dartford River Crossing road user charges	8,109	7,040
Amounts due to the Consolidated Fund in respect of supply	79,135	65,282
Other payables	809	633
	689,347	**638,285**

	31 Mar 2013 £000	31 Mar 2012 £000
Amounts falling after more than one year:		
Imputed finance lease element of on balance sheet PFI contracts	1,806,820	1,795,146
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing Plc subordinated loan	108,322	105,011
Severn River Crossing Plc subordinated loan interest	54,815	54,815
Midland Expressway Ltd concession	61,497	61,497
Other payables, accruals and deferred income:		
Payable as agents in respect of the Midland Expressway Ltd concession	11,235	10,132
Other	14,165	27,568
	2,056,854	**2,054,170**
Total	**2,746,201**	**2,692,455**

Accruals and deferred income comprise:

	31 Mar 2013 £000	31 Mar 2012 £000
Amounts payable relating to road schemes	342,252	342,279
PFI related accruals	48,133	128,663
Third party funded projects (s278)	13,685	18,365
Administration accruals	10,596	9,566
Other	8,377	1,324
Total	**423,043**	**500,197**

14. (b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2013 £000	31 Mar 2012 £000	31 Mar 2013 £000	31 Mar 2012 £000
Balances with:				
Other central government bodies	170,724	71,320	224,635	231,456
Local authorities	4,888	193	-	-
Public corporations and trading funds	47	28	-	-
Total Intra-Government balances	**175,659**	**71,541**	**224,635**	**231,456**
Balances with bodies external to government	513,688	566,744	1,832,219	1,822,714
Total	**689,347**	**638,285**	**2,056,854**	**2,054,170**

15. Provisions

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Pension and other liabilities £000	Total £000
Balance at 1 April 2011	149,095	64,595	52,777	26,495	3,768	8,082	304,812
Provided in the year	26,673	57,482	8,496	1,448	-	3,668	97,768
Provisions not required written back	(38,631)	(6,543)	(1,571)	-	-	(1,360)	(48,105)
Provisions utilised in the year	(24,024)	(31,697)	(32,726)	(4,928)	(907)	(3,287)	(97,569)
Balance at 1 April 2012	**113,113**	**83,837**	**26,976**	**23,015**	**2,861**	**7,103**	**256,906**
Provided in the year	37,766	30,039	2,450	-	-	1,603	71,858
Provisions not required written back	(23,281)	(12,890)	(4,510)	-	-	(542)	(41,224)
Provisions utilised in the year	(28,041)	(51,090)	(5,354)	(7,330)	(819)	(1,371)	(94,005)
Reclassification incl. accruals	-	-	-	-	-	(953)	(953)
Balance at 31 March 2013	**99,557**	**49,896**	**19,562**	**15,685**	**2,042**	**5,840**	**192,582**

Analysis of expected timing of discounted flows:

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Pension and other liabilities £000	Total £000
In 2013 - 2014	12,587	27,247	450	7,667	618	4,192	52,761
Between 2015 and 2019	74,282	22,649	19,112	8,018	1,352	1,648	127,061
Between 2019 and 2024	12,688	-	-	-	72	-	12,760
Thereafter	-	-	-	-	-	-	-
Balance at 1 April 2012	**99,557**	**49,896**	**19,562**	**15,685**	**2,042**	**5,840**	**192,582**

Land and property acquisition

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

Engineering and construction services

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

Bridge strengthening

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

Tunnels

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

Migration, pensions and other liabilities

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Highways Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2013 that will require settlement by the Highways Agency.

The pension liability relates to former staff who left the Highways Agency's employment before the formal retirement age of 60. The Highways Agency is responsible for making payments to the pension plan until their retirement age.

In-year increases and decreases in provisions

These can impact on both the Capital Expenditure and Statement of Comprehensive Net Expenditure. Capital Expenditure provisions increased by £29,476,000 (2011-12 increased by £59,920.000) during the year. The following provisions were charged to the Statement of Comprehensive Net Expenditure:

	2012-13 £000	2011-12 £000
Programme:		
Land and property acquisition	97	(11,506)
Engineering and construction services	-	(1,060)
Bridge strengthening	-	-
Tunnels	-	-
Early retirement	-	-
Pensions and other liabilities	586	1,890
	683	**(10,676)**
Administration:		
Early retirement	-	-
Other	475	419
	1,158	**(10,257)**

16. Capital commitments

	31 Mar 2013 £000	31 Mar 2012 £000
Contracted capital commitments at 31 March 2013 not otherwise included in these accounts:		
Property, plant and equipment	455,482	229,913

17. Commitments under leases

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

	31 Mar 2013		31 Mar 2012	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Obligations under operating leases comprise:				
Not later than one year	7,672	2	8,644	19
Later than one year and no later than five years	29,287	-	34,183	14
Later than five years	40,493	-	59,219	-
Total	**77,452**	**2**	**102,046**	**33**

18. Commitments under Private Finance Initiatives

The Highways 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 Roads Telecommunications Services
- M25 London Orbital Motorway contract

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

Imputed finance leases obligations under on balance sheet PFI contracts comprise:

	31 Mar 2013 £000	31 Mar 2012 £000
Not later than one year	197,590	172,150
Later than one year and not later than five years	780,456	762,245
Later than five years	2,989,235	2,995,921
	3,967,281	**3,930,316**
Less interest element	(2,098,570)	(2,077,596)
	1,868,711	**1,852,720**

The future total service element payments which the Highways Agency is committed to for each of the following periods are given in the table below, analysed according to the period in which the commitment expires. The amount expected to be paid has fallen due to payment made and changes to inflation and traffic forecasts.

	31 Mar 2013 £000	31 Mar 2012 £000
Not later than one year	537,607	553,453
Later than one year and not later than five years	2,076,424	2,092,012
Later than five years	12,416,123	12,938,142
	15,030,154	**15,583,607**

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI transactions for the year was £288,293,000 (2011-12 £314,815,000).

19. Financial instruments

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

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

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

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

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

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

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

20. Contingent liabilities and assets

20. (a) Contingent liabilities

	31 Mar 2013 £000	31 Mar 2012 £000
Land and property acquisition	168,049	173,550
Engineering and construction services	7,500	7,500
Other	9,684	8,770
	185,233	**189,820**

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

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

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

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

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

Claims in dispute
As at the statement of financial position date, the Highways 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 Highways 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 Highways Agency is involved in a number of arbitration cases in respect of contractual claims for engineering and construction services and has provided for the best estimates of the outcome of these cases, although this may be exceeded by the actual outcome.

Other
Other contingent liabilities relate to management estimates of partial claims from third parties who have suffered damage or injury as a result of the road network being damaged but for which no claim has been received at the year-end and are based on prior years' experience.

20. (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 Highways Agency may decide to sell the property at the underlying land value.

In these circumstances, the Highways 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 Highways Agency has a contingent asset relating to future values. To date in 2012-13 £7,000 (2011-12 £318,000) has been received under these arrangements.

The Highways Agency has a contingent asset with Midland Expressway Ltd in relation to refinancing and developments of the M6 toll road.

21. Losses and special payments

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

	2012-13 £000	2011-12 £000
Losses:		
Bookkeeping/cash losses: 19 cases (2011-12: 44 cases)	85	772
Fruitless payments: No cases (2011-12: 1 case)	-	37
Claims abandoned/store losses: 2,123 (2011-12: 3,699)	11,690	5,530
Special payments:		
Ex-gratia compensation: 5 cases (2011-12: 4 cases)	13	25

The claims abandoned/store losses disclosed above include 1978 cases valued at £5,725,000 (2011-12: 3078 cases valued at £5,066,000) for damage to the road network where the culprit could not be identified or otherwise pursued for costs.

In addition the 2012-13 losses include several instances of theft of metal (mainly cable) and associated equipment from the Strategic Road Network totalling £5,845,000. There are other cases of metal theft which are yet to be formally recognised totalling £933,000.

During 2011-12 there were two cases of £267,000 and £429,000 where debts from third parties have been written-off due to book-keeping errors in prior years.

22. Related party transactions

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 Highways Agency had a significant number of transactions with the Department. In addition the Highways Agency had transactions with other Government departments and agencies, principally Treasury Solicitors, Valuation Office Agency, Planning Inspectorate and a number of Local Authorities. In addition the Highways Agency had transactions with QinetiQ, a public limited company in which the Ministry of Defence holds shares.

The Highways Agency has a contract with Lex Autolease Ltd whose ultimate parent company is Lloyds Banking Group in which the Government holds an interest. As per Note 23, the Highways Agency draws monies from Escrow accounts held at Lloyds TSB.

No Board member, key manager or other related parties have undertaken any material transaction with the Highways Agency during the year. There are no potential conflicts of interest to report.

23. Third party assets

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

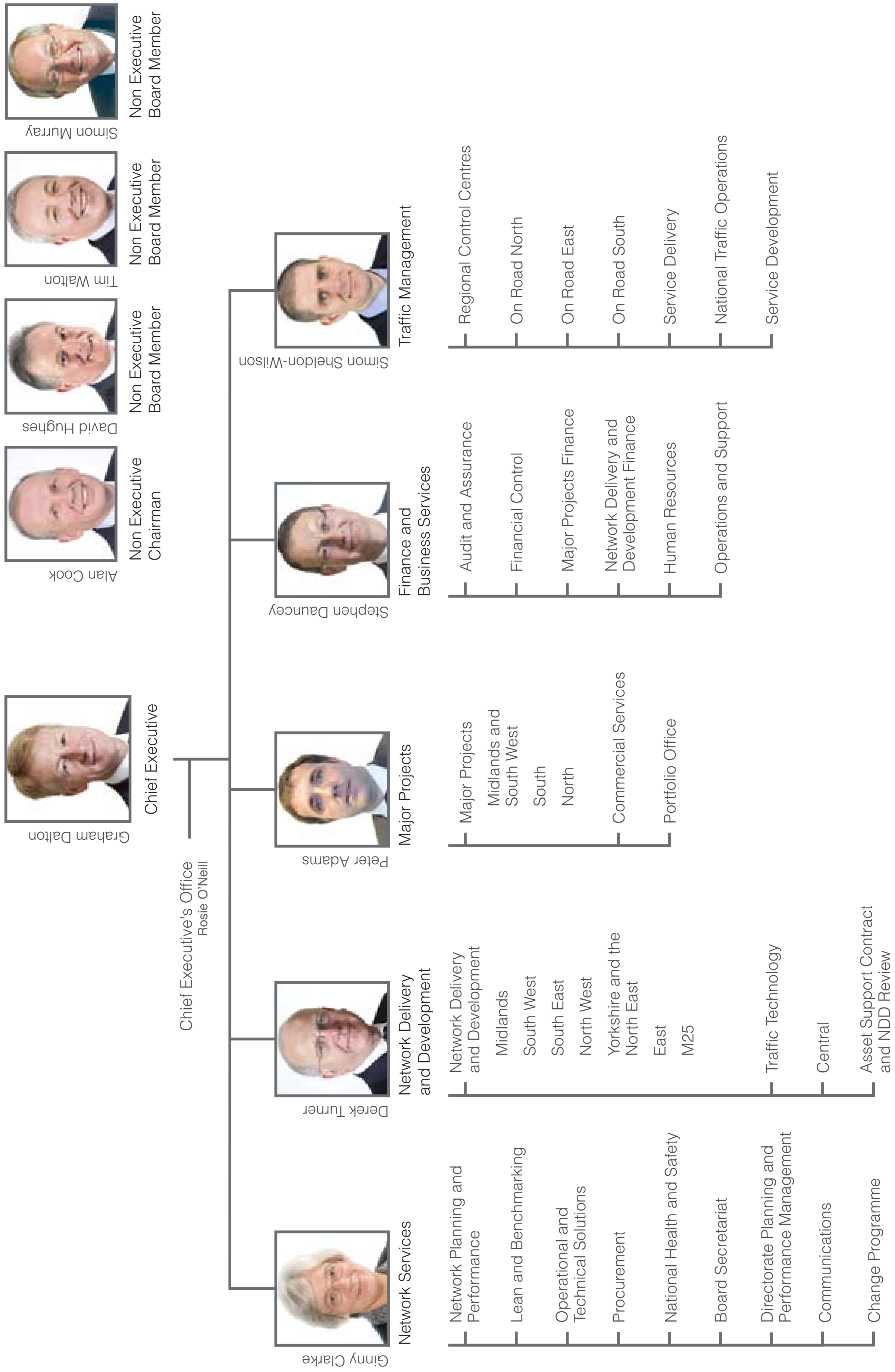
These are not Highways Agency assets and therefore are not included in the accounts.

	31 Mar 2013 £000	31 Mar 2012 £000
Lloyds TSB Escrow Bank Accounts	3,675	2,035
Lloyds TSB Euro Bank Account	135	115
	3,810	**2,150**

24. Events after the reporting period

There have been no significant events between the financial reporting date and the date of these Financial Statements. These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. IAS 10 requires the Highways Agency to disclose the date on which the accounts are authorised for issue. This is the date the certified accounts are despatched by the Highways Agency's management to the Secretary of State of the Department for Transport. The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

Annex A – The Highways Agency Board and organisational structure



Board as at end of March 2013

Annex B – The Highways Agency Business Plan Measures

Highways Agency Business Plan Measure	2012-13	2011-12
Cost of operating the Highways Agency motorway and A road network per vehicle mile	0.3 pence	0.3 pence
Cost of maintaining the Highways Agency motorway and A road network per lane mile	£40,000	£43,000
Percentage of Highways Agency's appraised project spending that is assessed as good or very good value for money	100%	100%
Reliability of journeys on the Highways Agency motorway and A road network	77.6% 'on time'	83.90% 'on time'
Annual road fatalities on the Highway Agency motorway and trunk road network	Available July 2013	251
The mean and median average incident duration times on motorways	Mean 29 minutes Median 16 minutes (these are figures for the month of March 2013)	Mean 28 minutes Median 15 minutes (these are figures for the month of March 2012)
Contribute to national and international goals for a reduction in carbon dioxide emissions by lowering the Highway Agency's emissions	7,984 tonnes CO2e reduction	9,321 tonnes CO2e reduction
The proportion of the network that is in a condition that does not require further investigation for possible maintenance	96.4%	95.6%
For the programme of schemes in the construction phase, maintain a programme level of at least 1.0 against the cost performance index (CPI) and the schedule performance index (SPI)	CPI 1.11 SPI 1.02	CPI 1.12 SPI 1.05
The accident frequency rate of the Highways Agency supply chain	0.12	0.20
The severity weighted accident frequency rate of the Highways Agency's supply chain	2.47	N/A
Customer satisfaction on the Highways Agency's motorway and A road network	90.73%	91.48%

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