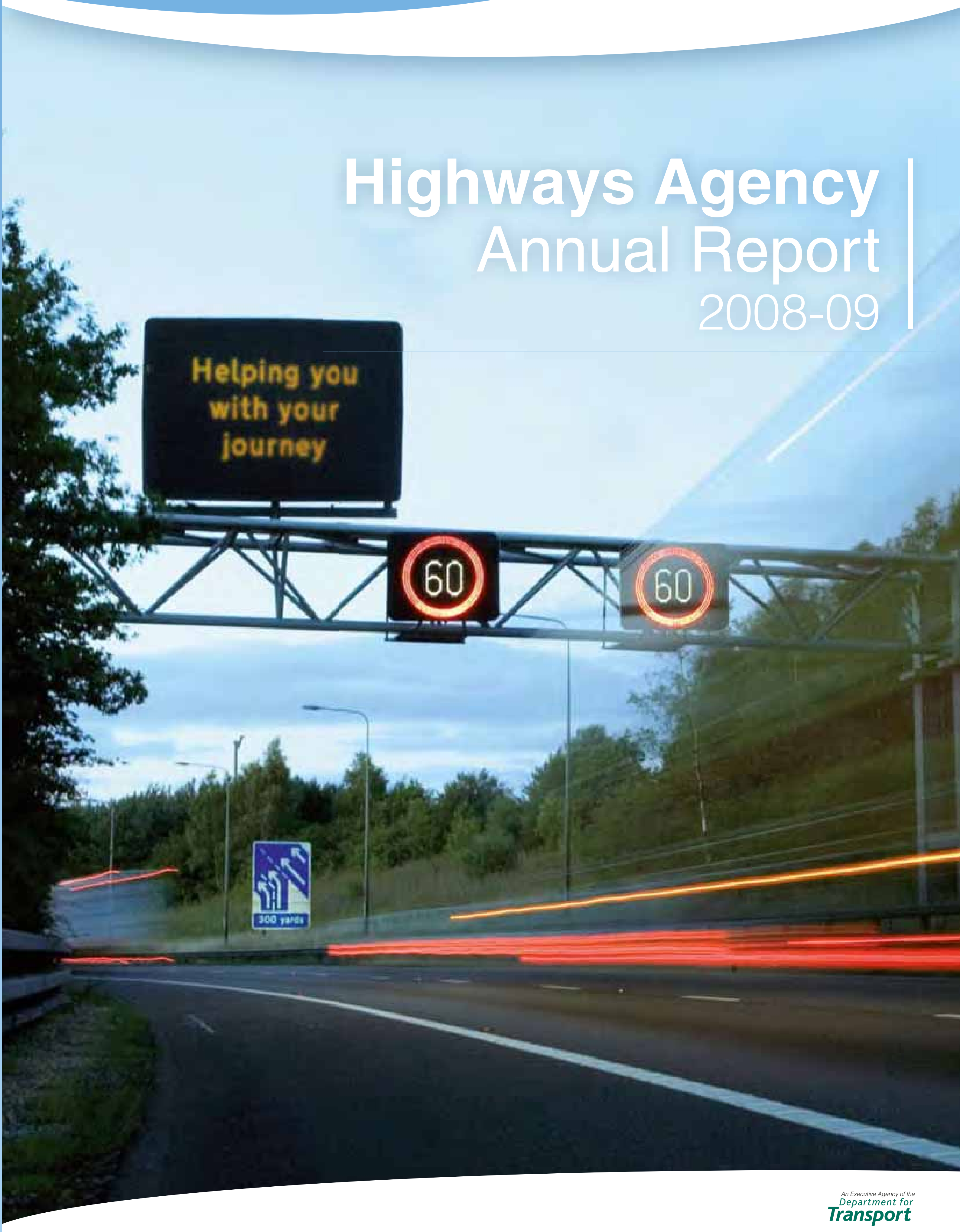
Safe roads, Reliable journeys, Informed travellers

HIGHWAYS AGENCY

Highways Agency
Annual Report
2008-09



An Executive Agency of the Department for Transport

The Highways Agency
Annual Report and Accounts 2008–2009

Presented to Parliament pursuant to Section 7 of the Government Resources and Accounts Act 2000
Ordered by the House of Commons to be printed 16 July 2009

HC 641 London: The Stationery Office £19.15

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ISBN: 978 010-295975-8

Contents

England's strategic road network

Award winning projects

The Highways Agency continues to demonstrate excellence across the full range of its work:

We were **'highly commended'** in the Most Innovative Transport Project category at the Transport Times National Transport Awards, for our Active Traffic Management pilot on the M42. This category is designed to reward innovation and progress in the public and private sectors.

The team responsible for the M1 junction 6a–10 widening picked up no fewer than eight awards including a prestigious **Prince Michael International Road Safety Award**.

After outsourcing our desktop IT services, saving £4 million a year, we were shortlisted by *Computing* magazine for their **'Outsourcing project of the year'** award.

Four of our traffic officers have received **Police Commendations** for exceptional levels of professionalism and team work from North Yorkshire Police for their actions at the scene of a fatal road traffic collision at Great Fencote, near Catterick, North Yorkshire.

We were awarded the prestigious **'Client with the Best Commitment to Health and Safety'** award from Building Magazine, for the National Health and Safety team's participation in a Health and Safety Executive working group, which delivered a number of good practice initiatives.

The Agency was shortlisted for the **'Best use of technology in customer service'** category at the National Customer Service Awards. This was based upon our investment in technologies to deliver safe roads for customers to use and information to aid customers before and during their journey.

Highlights

Reliability

We kept the network open throughout some of the worst snow storms for 20 years

Strategic roads programme

16 major new schemes opened during the year

16

Environment

Targets for air and water quality, and biodiversity achieved

Information

Enhancements made to Traffic Radio, and improved travel time information via on-road variable message signs

Safety

Reductions in deaths and serious injuries ahead of target

Finance

Over 99% of budgets for the year utilised

99%

Maintenance

Improved targeting of interventions through the development of an integrated asset management strategy

Chief Executive's introduction

It is my privilege as Chief Executive of the Highways Agency to welcome you to this report, which reflects on the most recent milestones on our journey towards becoming a more efficient and effective network operator, and looks towards the challenges which lie ahead.

The Highways Agency has had another very successful year, achieving seven out of our eight business plan targets, and making good progress on, but not quite hitting the eighth. In particular, we have taken great strides in improving journey reliability by reducing average delay times; the numbers of people killed or seriously injured on our roads again fell substantially; our road user satisfaction measure improved, although less than planned, and we opened 16 major improvement schemes to traffic.

The year also included some other notable achievements. After detailed development and cost estimation work in the Highways Agency the Secretary of State for Transport announced a new major improvements programme, and endorsed our innovative Managed Motorways concept, where the hard shoulder is used as a running lane. We continued to work closely with HM Treasury to develop guidance on Sustainability Reporting for implementation across government in future years. I am also delighted to report that the Highways Agency did not make the headlines for the wrong reasons during the last winter's severe weather, due to our success in keeping the network open throughout some of the worst snow and ice we have experienced in the last two decades. And we have delivered our programme within budget despite being set challenging efficiency targets, with savings of £106 million achieved in the year.

Some significant challenges face the Highways Agency in the year ahead. We have begun to mobilise to help deliver the Government's fiscal stimulus programme in which we are bringing forward some £400 million of planned investment into 2009-10. By contrast, on top of our original targeted value for money gains of £144 million by the end of 2010-11, the November 2008 Pre-Budget Report tasked us with identifying a further £150 million efficiency savings over this period.

We will therefore continue our drive for efficiency across the business, including taking on board the National Audit Office's recommendations on how we can improve the delivery of our maintenance function.

To deliver our programme we need people with up to date skills, especially in project and contract management, and in delivering performance. We have therefore continued developing skills of our people, and brought in specialist expertise where required. Our popular graduate recruitment programme also helps us 'grow our own' future leaders. We rely heavily on our supply chain, and have developed closer working on major projects, ensuring a clear understanding of our respective objectives.

I welcome those who have joined the Highways Agency this year; we appreciate the skills and experience that you bring. I also thank those members of staff who have moved on from the Agency in the last year, in particular, to my predecessor Archie Robertson, who was instrumental in driving forward the transformation of the Agency into a 24/7 network operator, and former Finance Director, Mel Zuydam.

And most of all, I would like to thank all my staff in all roles, both in-house and in our supply chain, for the contributions you have made during the year. The Agency's success is a direct result of your effort and commitment. Thank you.

Graham Dalton
Chief Executive


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About us: who we are and what we do

Introduction

The Highways Agency, established in 1994, is an executive agency of the Department for Transport (DfT). A formal framework document, recently updated, sets out our respective roles and responsibilities and the governance of the relationship. Further details can be found in the Leadership and Corporate Governance section of this report.

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

We have a small corporate centre in London and offices at eight locations across the country. We also have traffic officers working on motorways based in seven Regional Control Centres and 32 outstations.

The strategic road network is made up of England's motorways and all-purpose trunk roads (the major A roads). Valued at over £87 billion the network carries a third of all road traffic in England and two thirds of all heavy freight traffic. Millions of people use the network every day, it provides crucial support to business and industry, gives

Highways Agency Board

1. Graham Dalton
   Chief Executive
2. Ginny Clarke
   Network Services
3. Steve Williams
   Human Resource Services
4. Derek Turner
   Network Operations
5. Nirmal Kotecha
   Major Projects
6. Stephen Dauncey
   Finance
7. Denise Plumpton
   Information

Non Executive Directors

8. Alex Jablonowski
9. Andrea Gregory
10. Tracey Barlow

Customers can access live traffic information when they visit our website the individual the additional travel option when visiting friends and family, and access to a host of leisure destinations. A network map is included on page 2.

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

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

How we fit in with the Department for Transport's objectives

The DfT's aim is '**transport that works for everyone**'. This aim is supported by a single set of goals which set out what this means in more detail, and are summarised as:

- To support economic competitiveness and growth
- To reduce transport's environmental impact
- To contribute to better safety, security and health
- To promote greater equality of opportunity, and
- To improve quality of life and the natural environment

The Highways Agency has aligned its aim and objectives with the DfT's vision. We use a balanced scorecard to aid strategic planning and management of the business, using the scorecard as the framework for target setting from a corporate level through to work plans for individual staff members.

Aim, objectives and values

Explaining our strategy for delivery

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

Our aim

Safe roads, reliable journeys, informed travellers

Our prime objective

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

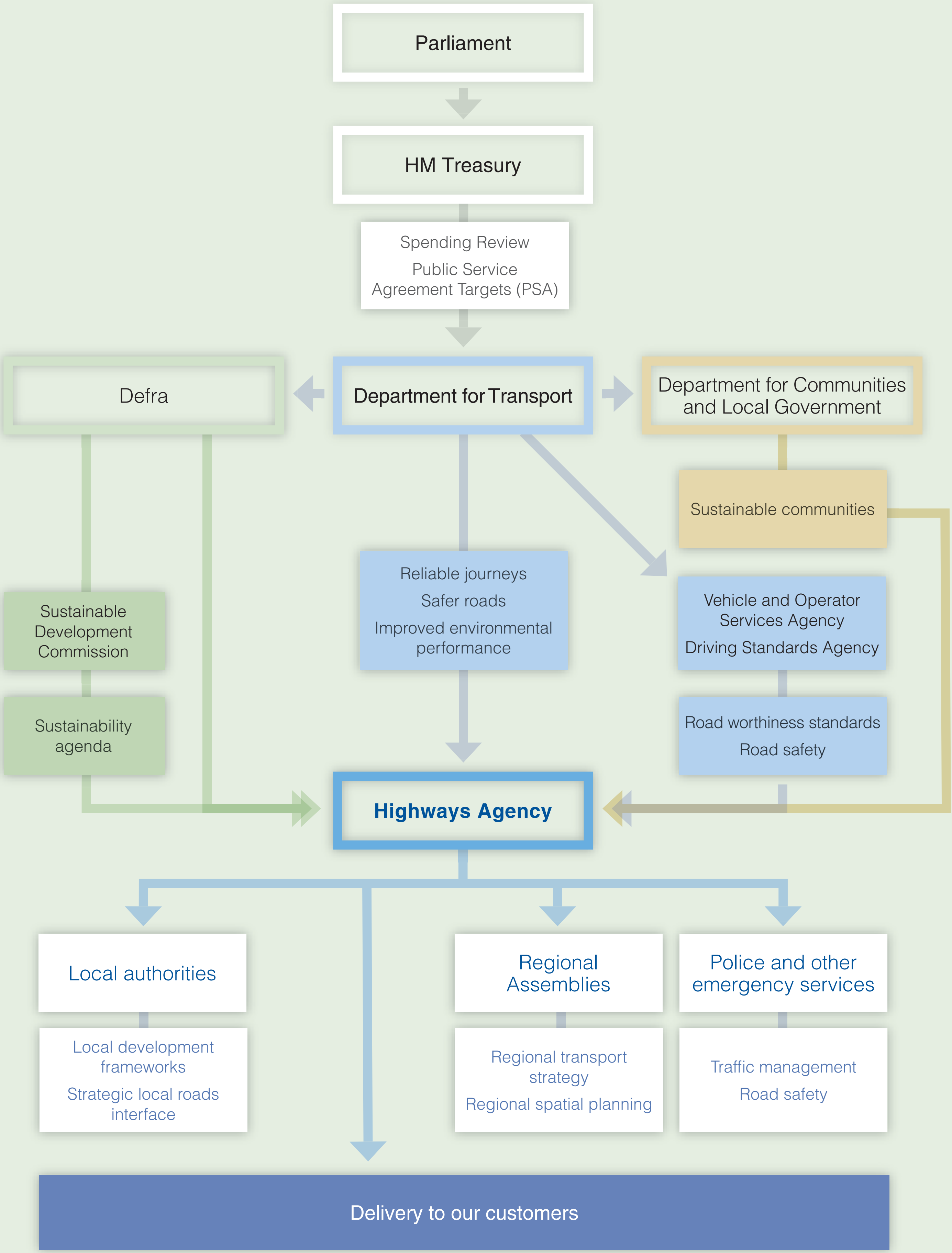
Our enabling objectives

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

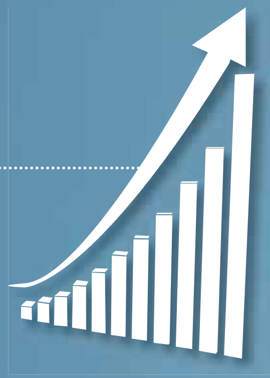
Our values: how we behave in fulfilling our objectives

Customer service	We put our customers first and aim to deliver world class quality of service
Teamwork	We work together in dynamic teams and partnerships
Continuous improvement	We are committed to learning, innovation and flexibility
Diversity	We value people for who they are and their contributions
Best value	We provide quality services that provide value for money
Integrity	We build trust by acting with honesty, openness and fairness

How we link with other parts of government



Annual performance report



An overview of our performance in 2008-09

The strategic road network provides an essential service to commerce and industry and to the lives of communities and individuals. The network connects our cities, regions and international gateways, playing a significant part in supporting economic growth and productivity. The network is not only the backbone for the distribution of goods, it is also essential to people travelling around the country, visiting friends or family, making leisure or business trips.

We are continually working to reduce delays, improve the reliability of the network and improve our safety performance. We are increasing road capacity both by conventional widening and increasingly by making better use of existing roads through use of the hard shoulder as a running lane, delivering extra capacity at lower cost and with a reduced impact on the environment.

The sections that follow set out the work undertaken by the Highways Agency during 2008-09 to achieve these aims.

Traffic Officers manage traffic on the motorway network 365 days a year, helping customers with their journeys, clearing incidents and reducing congestion

Managing the network

Our Traffic Officer Service

Day-to-day management of traffic on the motorway network is undertaken by our Traffic Officer Service. The Service comprises around 1,600 traffic officers and control room staff working out of seven regional control centres and 32 outstations. The transfer of responsibilities for traffic management from the police was completed in October 2008 with the granting of statutory powers to arrange removal and disposal of abandoned and broken down vehicles from the motorway network. Two regions have begun to use these new powers, with roll-out to be completed by summer 2009.

Traffic officers operate a 24/7 service and deal with over 26,000 incidents each month, aiming to reach over 80% of these within 20 minutes. The time taken to clear incidents has been reduced through detailed operational analysis and planning, and improved working practices with the police and other emergency services. Roads are reopened more quickly, and the impact of incident-related congestion reduced.

Collaboration in West Midlands speeds up incident response times

Since October 2008 we have piloted basing staff from AmeyMouchel, our local managing agent contractor, alongside our traffic officers and officers from the Central Motorway Police Group at our Regional Control Centre in Quinton. Early results demonstrate a more integrated and faster response, with incidents cleared quickly and reduced delays benefiting motorway users.

We have begun a three year programme to develop our traffic incident management arrangements which includes:

- improving communications using the police Airwave radio system for our incident support units, facilitating better interaction with the police at incident scenes.
- implementing off-network diversions when a significant incident has occurred.
- erecting incident screens to make accidents less visible from the opposite carriageway.
- optimising incident management arrangements using desk-top and live exercises.
- establishing strategic alliances with key stakeholders and partners, and drawing on best national and international practice.

Road users are increasingly recognising the assistance provided by the Traffic Officer Service, and feedback has been very positive, with frequent praise for on-road and control room staff.

Managed motorways

Traffic Officers and the regional control centres will play a pivotal role in supporting the delivery of managed motorways, where the hard shoulder is used as an active running lane at congested periods.

Hard shoulder running works by installing technology to monitor and control the flow of traffic, and uses electronic signs to warn drivers of safety hazards, allowing the safe use of the hard shoulder.

We have made good progress applying the learning from the successful operation on the M42 of active traffic management (ATM) and use of the hard shoulder as a running lane. The M42 pilot showed that, at a cost significantly lower than conventional widening schemes, benefits can be made to traffic flows, journey time reliability, and reduced emissions. A significant proportion of the national strategic roads programme announced by the Secretary of State for Transport in January 2009 is made up of hard shoulder running schemes on our major motorways and key trunk roads.

The extension of ATM to further sections of motorway around Birmingham began in August 2008, with completion of the first phase expected in December 2009.

Reliability

Congestion on the network leads to greater unreliability in journey times. The majority of road users have an anticipated arrival time when setting out, particularly where trips are to and from work, or leisure trips such as to sporting events with specific start times. We have therefore continued working to improve the reliability of journeys by making progress with our **Reliability Delivery Plan**. The Delivery Plan consists of a programme of actions aimed at minimising the increase in journey time unreliability, building on existing programmes and services, and containing new services that we will deliver over the next three years.

The Delivery Plan consists of more than 30 measures designed to reduce congestion so as to improve reliability, and covers many aspects of our work on managed motorways, managing incidents and information services. The programme has been implemented effectively during 2008-09, with delays now at their lowest level since monitoring began four years ago. The reliability measure shows an improvement of about 10% since 2007-08. This has been helped by the 1% fall in traffic levels between 2007 and 2008, which reflects the economic downturn.

Details of some of the key initiatives making up the Delivery Plan are set out below.

Dealing with incidents

Our traffic officers now deal with all aspects of incidents where the police are not involved, improving the time taken to clear incidents and restore normal service, reducing the impact of incident related congestion, and reducing the risk of secondary incidents.

Incident detection

Work began this year on extending the coverage of the Motorway Incident Detection and Automatic Signalling (MIDAS), from 1,200 to 1,400kms. The system works by detector loops in the road surface providing live traffic information on a combination of gantry and verge-mounted electronic message signs.

We delivered 120km during the year with the system now providing queue protection and smoothing traffic flow to over 45% of the motorway network. The project will be completed over the next two years.

IN THE NEWS...

Rescue on M4

Traffic Officer Sandy Osborough says:

'Skye and her baby, Roxy, were stranded on the M4 waiting for recovery in torrential rain. I decided to stay as she was nervous and did not want to leave the car, so gave her hard shoulder safety advice and told her to stand on the verge behind the barrier to wait for her recovery service to arrive.

Throughout Roxy was as good as gold and Traffic Officer Dave Webb, and I, were happy to stay for the duration, despite being soaked completely. Doing a job like that is what defines a Traffic Officer, and you can't put a value on the feeling Dave and I had when Skye and Roxy were safely on their way.'

New technology

We will be extending the use of new technologies to our all purpose trunk roads. For example on the A14 corridor we have begun to implement automatic incident detection, variable message signs for strategic traffic management, CCTV cameras for traffic and incident management, and road safety improvements. These measures will be fully operational by 2010.

Reducing delays at road works

The use of average speed cameras through road works improves compliance with speed limits, smoothes traffic flows, and reduces delays. So we are now able in many cases to adopt a 50 mph speed limit rather than 40 mph through major schemes. And the use of quick-change moveable barriers minimise the impact of roadworks by reducing the time required to install and remove traffic management measures.

Influencing travel behaviour

Our wide ranging Influencing Travel Behaviour programme helps road users to avoid congestion, and has the broader aim of reducing congestion at source. We improve journey reliability for road users by the following means.

- We provide timely, accurate information allowing road users to make more informed choices, explained in more detail below.
- We work with developers and planning bodies to find sustainable transport solutions that will support housing and development – the Corporate Social Responsibility section of this report contains more details.
- We reduce the load on the network by promoting journey planning and car sharing; we encourage alternative forms of travel such as cycling, where feasible, and the use of public transport, and we champion homeworking and videoconferencing.

These sustainable travel initiatives help cut congestion on our roads and reduce emissions.

Infrastructure improvements

Our programme of Local Network Management Schemes provide smaller scale engineering solutions to specific problems at a local level. Costing less than £10 million each, we delivered over 200 of these schemes during the year.

Managing heavy goods vehicles

This year we distributed some 60,000 Fresnel lenses to left hand drive HGVs, on ferries and at ports, to reduce the number of occasions when they side swipe other vehicles. This effective, low cost initiative helps reduce the number of minor accidents and the consequent delay.

Car share lanes

Our first car share lane, opened in March 2008 at the junction of the M606 and the M62 near Leeds, has proved to be a success. Analysis of the usage of the lane and compliance with occupancy rules has been encouraging, and some modifications have been made to the trial. We are continuing to look at ways to integrate priority lanes with other innovative traffic management techniques.

Better informed drivers

Quality information services are crucial in helping road users make informed choices when planning journeys and whilst travelling on the network. We therefore continue to develop sophisticated systems for gathering and relaying information about current road conditions to road users.

We undertook a major upgrade of our information services this year, the main enhancements explained below:

The Highways Agency website

Our website provides a range of traffic information services for our customers. The site has become increasingly heavily used, with around 10 million page impressions a month. During the severe weather of February 2009 a normal month's worth of visitors accessed the website in less than a day.

Highways Agency Information Line (HAIL)

HAIL is an established 24 hour information line which provides information on all aspects of our business. It is an effective single point to report debris or damage on the road, or to contact any part of the Agency.

Traffic Radio

Our Traffic Radio service launched on DAB digital radio in June 2007. The service provides a wide-ranging real time traffic information service, with national traffic headlines and six regional services updated every ten minutes at peak times. In 2008-09 we expanded Traffic Radio broadcast content to the internet, and locally onto 1386AM at the Birmingham NEC to aid journey planning from events leaving the centre.

Electronic variable message signs (VMS)

The information on our VMS has been enhanced to include the travel time for vehicles between specified points on the network. The information is calculated automatically by our traffic monitoring equipment. This year we also successfully experimented with displaying travel times on mobile electronic variable message signs through major road works. Better certainty of conditions ahead results in greater driver satisfaction and results in improved behaviour.

Traffic camera images

In addition to making these available on our website, we are providing streamed CCTV images from more than 1,000 cameras located on our network, through the web, to approved websites such as the BBC and regional media groups. The images provide customers with an easily accessible view of network conditions before they set out.

Information points

We began installing information points where customers can access real-time traffic information two years ago at some motorway service areas. We will be adding a further 180 units, extending the service to other venues such as shopping centres, ports and airports over the next 18 months.

Working with tourist attractions to help them with journey planning

We are encouraging tourist attractions to make more use of our live traffic information services to help make them more accessible to the millions of families across England.

Good quality maps and route-planning advice are important factors in making attractions easy to get to. We have provided assistance and advice to tourism bodies and visitor attractions preparing publicity materials, and we offer a link from attractions' own websites to journey planning information, including live updates on traffic conditions.

For example the Portsmouth Historic Dockyard website now provides visitors with live traffic information on the major approach roads using information supplied by our National Traffic Control Centre.

Maintaining the network

Maintenance of the network continues to be our largest item of expenditure, absorbing about one third of our budget each year. This is the amount required to keep the network safe and maintained in a steady state condition.

M48 Severn Bridge cable wrapping

In December 2008 the Highways Agency's partners Severn River Crossing plc, InterRoute, Faber Maunsell, C Spencer Ltd and Laing O'Rourke successfully completed the installation of the dehumidification system on the M48 Severn Bridge main suspension cables. The first of its kind to be fully operational in the UK, the project involved the installation of four dehumidification plant rooms within the bridge, and wrapping the entire length of the suspension cables in a polymer based material. The individual wires making up the suspension cables are dried by passing de-humidified air along the wrapped sections. Recent monitoring results are positive, showing humidity reduced to 50% in some places, with the trend heading towards the target of below 40%.

This system reduces the effects of corrosion to the main cables.

Maintenance covers a wide range of essential activities, but can be categorised as:

- **Routine maintenance** such as clearing hazardous defects, clearing debris and litter, 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

We have continued working to maintain our network assets at an optimum level. To assist in this we have taken significant steps in the development of an integrated asset management programme, the aim of which is to optimise the operation of the network by taking a long term strategic approach to the management and monitoring of its asset performance. Our strategy is to integrate all existing systems holding asset data on pavements, drainage, geotechnics and structures, into a single, reliable data source with unambiguous ownership. A decision support tool is being developed to enhance our analysis and modelling capabilities, for example, by allowing us to examine the impact of different investment levels on the condition and performance of our assets. The system's reporting capability will be available to everyone who needs access to asset reports, both within the Highways Agency and our supply chain. Looking further ahead, from 2012, we will also deliver routine maintenance through the integrated asset management system. This will enable an optimised schedule, delivering maintenance and inspections by need rather than routine.

This year we implemented a consistent system of cost reporting by our Managing Agents responsible for maintaining the network on our behalf. By 2011, contracts becoming due for renewal will include a reporting requirement.

Safety improvements

We continue to operate one of the safest road networks in the world. We have kept ahead of our long-term safety target set by the DfT by introducing new measures to improve road user safety and our network safety performance.

We remain on target to achieve our part of the DfT's target for improved road safety of a 33 per cent reduction in the number of people killed or seriously injured by 2010.

However, it has become increasingly difficult to maintain downward pressure on the numbers of people killed or injured. Engineering improvements cannot provide the entire solution, so we have shifted the focus of our road safety improvement activity. We are working with others, such as local highway authorities, industry and the emergency services, to influence driver behaviour. We also involve road users in the process, with particular focus on higher risk groups such as young drivers and motorcyclists. Our Strategic Safety Action Plan sets out the key actions we are taking to reduce deaths and injuries on the network. The three main themes are:

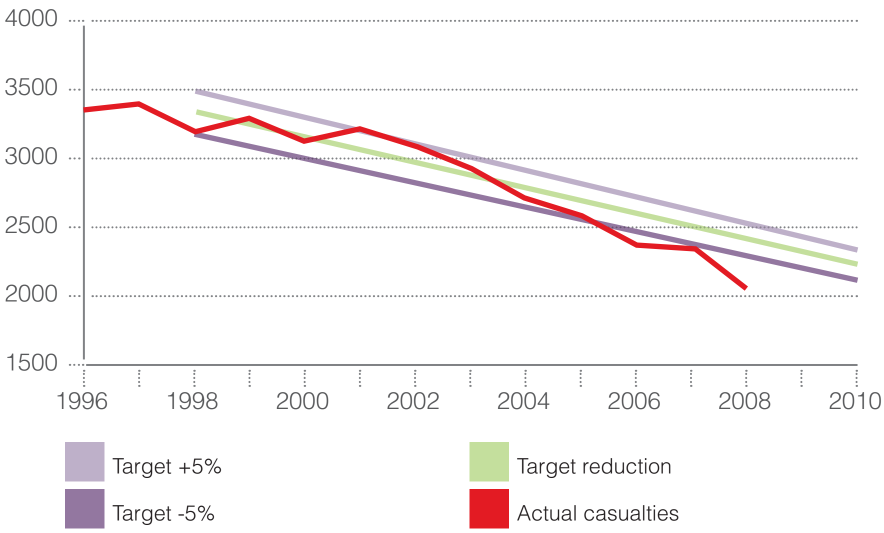
- The provision of information and raising of awareness amongst staff, partners and road users
- Working in partnership to achieve targets and objectives
- Applying effective and robust procedures to ensure that safety improvements and measures achieve the outcomes intended

Driver information programmes

Driver education forms an important part of our strategy to reduce deaths and serious injuries on our roads. Working with variety of road user groups, industry and emergency services we have further developed our driver information programmes, (DIPs), aimed at the long-term improvement of driver behaviour.

DIPs are distributed through a variety of media such as DVDs, magazines, and audio CDs, and can be accessed on our website. They cover a wide range of topics including towing, driving with a disability, HGV driving, safely fitting child car seats, and motorcycle safety. The material is versatile, customer focused and above all engaging. We estimate that we deliver around half a million DIPs each year to customers. Their impact extends well beyond our network, therefore making a contribution to casualty reductions country-wide.

KSI Casualty Target (casualties/year)



Great Roads, Great Rides 2 launched

In February 2009 Jim Fitzpatrick, the Road Safety Minister, launched *Great Roads, Great Rides 2* at the annual Royal Society for the Prevention of Accidents (RoSPA) Road Safety Congress in Blackpool.

This new interactive DVD-ROM helps riders 'read the road' successfully and stay safe while enjoying their biking experience. The DVD puts the viewer on the motorbike, inside the helmet and close to the road, during a ride featuring motorway, urban and countryside roads.

The interactive challenge feature helps riders sharpen up their observation skills and riding technique.

Some 600,000 copies of the original *Great Roads, Great Rides* DVD have been distributed since its release in 2006.

Keeping the network snow free

In February 2009 despite the worst snowfall in 20 years, all motorways were kept open, with the exception of the two bridges across the Severn where ice dropping from the structures forced a day's closure. And by using contingency plans to monitor and replenish salt stocks we were able to help local authorities as they faced often severe shortages. This severe weather was the first full test for our new fleet of winter service vehicles which have begun to replace our older gritters.

The new vehicles tackle snow and ice using state of the art monitoring technology on board. Their introduction marks our move towards use of pre-wet salt, which gets to work faster on the road surface to prevent ice formation, and uses 20% less salt.

Investing in the network

We add capacity to the network through our capital building programme. Our delivery of major projects has been enhanced through the strengthening of our commercial and project management capabilities, and our future plans draw upon the lessons learned during the innovative use of the hard shoulder as a running lane, trialled on the M42.

Since April 2008 we have applied the Project Control Framework, an improved approach to project management, to all major schemes. We have utilised new performance measures based on Earned Value Management techniques. Monitoring and assessment of the benefits delivered to date shows a process of continuous improvement.

We completed work on 16 major schemes in 2008-09, all of which brought big improvements to journey reliability, safety, or reduced impact on the environment, with work continuing on seven others.

M25 widening

In autumn 2008 we selected Connect Plus, a consortium comprising Balfour Beatty, Skanska, Atkins and Egis Projects to widen key sections of the M25. After completion of the funding arrangements the Design Build Finance and Operate (DBFO) contract was signed in May 2009. In addition to widening, the contract provides for the operation and maintenance of the M25 network for the next thirty years. Benefits to road users will include reduced congestion, improved journey time reliability and safety.

M6 Carlisle to Guardsmill extension

The M6 extension from north of Carlisle to the Scottish Border, opened in December 2008, upgraded the A74 between Carlisle and Guardsmill, bridging the missing motorway link between London and Glasgow. The scheme provides safer and less congested journeys for long-distance traffic between the North West of England and Scotland. The £174m project was part funded by the European Union as part of the Trans European Road Network.

Major road schemes completed during 2008-09

Scheme	County
M1 J6a-10 widening	Hertfordshire
M6 Carlisle to Guardsmill extension	Cumbria
A5117 / A550 Deeside Park Junctions improvement	Cheshire
M25 J1b-3 widening	Kent
M62 Junction 6 improvement	Merseyside
A14 Haughley New Street to Stowmarket improvement	Suffolk
M27 J11-12 climbing lanes	Hampshire
A2 Bean-Cobham Phase 2 (Pepperhill to Cobham)	Kent
A27 Southerham to Beddingham improvement	Sussex
A38 Dobwalls bypass	Cornwall
A66 Long Newton junction	County Durham
A69 Haydon Bridge bypass	Northumberland
A419 Blunsdon	Wiltshire
A590 High & Low Newton bypass	Cumbria
A595 Parton to Lillyhall improvement	Cumbria
M27 J3 to J4 widening	Hampshire

The breakthrough to link the north and south tunnels on the A3 Hindhead Improvement project was made in February 2009, creating the UK's longest road tunnel under land.

Fiscal stimulus

In December 2008, a £700 million package of transport investments was announced as part of the Government's fiscal stimulus. The Highways Agency is delivering £400 million of this, including:

- the bringing forward of work to introduce hard-shoulder running on around 340 lane miles of Britain's motorways
- the start of work, three years early, on providing a new fast link between the A1 and M1 by upgrading to dual carriageway the missing section of A46 from Newark to Widmerpool
- the bringing forward of a substantial programme of asset renewal work, impacting on projects in all regions

Customer engagement

Road users' satisfaction

Our commitment to seek and respond to feedback from our customers is shown through our national and area road users' satisfaction surveys, which are carried out throughout the year. The National Road Users' Satisfaction Survey involves around 2,000 people annually who are interviewed at their own homes. It provides the results for our key performance indicator for road user satisfaction as well as other important information about how our customers use our network and services.

Satisfaction levels were measured across our three core objectives:

- journey time reliability and congestion
- safety
- environment

In 2008-09 we changed the way we measure improvements in road users' satisfaction. Although performance improved over the course of the year we fell slightly short of achieving our target. Details of the target and performance can be found on page 44 of this report.

Memorandum of Understanding signed with The Caravan Club

The Highways Agency is working more closely with The Caravan Club to make travel on our network safer and easier.

In February 2009 Graham Dalton, Chief Executive, and Trevor Watson, Director General of The Caravan Club, signed a Memorandum of Understanding (MoU).

The Caravan Club has one million members who are already encouraged to make use of our journey planning tools and live traffic information. The MoU will assist more effective communication on a range of issues, and allow the sharing of skills and knowledge on areas of mutual interest.

Stakeholder satisfaction

During 2008-09 we conducted a stakeholder satisfaction survey to obtain feedback on how the Agency performs in partnership working. We have continued to develop our network of stakeholder account managers and focal points specialists to ensure that stakeholder feedback is cascaded to all areas of the business.

We have entered formal collaborative working arrangements with two key stakeholders and are continuing to develop further arrangements.

Road Users' and Environment Committees

To assist the Highways Agency in developing a more customer-oriented approach to our business we host two focused stakeholder committees, the National Road Users' Committee and the National Environment Committee. These include representatives from our main customer organisations: road users, industry, and statutory and non-statutory environmental groups. Both committees are chaired by our Chief Executive. The meetings allow us to engage with stakeholders at a senior level, set out the rationale behind our work, facilitate two-way dialogue, and lead to increased stakeholder support. As an indicator of the levels of importance we attach to cultivating healthy stakeholder relationships, we have this year increased the number of these meetings to six per annum.

We operate a similar arrangement at regional level, providing a channel for the discussion of local operational and environmental issues directly with the Highways Agency.

Customer Promise

As part of moving the Agency forward we have developed our Customer Promise following discussions with our customers, stakeholders, staff and suppliers. The dialogue generated the following statements that set out the key features of our services to customers simply and clearly.

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

Since introducing the Customer Promise in 2007 we have made significant progress in embedding its ethos with staff, suppliers and stakeholders by:

- Holding a series of roadshows with our staff;
- Explaining our role to stakeholders using the DVD '*A day in the life of the Highways Agency*', and
- Building the Customer Promise into the development of a contractors' charter setting out the commitments we expect our strategic suppliers to sign up to.

But our challenge remains to complete this process.

Customer beacon network

To improve our understanding of our customers' needs we use a network of Customer Beacons representing teams in the business areas of the Highways Agency. Beacons act as the 'eyes and ears' of the Agency, gathering feedback from our customers and stakeholders, and reporting and sharing this information by means of our quarterly Customer Feedback report. The report summarises our customers' concerns, and what action we have taken in response.

As a result of feedback we make changes across the full range of our activities, from the way we provide services, and communicate with customers, to revising internal processes and policies, and commissioning research.

Our website contains a customer feedback section for comments. We also publish copies of the feedback reports for information.

Efficiency

Improved efficiency continues to be an important element in adding value to service delivery. Following our strong performance over the three year Spending Review period to 31 March 2008 when the Highways Agency delivered £238 million of efficiency gains against a stretch target of £200 million we are again aiming to over-achieve our targets. In 2008-09 value for money (VfM) gains of £106 million were achieved against a target for the year of £91 million.

The Highways Agency's latest Spending Review settlement included a target to deliver VfM gains of £144m by the end of the financial year 2010-11. In addition, the November 2008 Pre-Budget Report included a requirement for the Agency to identify a further £150m efficiency savings by 31 March 2011. These additional efficiency savings are expected to include efficiencies arising from the rollout of the Managed Motorways programme as well as the over delivery of the original CSR 07 target.

By the end of March 2009, the Highways Agency identified £66 million of VfM savings through Value Engineering Workshops. Savings are identified through sharing engineering best practice across Highways Agency, which ensures that more efficient ways of working are developed and shared effectively. For example, these workshops have delivered savings through encouraging the re-use of materials found at construction sites and through promoting the recycling of waste from local quarries, both of which can be alternatives to purchasing materials when constructing roads.

Continuous improvement and sharing cost reductions between the Highways Agency and its managing agents, in the delivery of routine and winter maintenance, has enabled several contract renewals for Maintenance Areas to deliver efficiency gains of £23 million. In addition, value for money gains on provider and managed works amounted to £16 million in 2008-09.

The award of the ICT Services Contact in December 2007 has delivered gains of £1 million in 2008-9 and should deliver further VfM gains over the CSR 07 period.

The benefits of hard shoulder running (HSR)

Use of the hard shoulder as a running lane provides four lanes for traffic, and brings similar additional capacity to conventional widening at about 60% of the cost. Traffic flows are smoothed by the use of variable speed limits, leading to more consistent journey times. HSR uses fewer natural resources for construction, and causes less destruction of natural habitats.

Photo © G L Jones/Sustrans

A well-functioning transport system allows access to jobs, services and leisure activities. Our challenge is to minimise the impact of our network on communities and the wider environment.

Corporate social responsibility

Our purpose is to support the sustainability of the nation as a whole by operating, maintaining and improving the England's strategic road network. We do not generate a profit – all of our funding is used to deliver this important public service which, in turn, helps to sustain both national and regional economies and supports the various communities that we serve.

We also recognise that we have a wider responsibility beyond the focus of providing a safe and reliable strategic road network. In this section of the report, we set out the progress we have made towards:

- Improving our response to the global challenge of climate change;
- Delivering our sustainable development action plans;
- Improving our sustainability reporting;
- Planning and sustainable development;
- Improving our impact on the environment;
- Implementing measures to care for and develop our staff.

Climate change

Climate change is now commonly recognised as the most significant and urgent environmental risk faced by the planet. Global and national strategies and targets press for action from governments, organisations and individuals.

Our role, as a provider of key infrastructure within the UK, means climate change is an important issue for us, both in terms of minimising the Agency's contribution to the causes (mitigation) and managing the likely impacts of climate change (adaptation). It is clear that national policy, and increasingly backed by legislation, is a driver for reducing the Agency's carbon emissions. Our challenge is to ensure our network is fit for purpose whilst safeguarding the environment for present and future generations, making sure our activities and practices have as little adverse impact as possible on society and the wider environment.

During 2008-09 we further developed our response by:

- Setting up a new team whose sole focus is to lead on business change activities relating to sustainability and climate change.
- Developing our Climate Change Adaptation Strategy and implementing various measures to ensure that the way we work is adapted to the challenges of a changing climate.
- Launching our Carbon Calculation Framework in September 2008 to measure and understand the Greenhouse Gases emissions associated with delivering our business. We used this to develop our first Carbon Footprint, first details of which are published opposite.

Sustainable Development Action Plans

Every year, since 2007 we have developed and published a Sustainable Development Action Plan. This provides a useful platform to communicate to our staff and partners the importance of sustainable development and also enables a focus on activities to improve our business from this perspective. We report our progress against the action plan to the Sustainable Development Commission and this is published on our website.

A major source of our greenhouse gas emissions is the electricity we use on the road network, in particular lighting. Network energy consumption accounts for around a quarter of our entire carbon footprint. This energy use has been the focus of our Sustainable Development Action Plans which resulted in the standards for lighting being revised. As a result, in early 2009 we began a programme of 'midnight switch-offs' where network lighting is switched off at midnight on selected lengths of motorway. While savings are modest during the pilot phase, we anticipate that further roll-out of the switch-off together with the introduction of improved lighting technology will offer huge potential for reduction in both emissions and financial costs.

Our first carbon footprint

In September 2008, we launched our carbon calculation framework (at www.ha-partnernet.org.uk/sustainability) to measure the greenhouse gas emissions associated with delivering our business. We are using Carbon Dioxide Equivalents (or CO_2e) in tonnes as the measure, which allows for the capture of information related to the six greenhouse gasses (GHG) covered by the Kyoto Protocol (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6).

We recognised that it was important for a consistent and transparent approach to be taken to establish the scope to be covered by the footprint. The framework follows recognised best practice including the GHG Protocol Corporate Standard and the British Standard ISO 14064-1, although at this stage, certain requirements, procedures and processes remain unfulfilled. In calculating the emissions we produce, we have used GHG conversion factors produced by DEFRA, the Environment Agency or the University of Bath's 'Inventory of Carbon and Energy'.

Following a year of collaboration between staff, contractors and suppliers, our footprint for year 2008-09 was established as circa 550,000 tonnes of CO_2e. The footprint considers emissions associated with our internal offices, network energy consumption and Traffic Officer mileage, as well as those associated with the resources used by our supply chain delivering work on our behalf, including constructing major schemes and maintaining or improving the existing network.

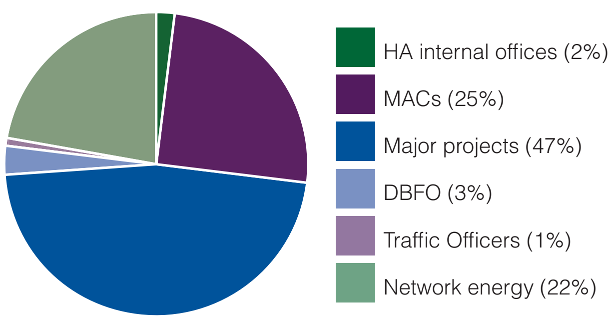
The contribution to our footprint by each of our business areas and each major source is illustrated below.

A degree of inaccuracy is inevitable within the calculation tool during its first year of application. However, we have made every effort to detect anomalies and recognise gaps or uncertainties to ensure we have a credible basis for informing decision making on carbon management.

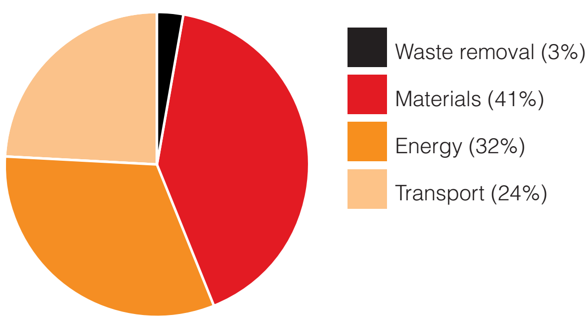
We have analysed the key emissions sources to identify baseline administrative figures and to clearly understand whether the associated emissions are directly or indirectly controlled by the Highways Agency. This enabled us, for the first time, to include carbon reduction targets in our 2009-10 Business Plan, and begin making carbon reporting a part of our regular business reporting. These targets cover a combination of quick wins, around our office energy consumption and business travel, and from the energy we consume directly powering our network, a key emission source.

We aim to demonstrate our continuing commitment to carbon management, recognising both our direct and indirect control and influence on the wider UK carbon emissions. The transport sector is the second largest contributor to UKs carbon emissions behind energy generation. Although our own carbon footprint is orders of magnitude lower than emissions from road users, it will be important to be amongst the leaders in best practice and ensure that our footprint is reduced as much as is practicable.

Emissions by business area



Emissions by major source



Highways Agency sustainability report for the year ended 31 March 2009

Table 1: Greenhouse gas (GHG) emissions (CO_2e, tonnes rounded to the nearest 10,000)

	This year 2008-09
Total Gross Emissions for Scope 1 (Direct GHG Emissions)	10,000
Total Gross Emissions for Scope 2 (Electricity Indirect Emissions)	130,000
Total Gross Emissions for measured Scope 3 items (Other indirect GHG Emissions)	410,000
Total Gross Emissions	550,000

Table 2: Waste (measured in 7 offices)

	Baseline year 2005-06	2006-07	2007-08	This year 2008-09
Total waste (tonnes)	231	229	199	193
Per head (kg)	117	114	102	105
Percentage recycled	36.40%	43.20%	47%	56.20%

Table 3: Finite resource consumption

		Baseline Year 2002-03	2006-07	2007-08	This Year 2008-09
Water (Measured in 4 offices)	m^3	8,140	8,420	8,091	5,974
	Per head	11.5	7	6.9	6
Electricity (Measured in 5 offices)	kWh	3,116,412	3,628,343	4,392,051	3,111,731
	kWh per head	2,515	1,884	2,357	1,783
Gas (Measured in 4 offices)	kWh	2,656,673	1,812,534	1,976,133	2,104,031
	Per head	4,355	1,514	1,680	2,108

Table 4: Finite resource consumption, fuel (measured by vehicle mileage, million road miles)

	2006-07	2007-08	This Year 2008-09
Private car	2.17	2.04	2
Hire car	2.28	2.19	2.12

Figure I: Greenhouse gas (GHG) emissions by scope

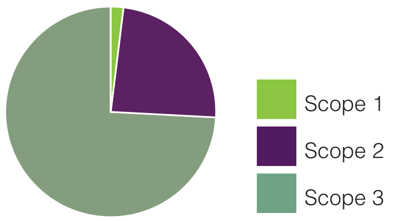


Figure II: Waste

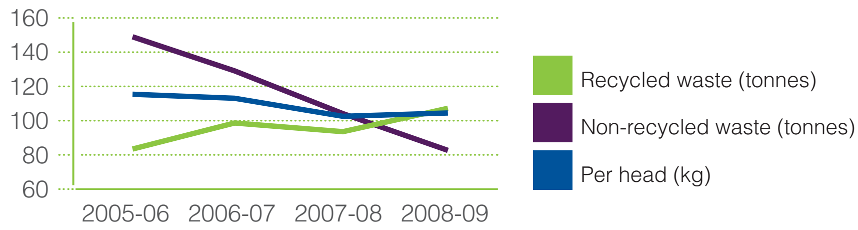


Figure III: Water consumption (4 offices, m^3)

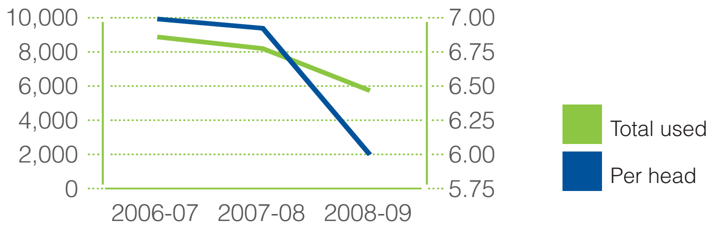


Figure IV: Electricity consumption (5 offices, '000 kWh)

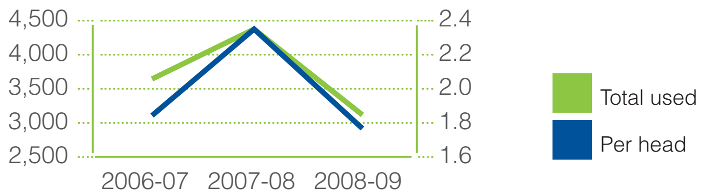


Figure V: Gas consumption (four offices, '000 kWh)

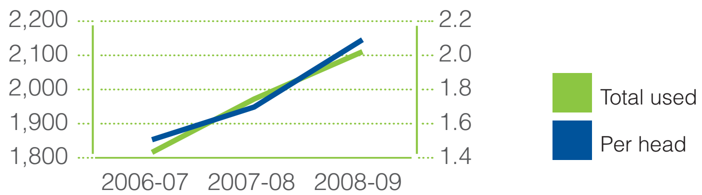
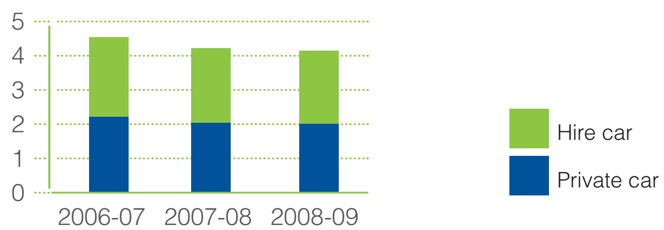


Figure VI: Vehicle mileage (million road miles)



Sustainability reporting

In 2008-09 HM Treasury formed a Sustainability Working Group to develop guidance on sustainability reporting. We were invited to be members of the group and continue to be closely involved in its work.

Our Sustainability Report for 2008-09 is shown opposite and work is in place to ensure that it is developed in accordance with the emerging proposals from HM Treasury. Future years will also include comparative information around our greenhouse gas emissions using the 2008-09 baseline year.

Reduced carbon footprint from motorway lighting

In March 2009 we began a programme of switching off motorway lighting between midnight and 5am at two sites on the M4 and M5 in the South West. Both motorway stretches have excellent safety records and very low overnight traffic flows. We expect up to 40% savings in carbon emissions and energy use, reducing our carbon footprint, and benefitting local communities by reducing light pollution of the night sky.

Planning and sustainable development

Housing and business development requires effectively planned transport arrangements to support it.

The Highways Agency is a key delivery partner, working together with Government Departments, Regional Offices, regional and local planning and transport authorities, public transport providers and developers, to influence planning policy and help shape development plans and their outcomes. Through our participation in the development and revision of Regional Spatial Strategies and the preparation of Local Development Frameworks, we support the delivery of development whilst maintaining a safe and efficient network for longer distance traffic. Working with developers we ensure that the traffic and environmental impacts of highways works resulting from development are minimised.

Our engagement in the planning system reduces pressure on the network and makes a significant contribution to relieving congestion and improving journey time reliability.

We also work with companies on a voluntary basis to devise travel plans, or use the planning application system to formally require developers to include travel planning measures in their proposals. This year we have delivered nine voluntary plans with employers at key development sites.

Environmental performance

This year we have again successfully met our targets relating to air and water quality, and biodiversity, and developed baseline data on the greenhouse gas emissions arising from our business activities.

Other key environmental initiatives undertaken in 2008-09 included:

- In response to the EU Environmental Noise Directive we began developing road noise maps and an action plan for England's roads. The results were published by the Department for Environment, Food and Rural Affairs in spring 2008.
- We continued to populate our cultural heritage database and develop cultural heritage asset management plans for sites near our network.
- We undertook research into measures to further mitigate the impact of floods on the network.

IN THE NEWS…

Oystercatchers make new home near A1(M) drainage pond

Whilst the primary function of drainage ponds is to protect the wider environment from the risk of pollution and flooding, they are colonised by wildlife.

In June 2008 a pair of oystercatchers decided to nest at the new A1(M) motorway drainage balancing pond close to the new motorway service area near Wetherby, North Yorkshire The oystercatchers laid two eggs at the pond which had been relocated to allow the construction of a new access road. The existing reed beds were replanted in the new pond, and additional planting took place once work at the site was completed.

The pond is linked to the local countryside via a badger/ wildlife tunnel so that the new access road and local road do not form a barrier to the natural migration of wildlife along the route of the A1(M).

Customers, staff and contractors

Workforce Strategy

Strong professional skills are a prerequisite for the management of large contracts and the delivery of technically complex projects on time and to budget. To deal with these challenges and those that lie ahead we recognise that we need to make the most of our people, and build individual and collective capability. We have therefore introduced a Workforce Strategy Programme of linked projects aimed at:

- strengthening our internal skills and capability;
- enabling more flexible working to meet priorities and
- improving our management of performance.

We have taken the following steps this year to progress the Programme:

- We have delivered a targeted leadership and improved people management programme;
- We have modernised our pay and reward structure for senior managers to more closely link rewards to contribution, skills acquisition and deployment, and the market
- We are implementing flatter, more flexible organisational structures
- We are increasing our Programme/Project Manager capability and awareness;
- We have enhanced our graduate scheme recruitment.

First Making Sustainable Travel Work conference held

Working in partnership with Tyne and Wear local authorities and the Tyne and Wear Smarter Choices te am we helped organise the first Making Sustainable Travel Work conference in Newcastle in October 2008.

Around 120 delegates from companies across the North East listened to a range of experts explain how they can cut the cost of commuting, reduce carbon emissions and beat congestion.

Delegates received advice on easy to implement sustainable travel measures, and the financial and environmental benefits of travel planning – reduced costs, improved health, and increased productivity.

Regionalisation

In April 2008 we created the Network Operations Directorate (NOD) by combining our planning, delivery and operational functions. NOD is organised into seven regions matching the Traffic Officer Service and aligned closely with Government Office boundaries. Regionalisation provides:

- greater co-ordination and efficiency through integrating planning, operations and delivery with a consolidated view of customer outcomes
- a single regional focus for engagement with Government Offices and local stakeholders
- greater regional accountability

Training

The Highways Agency invests in learning and development to ensure that we have the required, skills, knowledge, behaviours and ways of working to meet stakeholder expectations efficiently and effectively. This year we have focused efforts on improving our leadership capabilities, project and programme management skills, and our commercial and contractual competence.

Staff involvement

We recognise the importance of consultation with staff and their recognised trade union representatives, and provide staff with opportunities to contribute to decisions affecting their jobs and careers. We aim to engage and involve all our staff with regular team briefings, cascaded throughout the organisation, and through regular meetings with recognised trade unions.

Diversity

As part of our commitment to diversity we have developed action plans for our staff covering race, disability and gender, as part of the DfT's equality schemes.

And for our customers, we have published guidance for women road users in a DVD and magazine format, and are developing a similar guide for disabled road users.

Sickness absence

The Highways Agency has a robust set of sickness absence policies and procedures in place to support managers in managing attendance. This year we have rolled out a significant communication and training programme for middle and senior managers to help them address attendance issues more effectively, which has resulted in a significant improvement in absence levels. For the financial year 2008-09 the average sickness per head was 7.59 days which was just short of our target of 7 days per head and represents an improvement of 19% on the figure for 2007-08.

During the last year we have continued to implement a successful and well regarded Health and Well Being strategy which includes health screening for all staff alongside other support such as Occupational Health and our Employee Assistance Programme.

Health and safety

We take our responsibility for the health, safety and welfare of our staff extremely seriously. The good health of our workforce plays an important role in business delivery, and during the year we reviewed our approach to occupational health management.

To enable all of our staff to understand risks and appropriate actions, we have developed a range of e-learning packages and tools which assist them to take responsibility for themselves and others.

This year we have concentrated on minimising the risks faced by our traffic officers working on the high speed network.

We have more than 4,000 road workers at any one time – approximately one for every mile of our network – working day in, day out to keep the roads safe and well maintained for road users.

To enhance the safety of our road workers we have launched our Respect campaign, supported initiatives by the Institute of Highways and Transportation to improve driver behaviour through road works, and investigated ways of joint working with industry to reduce risks.

We also recognise our role as a leading construction client, and are building on current good practice, with the objective of being considered an exemplar client in health and safety by 2011 through delivery of the actions in our Design, Construction and Maintenance Strategy.

Looking forward

Reliability

We will implement a programme of delivery actions that tackle unreliable journeys on the strategic road network. Seven programme areas contain a total of over 30 measures designed to reduce congestion. Some of the key interventions will be:

- **Unplanned incidents:** reduce incident investigation times through the use of GPS-enabled collision investigation equipment provided to the police;
- **Enhanced Incident Support Units** will operate on five of our routes managed through 'Design, Build, Finance and Operate' (DBFO) contracts;
- **Roadworks management:** use Quick-change moveable barriers to minimise the impact of major roadworks;
- **Technology:** we will implement new technology to manage traffic flow with better intelligent capability;
- **Heavy goods vehicles:** we will distribute a further 60,000 Fresnel lenses to left hand drive HGVs on ferries and at ports.

Major projects

We will be opening two schemes to traffic in 2009-10; we will start work on six schemes, three of which will be Managed Motorways projects that make use of the hard shoulder as a running lane; we will begin work on widening the M25 between junctions 16 and 23s and 27 and 30, and start work on improving the A46 between Newark and Widmerpool.

We will be enhancing our capability by:

- Introducing better defined performance measures for our suppliers
- Completing the establishment of our new Commercial Division and providing commercial capability training for our staff
- Extending and improving our use of earned value management techniques
- Reviewing and improving our Project Control Framework using lessons learned to date.

Safety

We will continue to reduce accidents through measures such as new roads and improvements, signing and road marking and effective traffic calming measures.

New programmes for 2009-10 include road safety guidance for elderly drivers and disabled road users, and a programme to encourage young pedestrians to treat the high speed network with more care. We will continue our 'Respect for Road Workers' campaign to encourage safer driving behaviour through road works.

Maintenance

We will continue to implement our integrated asset management programme, carrying out further analysis and improvement work to increase the robustness and reliability of our decision support tools, and improve the data we hold about the network.

We will be introducing the world's first Traffic Speed Deflectometer vehicle to survey structural condition of the road pavement, avoiding the need to close roads while carrying out this work.

We will continue the upgrading of our fleet of winter service vehicles.

Informing road users

We will:

- develop our website to include new gateway pages for our traffic information and road projects sections;
- introduce an enhanced new look to the Traffic England pages of our website;
- work with authorities in Scotland, Wales and Northern Ireland on the use of our DAB digital Traffic Radio service;
- expand the number of information points, where customers can access real time traffic information, to venues such as ports, airports and major visitor attractions;
- launch a project to deliver our key online services to mobile platforms;
- expand the coverage of variable message signs displaying travel time information.

Environment

We will review our overall strategic approach to the environment, and on specific elements of our programme we will:

- Cultural heritage – update our guidance on design solutions for archaeology, historic landscape and built heritage.
- Nature conservation – consolidate our Biodiversity Action Plan to complement and support the objectives of nature conservation bodies.
- Noise –work closely with DEFRA to implement the requirements of the EU Environmental Noise Directive; develop a five-year noise action plan.
- Water quality and drainage – publish new guidance implementing new water quality assessment techniques and drainage design guidance.
- Sustainable development – publish our third action plan.

Carbon emissions

We will reduce the carbon dioxide emissions, compared with the 2008-09 carbon footprint, from:

- the main Highways Agency offices and administrative business travel by 5%; and
- the energy supply for network lighting by at least 600 tonnes.

We will begin looking at applying carbon considerations in the investment decision making process. We will reduce carbon emissions by switching off road lighting between midnight and 5am at six motorway sites in Southern England.

Planning

We will continue working closely with regional and local planning bodies and developers to find sustainable transport solutions that support housing and development; and we will work with local authorities and businesses to influence travel behaviour by implementing more voluntary travel plans.

Customer satisfaction

We will deliver a high level of road user satisfaction.

Efficiency

We will deliver cumulative efficiency improvements of £127 million by the end of 2009-10, contributing to a target of £144 million by the end of 2010-11; and our programme will be delivered within our allocated administration budget over the Spending Review period, which requires cumulative efficiency savings of 12.6% by the end of 2009-10.

In November 2008 we launched the Respect our Road Workers campaign on the M1 J6a to J10 widening scheme in Hertfordshire.

With road workers' safety in mind, we developed a new information DVD on behalf of the Road Workers' Safety Forum (RoWSaF), with our partners from Scotland, Wales, Northern Ireland, the maintenance, construction and road safety industry, and THINK! The DVD includes a hard-hitting short film called Respect, highlighting why drivers need to have respect for road workers and an appreciation of the consequences their actions could have.

Leadership and corporate governance

The Highways Agency Board


Graham Dalton
Chief Executive


Ginny Clarke
Network Services Director


Steve Williams
Human Resource Services Director


Derek Turner
Network Operations Director


Nirmal Kotecha
Major Projects Director


Stephen Dauncey
Finance Director


Denise Plumpton
Information Director


Alex Jablonowski
Non Executive Director


Andrea Gregory
Non Executive Director


Tracey Barlow
Non Executive Director

Relationship with our parent department

During 2008-09 the Framework Document outlining the relationship between the Highways Agency and DfT was updated to improve the clarity of the relationship, and respective roles and responsibilities. It will be published in 2009-10 and includes the following features:

- the establishment of a new formal governance structure, with the Highways Agency's Chief Executive reporting to the Departmental sponsor, the Director General of National Networks, and
- clarification of responsibilities for road schemes, with DfT responsible for determining priorities, and the Highways Agency undertaking the development and construction phases of schemes.

Highways Agency Board structure

The Highways Agency Board and its supporting sub-groups have a single programme of work, ensuring close alignment and linkage of items discussed in senior management meetings and in corporate communications. The full Board meets monthly; this is supplemented by meetings of the Executive Group, made up of the executive directors only.

A review of the work of the three primary sub-groups was undertaken during the year, with roles and responsibilities restructured as follows:

Performance, skills and property group (PSP) provides direction, and where appropriate, approval to major issues relating to the Highways Agency's workforce and its skills, and the office and operational estates.

Strategy and business planning group (SBP) establishes and maintains the medium to long term (3 to 10 years) strategic planning framework, which supports the Highways Agency's corporate, business and management planning.

Delivery of investment programme group (DIP) provides assurance that investment, output and efficiency commitments can be delivered in-year and over the three year Spending Review period (currently 2008-09 to 2010-11).

Two further groups also report to the Board:

National operations group (NOG) currently focuses on delivery of the journey time reliability and safety targets

Audit Committee advises the Board on key risks and control issues.

Corporate governance

Risk management

The Board identifies and actively manages the major operational and strategic risks facing the Highways Agency and has action plans to manage them. During the year, action by the Board substantially reduced our exposure to many of these risks. For example, procedures for dealing with disruptions to the network were refined and proved robust in dealing with the summer flooding. The current top risks are in the areas of:

- Ensuring the safety of the Highways Agency's staff and supply chain.
- Maintaining stakeholder confidence in the Highways Agency, and stakeholder relations to ensure success of our major projects
- Justifying or obtaining the necessary funding to deliver our objectives as expected by stakeholders.
- Meeting the journey time reliability target demonstrating reduced levels of congestion.
- Disruption of the network arising from a major traffic, security or freak weather incident.
- Providing trusted, reliable, useful and effective management and other information and achieving the required standards of information security.
- Shortage of appropriately skilled people in the Highways Agency or supply chain and/or excessive turnover of staff
- Cultural or staff engagement issues delaying or preventing organisational change and service delivery.
- Operation of traffic management on controlled motorways

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

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

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

Reporting of personal data related incidents

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

Actions being taken to manage information risk

The Highways Agency Board monitors actions to manage information risk through regular reviews of its risk register. Actions include reports by Information Asset Owners and other senior managers on how they have ensured confidentiality, integrity and availability of the information assets in their stewardship, training of all staff in the basics of secure information handling, and continuous improvement of our management of information risks and information assets to ensure that it continues to meet our business requirements and accepted practice in industry and government.

i PSP, SBP and DIP are made up of five Board members including one non-executive as chair, and several members of the Highways Agency's senior management. The NOG is made up of five directors and several members of the Highways Agency's senior management.

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

How we performed against Ministerial targets

Key Performance Measure	2007-08 Targets explained	2008-09 Targets	Result	Outcome / comments	2007-2008 Result	2006-2007 Result
1. Implement a programme of delivery actions that tackle unreliable journeys on the strategic road network.	Minimise increases in journey time unreliability through delivery of the 2008-09 components of the CSR07 programme of interventions in the Delivery Plan.	31 interventions	31 interventions (see note 1)	Met	Not met (see note 2)	
2. Deliver the Highways Agency's agreed proportion of the national target. By 2010 reduce by a third (ie to 2,244) the number of people killed/seriously injured on trunk roads compared with the 1994-98 average of 3,366.	Reduce by at least 935 to 2,431.	2,431	2,053 (see note 3)	Met	2,360	2,399
3. Maintain the network in a safe and serviceable condition, and deliver value for money.	Maintain a road surface condition index of 100 ± 1 within the renewals of road budget (see note 4).	99-101	100.0	Met	100.8	99.6
4. Mitigate the potentially adverse impact of strategic roads and take opportunities to enhance the environment taking into account value for money.	Deliver across the 3 environmental sub-targets, at least:					
	3 **Air Quality**	3	3	Met	2	2
	Biodiversity: achieve a cumulative total 67% of the targets in the HA Biodiversity Action Plan	67%	Over 67%	Met	62.7%	52.9%
	4 **Water Quality** priority sites	4	4	Met	5	4
	Capture data on greenhouse gas emissions resulting from the HA's business (excluding from users' vehicles). The figure is to be reported in the 2008-09 Annual Report as carbon dioxide equivalents, and used as a benchmark for future targets.	Establish baseline	Baseline set at 550,000 tonnes	Met		

Key Performance Measure	2007-08 Targets explained	2008-09 Targets	Result	Outcome / comments	2007-2008 Result	2006-2007 Result
5. Deliver to time and budget the programme of major schemes on the strategic road network.	For the programme of National Schemes in the Construction Phase, maintain a programme level of 1.0* against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 5).	CPI 1.0 SPI 1.0	1.09 1.07	Met		
	For the programme of Regional Schemes in the Construction Phase, maintain a programme level of 1.0* against the Cost Performance Index (CPI) and the Schedule Performance Index (SPI) (see note 5).	CPI 1.0 SPI 1.0	0.96 1.13	Met		
	For the programme of National Schemes in the Development Phase, progress these projects by an average of 22 percentage points through this phase.	19.2% (see note 6)	19.2%	Met		
	For the programme of Regional Schemes in the Development Phase, progress these projects by an average of 9 percentage points through this phase.	9%	17.8%	Met		
6. Strengthen the systems and reporting processes that support contract performance management and strategic financial management	Achieve consistent cost reporting across 11 Managing Agent contracts by 30 April 2008, with full cost reporting across all 14 Managing Agent contracts by 31 December 2008, and	30 April 2008 31 December 2008	30 April 2008 31 December 2008	Met		
	develop a cost and efficiency indicator by 31 March 2009, with a target set against this indicator for the 2009/10 Business Plan.	31 March 2009	Approved by DfT Roads Board 16 February 2009			
7. Deliver a high level of road user satisfaction.	Improve road user satisfaction by 1.25 percentage points compared with the level achieved in 2007-08.	72.45	71.63 (see note 7)	Not Met	87.9% Trunk (see note 8) 89.7% Motorways	82.0% Trunk 84.5% Motorways

Key Performance Measure	2007-08 Targets explained	2008-09 Targets	Result	Outcome / comments	2007-2008 Result	2006-2007 Result
8. Deliver the Highways Agency's contribution to the Department's efficiency target	Deliver efficiency improvements of £91m in 2008-09, contributing to an efficiency savings target of £144m by the end of CSR07.	£91m	£106m	Met	£238.3m (see note 9)	£156.4m
	Deliver our programme within the allocated administration budget, which requires an efficiency saving of 5% in real terms in 2008-09.	5%	5%	Met	£1m (see note 10)	2.5%

Notes

For blank areas (unshaded) no comparable year target exists.

1 Four interventions are ongoing into 2009-10 or have no allocated Average Vehicle Delay element.

2 Target previously required a reduction of delays below 3.78 minutes per ten miles; result was 3.95 minutes per ten miles. This was due to a number of underlying factors including:

- Target set in the absence of trend data;
- Impact of traffic growth greater than anticipated;
- Short-term disruption of major roadworks on the measured routes, and
- One-off large scale events such as the flooding in 2007.

3 Due to the compilation method these figures – by necessity – reflect the calendar, and not the financial year. Also, the size of the Agency's network, on which the figures have been calculated, has reduced over the period in which comparative statistics are presented.

4 The measure of road surface condition is based on surveys covering rutting, unevenness, and skid resistance. The target takes account of the fact that it is not practical or sustainable to maintain the whole road network in as-new condition. The condition at which the road network is to be maintained each year is equated to a road surface condition index score of 100 and is the target level at which the road network will be maintained. To allow for variability/uncertainty in annual condition scores, a tolerance is allowed in the target.

5 A programme level variance of +0.10 or -0.05 against the CPI/SPI would mean that the target would be deemed to be met; exceeding the upper limit of the acceptable range represents over-delivery against target.

6 Target was revised to 19.2% following a review by DfT of the treatment of the A1 Dishforth to Leeming scheme.

7 Although the target was not achieved there is an improvement compared to the 2007-08 result. Research has been commissioned to understand why respondents are scoring trunk roads significantly lower than motorways.

8 The basis of this target has changed in 2008-09. The previous requirement was a 5% increase in road user satisfaction across core objectives compared to the prior year, and was reported separately against trunk roads and motorways.

9 The comparable target in the three prior years required efficiency improvements of £200m cumulative by the end of 2007-08.

10 The comparable target in the prior year required efficiency improvements to be expressed in monetary terms.

Financial review

Management commentary

Financial Statements

The statements cover the period 1 April 2008 to 31 March 2009 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at www.hm-treasury.gov.uk. The financial statements of the Agency are audited by the Comptroller and Auditor General (C&AG) head of the National Audit Office.

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

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

Significant accounting policies

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

Valuation of the trunk road network

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

The valuation is recorded and calculated in the Agency Valuation System (AVS). The AVS model is used in the years between full valuations to generate updated values for the trunk road network by recording material capacity changes as well as the application of indices for the costs of land, and road construction. The cost of the network includes any irrecoverable VAT and estimates for compensation costs.

An adaptation of renewals accounting is used to estimate depreciation of the road network. Renewals accounting is only acceptable if the network is maintained in a steady state. Annual condition surveys of the network have confirmed this to be the case since 2001–02. All other network assets are depreciated on a straight line basis.

The trunk road infrastructure was valued at £87,666m at 31 March 2009.

Recognition and the valuation of provisions

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

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

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

Judgements and estimates are made to apportion the payments made to the contractor between capital repayment and interest elements, with the remainder of the PFI payment recorded as a service charge in the operating cost statement. Further details regarding valuation of PFI assets can be found in Note 1.14.

More than 75% of the Agency's liabilities are of a long-term nature. These include provisions for future lands acquisition and compensation liabilities, as well as amounts relating to our outstanding PFI liabilities which are repayable over the life of the contracts.

Financial results

The Highways Agency Request for Resources voted by Parliament for the year was £6.6bn.

	2008-09 Actual	2008-09 Budget	Variance
	£m	£m	£m
Resource Departmental Expenditure Limit (DEL)	1,698	1,700	(2)
Annually Managed Expenditure (AME)	3,679	3,780	(101)
Total Net Resource Outturn	5,377	5,480	(103)
Capital DEL	1,130	1,145	(15)
Total Agency Request for Resources (RfR)	6,507	6,625	(118)

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

- DEL budgets are firm three year plans set in the Spending Review
- The Agency has exercised effective financial and budgetary control, and utilised its DEL resource and capital budgets to within 0.6% (£17m).
- AME budgets apply to items that are demand-led or exceptionally volatile, where the Agency could not be expected to absorb the effects of volatility in its DEL; the notional charge for cost of capital on the network (£2.96bn) is the principal item falling into this category.

The Agency used its resources to meet seven out of eight key business plan targets (see the table in the annual report for full details, including comparisons with prior years).

Funding of the Agency

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

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

How we used our resources in 2008-09

The main areas of expenditure incurred by the Agency in 2008-09 were as follows:

	Resource	Capital
	£m	£m
Programme pay and allowances	71	–
Major Improvements	157	613
Traffic Management	65	18
Technology Improvements	79	180
Maintaining the Network	821	91
Smaller Schemes and R&D	93	99
Capital charges and other non-cash	4,003	112
Administration	88	17
Total	5,377	1,130

The trunk road infrastructure is one of the most valuable single public assets in the UK, and maintenance of it consumed a high proportion (over 38%), of the Agency's expenditure in 2008-09 (excluding capital charges and other non-cash items). The work undertaken includes replacing and maintaining surfaces, bridges and other structures. It also includes the associated upkeep of fencing, drainage, lighting and signage, and the cost of keeping the network moving in winter.

Capital Investment

During 2008-09 £1,148m (2007-08 £1,054m) was invested in the road network. Sixteen Agency-funded major schemes opened for traffic in the year. The total expenditure was across some 1,100 schemes, with the 50 highest value schemes accounting for £825m (2007-08 1,200 schemes, 50 highest value, £875m) of the total. The six largest major road schemes accounted for a third of the overall spend:

Scheme	Expenditure in 2008-09 (£m)
M1 Junction 21 to 30 widening phase 1	105
A3 Hindhead improvement	95
M1 Junction 6A to 10 widening	71
A2 Bean to Cobham widening (Phase 2: Pepperhill to Cobham)	41
Birmingham box: Active Traffic Management phases 1 and 2	41
M6 Carlisle to Guardsmill	32
	385

Relationship with suppliers

The Agency is committed to the prompt payment of bills for goods and services received and aims to settle 98% of undisputed invoices within contract terms. During 2008-09 the Agency paid 98% of undisputed invoices within terms. No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

Performance in the last four years is shown in the table below:

2005-06	2006-07	2007-08	2008-09
98%	99%	98%	98%

In addition to the above target, from December 2008, Government required public sector bodies to pay suppliers where possible within 10 days. This measure is intended to help reduce financial pressures on companies by improving cash flows. Although there is no formal target, the Agency paid 76% of invoices received after 1 December 2008 within ten days.

Government and Highways Agency spending plans

The second Comprehensive Spending Review, (CSR), the Government's long term fundamental review of public expenditure, was published in autumn 2007. It identified what further investments and reforms are needed to equip the UK for the global challenges of the decade ahead. The CSR issued departmental budget allocations and Public Service Agreement (PSA) targets for 2008-09, 2009-10 and 2010-11. The Agency's share of the DfT budgets was agreed in autumn 2007 and included the following budgets for 2009-10:

	Resource	Capital
	£m	£m
Programme pay and allowances	67	–
Major Improvements	185	901
Traffic Management	68	16
Technology Improvements	85	259
Maintaining the Network	829	284
Smaller Schemes and R&D	101	101
Capital charges and other non-cash	4,519	62
Administration	88	26
Total	5,942	1,649

Further information relating to 2009-10 budgets can be found in the Highways Agency 2009-10 Business Plan (http://www.highways.gov.uk/aboutus/22899.aspx).

The spending plans for the CSR period incorporate the Agency's share of DfT's programme efficiency targets. During the previous spending review period from 2005 to 2008 the Agency achieved sustainable efficiencies of £249m. For CSR07, covering the three year period ending March 2011, an efficiency savings target of £144m was set, which has subsequently been doubled.

Planned administrative spending has reduced overall for the next year, with any pay or pension cost increases being absorbed.

Fiscal stimulus

In support of the Governments fiscal stimulus programme we plan to bring forward some £400 million of planned investment from 2010-11 and future years. This will include preparatory works for some Managed Motorways improvement projects, and an extended asset renewal programme to repair and replace some of our older carriageway and structures. We will also begin constructing the A46 Newark to Widmerpool improvement some three years earlier than originally planned.

Widening the M25

The largest capital project in the Agency's portfolio is the M25 Design, Build, Finance and Operate (DBFO) contract, which encompasses the capital works to create four running lanes on most of the remaining three lane sections of the M25, as well as responsibility for maintaining the motorway and its structures over a 30 year period.

On 20th May 2009 the Agency finalised the contract with the preferred bidder, Connect Plus, a consortium consisting of Balfour Beatty, Skanska, Atkins and Egis Projects. Connect Plus mobilised for a start of works at the end of May 2009. This was necessary in order to complete widening works before the 2012 Olympics. Service Commencement, the full handover of responsibilities for operations and maintenance, is now scheduled for mid-September 2009, to minimise any risk to the quality of service, and allow time for an effective transition.

Dartford-Thurrock Crossing road user charging scheme

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

In response to congestion pressures, changes were made in November 2008 to the charging regime at the Dartford Crossing. The revised arrangements followed a consultation period, and include a Local Resident Scheme for Dartford and Thurrock Council residents, the removal of charges at night and for trailers, and greater discounts for those using a pre-paid DART-tag.

Following the signing of the M25 Design, Build, Finance and Operate (DBFO) contract in May 2009, responsibility for the operation of the crossing will transfer to Connect Plus from September 2009 (see 'Widening the M25' above for further details).

International financial reporting standards

The March 2008 Budget announced that the implementation of International Financial Reporting Standards (IFRS) in the public sector would be postponed until 2009-10, mainly because some Departments were unable to meet the original timetable. HM Treasury subsequently issued a detailed timetable for transition including a series of key milestones. We have achieved these requirements, completing preliminary impact assessment work, and restating our 31 March 2008 balance sheet onto an IFRS basis. The next major task will be to submit shadow IFRS-based accounts for 2008-09 to the National Audit Office (NAO) by 10 September 2009. Any necessary changes to budgets as a result of the switch to IFRS will be made in the Winter Supplementary Estimates in November 2009. The main impact on the Agency will be to transfer approximately £500 million of expenditure on the renewal of roads and structures from the resource to the capital budget. The implementation of the Financial Reporting Standards (FRS) on financial instruments, FRS 25, FRS 26 and FRS 29, was built into the timetable for IFRS; the implementation has accordingly been reflected in the 2008-09 accounts.

Market stability

While the demand for infrastructure works is historically high, 2008-09 saw substantial reductions in demand for work in other construction sectors. In the second half of the year this created a volatile market for forecasting. As infrastructure represents less than 10% of the total UK construction market we would have expected to have seen reductions feeding through from those other construction sectors into the price of highway works. However this has not yet featured in lower resource costs for our supply chain with the exception of plastic drains, steel and fuels, as there is a lag between the fall off in demand feeding through into lower resource costs.

The effect of the problems in financial markets and the availability of credit on property values has had a significant impact on our land values. The price of developed land has seen reductions of 25%, whereas the value of agricultural land has continued to rise underpinned by the global demand for commodities.

We are likely to benefit from lower inflation levels in future financial years. The inflation profile agreed with the Department for Transport used for forecasting inflation on our major network improvement programmes is now being reviewed to reflect the changing market conditions.

Employee related information

Information on the following items is included in other sections of the annual report as referenced below:

- reporting of personal data related incidents – see Leadership and corporate governance, page 41.

The corporate social responsibility section of the report includes on page 36:

- sickness absence data
- employment of disabled persons
- provision of information to, and consultation with employees.

Board member interests

Alan Pickett, director of Safety, Standards and Research Directorate until his retirement from the Agency on 18 April 2008, has a son employed at Mott MacDonald, a supplier of services to the Agency. The Agency paid this company £23.6m in 2008-09. Mr Pickett played no role in the awarding of these commissions.

Auditors

The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and cost £320,000 (2007-08 £300,000). In addition £13,000 (2007-08 £13,983) was paid to the NAO in respect of the audit of the 2007-08 Dartford-Thurrock Road User Charging

Scheme account, and a notional charge of £12,000 (2007-08 £12,000) was made for the audit of the 2007-08 Severn Bridges account.

Statement as to disclosure of information to auditors

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

Significant events since the end of the financial year

The Design Build Finance and Operate (DBFO) contract for the future development, operation and maintenance of the M25 motorway was awarded in May 2009 to the private sector consortium Connect Plus, made up of Skanska, Balfour Beatty, Atkins and Egis. Worth £6.2 billion, the contract runs for the next thirty years.

In May 2009 the Highways Agency finalised the M25 Design, Build, Finance and Operate (DBFO) contract with the private sector consortium, Connect Plus (see 'Widening the M25' above for further details).

Date of issue

The Agency account has been authorised for issue on 16 July 2009 by the Accounting Officer.

Graham Dalton
Accounting Officer
2 July 2009

Opening of A590 High and Low Newton bypass, Cumbria, April 2008

Remuneration report for the year ended 31 March 2009

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

Remuneration Committee

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

Remuneration Policy for Senior Civil Servants within the Highways Agency

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

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

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

Pay System and Performance Management

The Senior Civil Service pay system is a pay band structure, underpinned by a tailored job evaluation scheme (JESP – Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay.

Performance is assessed against measurable key objectives and targets, agreed between the individual and his/her manager (performance agreement). Annual salary increases are based upon pay awards recommended by the Review Body and depend upon performance; the Remuneration Committee allocates the base pay award across the Department's senior civil servants using a matrix of salary level and performance tranche.

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

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

Remuneration Policy for Non-Executive Directors

The Agency undertook a review of the fees payable to non-executive directors during 2008, comparing them with other DfT agencies. As a result rates were increased with effect from 1 September 2008.

Service Contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when other appointments may be made.

Unless otherwise stated below, senior managers hold appointments that are open-ended until they reach the normal retiring age of 60, with a maximum notice period of six months. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme. Those on a fixed period contract have a maximum notice period of five weeks. Early termination may result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

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

Fixed term contracts may be extended or converted to open-ended, subject to agreement of the Civil Service Commissioner and consistent satisfactory performance. Non-executive directors are generally appointed for a fixed term of two years. Contracts are renewable for further fixed terms if both parties agree. In the event of early termination, for whatever reason, there is no provision for compensation. Details of the service contract for each senior manager and letters of appointment for the non-executive directors who served during the year are:

	Date of initial appointment	Unexpired term 31/3/09 (months*)
Executive Directors serving at 31/3/09		
Graham Dalton	30/06/2008	Open-ended
Ginny Clarke	02/07/2001	3
Nirmal Kotecha [1]	14/04/2008	24
Steve Williams	12/03/2001	Open-ended
Derek Turner	07/03/2005	26
Denise Plumpton	17/01/2005	10
Stephen Dauncey	02/02/2009	Open-ended
Executive Directors leaving before 31/3/09		
Archie Robertson [2]	24/11/2003	–
Alan Pickett [3]	12/10/2007	–
Mel Zuydam [4]	01/06/2004	–
Non-executive Directors		
Tracey Barlow	01/08/2007	4
Alex Jablonowski	28/09/2004	6
Andrea Gregory	01/09/2005	11

*months remaining from 31/03/09

1 Nirmal Kotecha joined the Board on 14 April 2008 as Director of Major Projects Directorate.

2 Archie Robertson left the Agency on 23 May 2008. Mel Zuydam was appointed as Interim Chief Executive for the period 24 May 2008 to 29 June 2008, when Graham Dalton took up his post as the new permanent Chief Executive.

3 Alan Pickett joined the Board on 12 October 2007 on a temporary basis as Director of Safety, Standards and Research (SSR) Directorate. He retired on 18 April 2008.

4 Mel Zuydam left the Agency on 28 November 2008.

Salary and Pension Entitlements (Audited)

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

	2008-09 Salary, including performance pay	Benefits in kind (to nearest £100)	2007-08 Salary, including performance pay	Benefits in kind (to nearest £100)
	£000		£000	
Graham Dalton	105-110	–	–	–
Denise Plumpton	150-155	–	150-155	–
Derek Turner	150-155	–	135-140	–
Nirmal Kotecha	140-145	–	–	–
Ginny Clarke	115-120	–	115-120	–
Steve Williams	110-115	–	115-120	–
Stephen Dauncey[1]	95-100	–	–	–
Archie Robertson[2]	135-140	–	175-180	–
Mel Zuydam[3]	90-95	–	130-135	–
Alan Pickett[4]	0-5	–	80-85	–

1 Stephen Dauncey's salary includes the amounts paid between 1 April 2008 and 1 February 2009 in his role as Finance Director of the Network Operations Directorate.

2 Archie Robertson received £100,000 as an ex gratia payment at the end of his contract. This is included in the 2008-09 salary above.

3 Mel Zuydam left the Agency on 28 November 2008.

4 Alan Pickett retired on 18 April 2008.

Salary

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

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. 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.

Pension Benefits (Audited)

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

The Cash Equivalent Transfer Value (CETV)

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

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

The factors used to calculate the CETV for members of the PCPS were revised in 2007-08.

	Accrued pension at age 60 as at 31/3/09	Real increase in pension at age 60	CETV at 31/3/09	CETV at 31/3/08
	£000	£000	£000	£000
Graham Dalton	15-20 no lump sum	0-2.5 no lump sum	216	184
Denise Plumpton	10-15 no lump sum	2.5-5 no lump sum	194	139
Derek Turner	5-10 no lump sum	0-2.5 no lump sum	139	99
Nirmal Kotecha	0-5 no lump sum	2.5-5 no lump sum	37	0
Ginny Clarke	40-45 plus 125-130 lump sum	0-2.5 plus 0-2.5 lump sum	839	776
Steve Williams	40-45 plus 130-135 lump sum	0-2.5 plus 0-2.5 lump sum	975	909
Stephen Dauncey	0-5 no lump sum	0-2.5 no lump sum	79	50
Archie Robertson	5-10 no lump sum	0-2.5 no lump sum	151	141
Mel Zuydam	5-10 no lump sum	0-2.5 no lump sum	118	96
Alan Pickett	35-40 plus 115-120 lump sum	0-2.5 plus 0-2.5 lump sum	915	910

	Real increase in CETV as funded by employer	Employee contributions and transfers-in	Compensation Lump Sum in Payment awarded
	£000	£	£000
Graham Dalton	16	3,087	–
Denise Plumpton	28	17,640	–
Derek Turner	29	4,113	–
Nirmal Kotecha	32	5,060	–
Ginny Clarke	5	1,563	–
Steve Williams	4	1,552	–
Stephen Dauncey	23	3,295	–
Archie Robertson	10	597	–
Mel Zuydam	16	2,736	–
Alan Pickett	3	58	–

Real increase in the value of the CETV

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

Remuneration of Non Executive Directors

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2009:

	£000
Alex Jablonowski	25-30
Andrea Gregory	15-20
Tracey Barlow	20-25

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

Graham Dalton
Accounting Officer
2 July 2009

Statement of Highways Agency and 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 Agency during the year.

The Accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Agency at the year-end and of its income and expenditure, recognised gains and losses, and cash flows for the financial year.

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

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

The Permanent Secretary for the Department for Transport has appointed the Highways Agency Chief Executive as an additional Accounting Officer of the Department with responsibility for the Highways Agency and for preparing the Agency's Accounts and for transmitting them to the Comptroller and Auditor General.

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

Statement regarding Disclosure of Information to the Auditors

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

Insofar as I am aware there is no relevant audit information of which the National Audit Office is unaware.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Statement on the system of internal control within the Highways Agency

The scope and purpose of the system of internal control

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

The Highways Agency's system of internal control was in place for the year ended 31 March 2009 and up to the date of approval of the annual report and accounts. It accords with Treasury guidance.

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

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

The risk and control framework

I have established a framework of responsibility for risk management, with appropriate support, guidance and procedures [iii] in all parts of the Agency's business.[iv]

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

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

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

I hold regular meetings with Ministers when operational risks are discussed. Ministers receive direct reports about risks to key initiatives as well as reports on risks to delivery of Public Service Agreement Targets through the DfT reporting system.

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

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

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review consists of discussions with my Head of Internal Audit and the chair of the Audit Committee. It is informed by the work of my internal auditors, stewardship reports from the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports.

I have been advised on the implications of the result of this review of the effectiveness of the system of internal control by the Board,[vii] the Audit Committee[viii] and on data handling and the management of Information risk by the Information Director in her capacity as Senior Information Risk Officer (SIRO). Measures to address weaknesses and ensure continuous improvement of the system are in place. As a result of my review and the advice received I have instigated the Agency's participation in the National Fraud Initiative conducted by the Audit Commission.[ix]

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

The Audit Committee meets approximately every quarter and reviews the Agency's assessment of corporate risk, considering wider Departmental risk as appropriate. In addition, it considers reports from the Agency's Fraud Committee and monitors progress with the internal audit programme, health and safety audits and other assurance processes operating across the Agency, ensuring recommendations arising are implemented. During 2008/09, the Audit Committee specifically reviewed: operational contingency planning, fraud resilience in the Agency and the wider supply chain, data assurance and handling, procurement capability, post project evaluation processes, changes to accounting standards, and contractual delegations.

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

The Head of Internal Audit's opinion for the year 2008/09 is that on the basis of the evidence obtained during the year sound systems of corporate governance, risk management and internal control are established and found to be operating effectively with some minor exceptions

In his opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Statement on Internal Control. Actions to rectify specific weaknesses identified by my internal auditors are under way.

The SIRO's advice on Information Risk and Information handling is given below.

In my Statement on Internal Control for 2007/08 I reported that action had been commissioned to:

- Ensure that management of the Agency's information assets, handling of personal data and management of information risks continues to meet current & future business needs and represents good practice
- Conduct a trial of continuous monitoring of our financial transactions and associated electronic records to assess whether it will provide a cost-effective improvement to the Agency's system of internal control
- Improve the Investment Control Framework as a result of lessons learned from a post implementation review.

As a follow-up I can report that:

- During the year the Agency continued to implement the Cabinet Office guidance on information risk management. My Senior Information Risk Officer's assessment of information risk performance is that the Agency's information assets held on the Agency's business IT infrastructure are being managed effectively and appropriate risk controls are in place. Senior staff responsible for teams that handle personal data have received training in implementing the Cabinet Office guidelines.

Risk assessments conducted on assets so far show that the required level of risk control is in place for those assets and in some cases is exceeded. Risk assessments have been conducted on all assets on the HA Business IT infrastructure and a full report was made in the SIRO report for Quarter 4.

A summary of incidents and statement on information risk management is elsewhere in this annual report.

- Following the Post Implementation review the Investment Control Framework has been refined, is well embedded in Agency procedures, and provides good visibility and transparency to senior managers about investment decisions.

Graham Dalton
Accounting Officer
2 July 2009

Notes

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

ii Governance Objectives

- We have clear strategic direction, objectives, responsibilities and key targets in support of government policies;
- We ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place;
- We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality;
- The information and advice we use and provide is Trusted, Reliable, Useful and Effective;
- Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements.

iii Capacity To Handle Risk

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

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

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

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

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

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

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

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

viii The Audit Committee is made up of the Agency's three non-executive directors, one of whom chairs it.

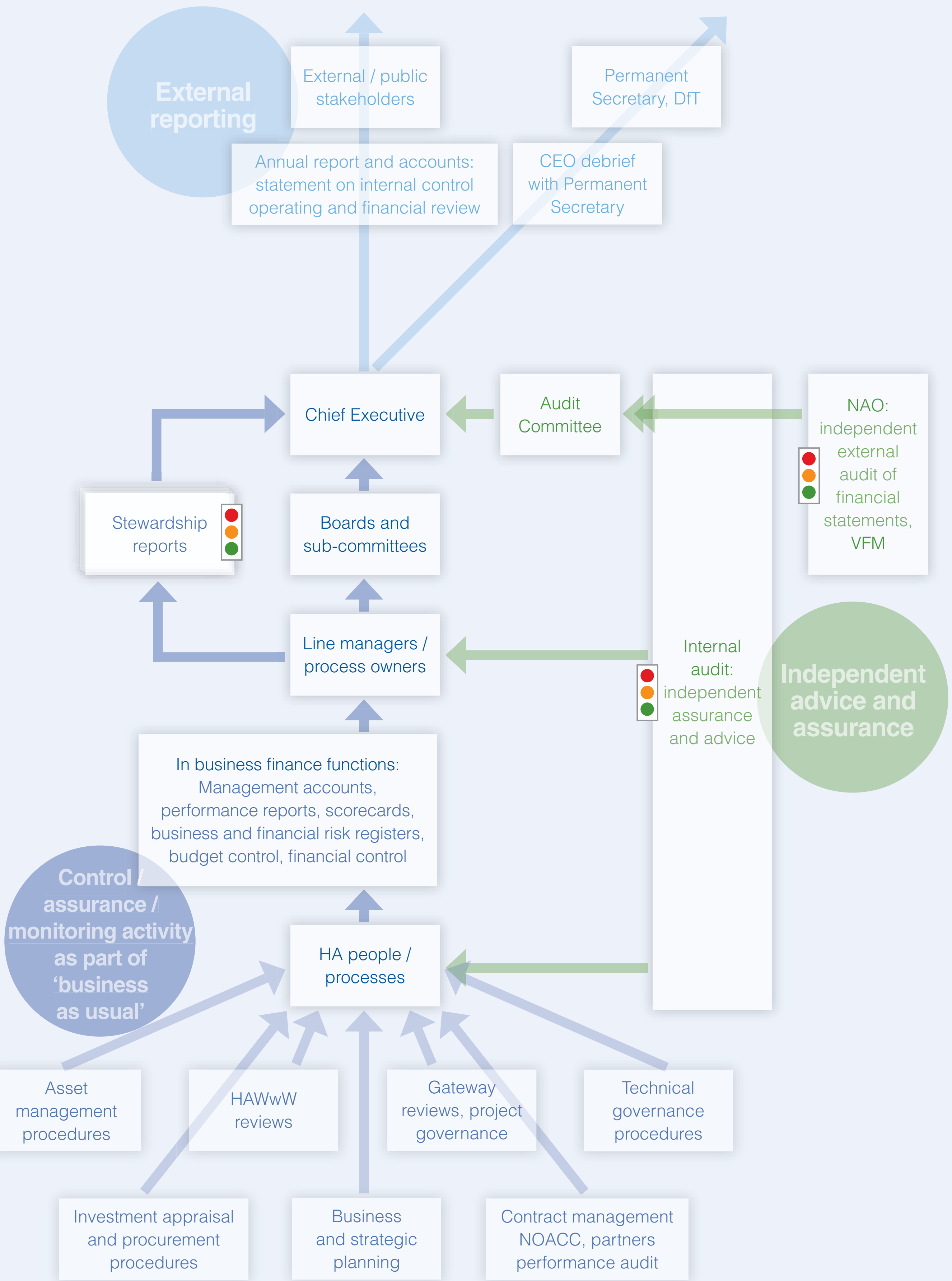
I, my Head of Internal Audit, Finance Director, and Network Operations director and representatives from the DfT and National Audit Office attend meetings of the Audit Committee but have no vote. The independent Chairman of the Audit Committee advises as appropriate on key risk and control issues.

ix http://www.audit-commission.gov.uk/nfi/

x http://www.hm-treasury.gov.uk./media/7/5/corpgovernancecode280705.pdf

Disclosures about how the Board and its sub-committees operate, the independence of non–executive directors, and the Audit Committee's terms of reference are elsewhere in this annual report.

Highways Agency governance framework



The certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Highways Agency for the year ended 31 March 2009 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Agency, Chief Executive and auditor

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

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises the Management Commentary and Remuneration Report, included in the Annual Report is consistent with the financial statements. I also report whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

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

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

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act 2000 and directions made thereunder by HM Treasury, of the state of the Highways Agency's affairs as at 31 March 2009 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions made thereunder; and
- the information, which comprises the Management Commentary and Remuneration Report, included within the Annual Report, is consistent with the financial statements.

Opinion on Regularity

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

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General

National Audit Office
151 Buckingham Palace Road
Victoria
London
SWIW 9SS

14 July 2009

Operating Cost Statement for the year ended 31 March 2009

	Note	2008-09 Staff	2008-09 Other	2008-09 Income	restated 2007-08 Total
		£000	£000	£000	£000
Administration Costs					
Staff costs	2	54,131			60,989
Other administration costs	3		36,268		35,027
Operating income	5			(2,397)	(2,351)
Programme Costs					
Staff costs	2	63,489			52,715
Other programme costs	4		5,310,821		5,273,008
Operating income	5			(100,915)	(77,371)
Totals		117,620	5,347,089	(103,312)	
Net Operating Cost				5,361,397	5,342,017
Net Resource Outturn				5,376,718	5,360,405

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

Statement of Recognised Gains and Losses for the year ended 31 March 2009

	Note	2008-09	2007-08
		£000	£000
Net gain on the revaluation of tangible fixed assets	6	3,934,742	3,608,045
Reversionary interest on M6 toll road	13	18,746	7,240
Net gain/(loss) on other in year adjustments relating to prior year transactions	13 / 14	(240,517)	228,340
Recognised gains and losses for the financial year		3,712,971	3,843,625

The notes on pages 69 to 99 form part of these accounts

Balance Sheet as at 31 March 2009

	Note		restated 31st March 2009 £000	31st March 2008 £000
Fixed Assets				
Tangible assets	6		88,335,065	84,487,256
Intangible assets	7		931	1,736
			88,335,996	84,488,992
Debtors: amounts falling due after more than one year	9		273,993	223,725
Current Assets				
Stocks	8	28,117		21,606
Debtors	9	111,045		180,313
Cash at bank and in hand	10	48,983		(58,850)
		188,145		143,069
Creditors: amounts falling due within one year	11	(639,372)		(554,212)
Net current liabilities			(451,227)	(411,143)
Total assets less current liabilities			88,158,762	84,301,574
Creditors: amounts falling due after more than one year	11		(1,299,741)	(1,331,936)
Provisions for liabilities and charges	12		(636,927)	(681,555)
			86,222,094	82,288,083
Taxpayers' Equity				
General fund	13		38,832,316	38,639,016
Revaluation reserve	14		47,389,778	43,649,067
			86,222,094	82,288,083

Graham Dalton
Accounting Officer
2 July 2009

Cash Flow Statement for the year ended 31 March 2009

	Note	2008-09 £000	restated 2007-08 £000
Net cash outflow from operating activities	16a	(1,561,513)	(1,513,143)
Capital expenditure and financial investment	16b	(1,018,503)	(991,019)
Payment of amounts due to the Consolidated Fund		(583)	(7,423)
Financing	16c	2,688,432	2,452,402
Increase/(decrease) in cash in the period		107,833	(59,183)

The notes on pages 69 to 99 form part of these accounts

Notes to the 2008-09 Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2008-09 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM follow generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector. Where the FReM permits the choice of accounting policy, the accounting policy that has been judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting Convention

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

1.2 Trunkings / Detrunkings

The detrunking of roads as part of the Government's policy announced in the 1998 White Paper to transfer responsibility for non-core network routes to local authorities is treated as a transfer of function.

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

1.3 Prior Year Adjustments

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

All prior year adjustments relate to detrunkings and have given rise to the following restatement to balances as at 1 April 2008:

Prior year adjustments

		As previously stated	Adjustment	As restated
	Note	£000	£000	£000
Infrastructure assets: cost	6	96,681,253	(1,115,591)	95,565,662
Infrastructure assets: depreciation	6	(12,080,415)	110,536	(11,969,879)
		84,600,838	(1,005,055)	83,595,783
General Fund	13	39,278,532	(639,516)	38,639,016
Revaluation Reserve	14	44,014,606	(365,539)	43,649,067
Capital maintenance	4	488,572	(8,123)	480,449

1.4 Tangible Fixed Assets

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

Capitalisation Policy

Expenditure on tangible fixed assets is capitalised if the cost of the asset or a grouping of related assets is equal to or greater than:

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

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

Expenditure on 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 Operating Cost Statement. Any retained land and property is transferred to land and buildings or dwellings, as appropriate, and valued as an asset held for resale.

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

Valuation

Infrastructure Assets

The network infrastructure, which is intended to be maintained at a specific level of service potential by continual replacement and refurbishment, is valued at depreciated replacement cost following renewals accounting principles as set out in the Government Financial Reporting Manual (FReM). Annual condition surveys are used to assess whether the network has been maintained in a steady state since the previous survey.

The infrastructure asset valuation is based on a standard costs model. External professional surveyors undertake a full valuation of the network at intervals not exceeding five years using internal costing and physical assets records provided by the Agency. In the years between full valuations, the value of the network is adjusted to reflect:

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

The valuation is based upon a non recoverable VAT rate of 17.5% which reflects a consistent long term approach to valuing the network. Certain large structures are valued at historic prices appropriately indexed, or insurance valuations have been used as the best approximation of replacement cost.

A full valuation of the network infrastructure was last carried out by EC Harris LLP, professional surveyors, during the year ended 31 March 2005.

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

Roads and structures	ROCOS (resource cost index of road construction); published on a quarterly basis by the Department for Business, Enterprise and Regulatory Reform (BERR)
Communications	BEAMA (British Electrotechnical & Allied Manufacturers) index sourced from its website.
Land	Land indices published twice yearly by the Valuation Office Agency (VOA)

Assets Under Construction

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

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

Land and Buildings, including Dwellings

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

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

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

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

Asset	*Valuation date*	*Undertaken by*
Federated House	29 July 2004	Donaldson's LLP, professional surveyors
Motorway Maintenance Compounds	1 October 2006	VOA
Motorway Service Areas	31 March 2005	VOA
Surplus properties (including dwellings)	31 Dec 2008	VOA

Plant and Equipment

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

Information Technology

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

1.5 Depreciation

Infrastructure Assets

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

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

The following infrastructure assets are subject to renewals accounting:

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

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

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

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

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

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

Non-Network Assets

No depreciation is provided on freehold land. Other assets are depreciated at rates calculated to write off the assets over their expected useful lives on a straight-line basis as follows:

Property	*Life in years*
• Freehold buildings	up to 60 years
• Leasehold buildings	length of the lease
• Historic leasehold building	length of the lease
• Surplus properties awaiting sale	no depreciation

Plant and Equipment

• Winter maintenance equipment	25 years
• Office equipment	5 to 10 years
• Communications equipment	15 to 25 years
• Vehicles	5 to 10 years
• Test equipment	5 to 10 years
• IT equipment	5 years
• Database development costs	5 years
• Structural steelwork	10 years
• Assets in storage	no depreciation

Assets in storage include overhead gantries and become a network asset once issued from stores. These are kept in controlled conditions and do not deteriorate. They have a design life in excess of 60 years. Whilst not depreciated, they are subject to an annual impairment review.

1.6 Intangible Fixed Assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £2,000 or more is incurred. These are valued at cost and amortised at rates calculated to write off the assets on a straight-line basis over their useful life, which is considered to be three to five years.

1.7 Stocks

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

1.8 Research and Development

Expenditure on research is not capitalised. Expenditure on development expenditure is capitalised if it meets the criteria specified in the FReM. Expenditure that does not meet the criteria for capitalisation is treated as an expense and shown in the Operating Cost Statement in the year in which it is incurred.

Fixed assets acquired for use in research and development are depreciated over the life of the associated project.

1.9 Operating Income

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

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

1.10 Administration and Programme Expenditure

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

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

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

1.11 Capital Charge

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

Tangible and Intangible Fixed Assets

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

All Other Assets Less Liabilities

The cost of capital charge is based on the average carrying amount.

1.12 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which are described in Note 2. The defined schemes are unfunded and are mostly non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year.

1.13 Leases

Rentals under operating leases are charged to the Operating Cost Statement on a straight-line basis over the term of the lease. Where the substantial risks and rewards of ownership are borne by the Agency, the asset is recorded as a tangible fixed asset and a creditor to the lessor is recorded as the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the Operating Cost Statement over the period of the lease at a constant rate in relation to the balance outstanding.

1.14 Private Finance Initiative (PFI) Transactions

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

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

PFI assets are recognised when the property comes into use.

Where the balance of risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating cost.

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

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

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

1.15 Provisions

1.15.1

The Agency provides for legal and constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of management's best estimate of the expenditure required to settle the obligation and, where appropriate, this is supported by independent professional advice. Provisions are charged to the Operating Cost Statement unless they have been capitalised as part of additions to fixed assets.

1.15.2 Early Departure Costs

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

1.16 Contingent Liabilities

Where appropriate, liabilities that have only a possible chance of crystallising and do not meet the provisions criteria have been classified as contingent liabilities.

1.17 VAT

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

1.18 Estimation Techniques

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

1.19 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.

1.19.1 Financial assets and liabilities

The Highways Agency classifies its financial assets and liabilities in the following categories: assets available for sale, loans, and receivables. Management determines the classification of financial assets and liabilities at initial recognition.

1.19.2 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.

1.19.3 Assets available for sale

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 balance sheet date. Any increase due to changes in fair value is recognised in reserves.

1.19.4 Financial liabilities

The Highways Agency determines the classification of financial liabilities are recognised initially at fair value and are subsequently measured at amortised cost. Financial liabilities are derecognised when the right to receive cash flows has expired.

1.19.5 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 operating cost statement. The Highways Agency has carried out a review of its contracts and has determined that, as at 31 March 2009, it had no arrangements meeting the criteria to require separation.

1.19.6 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.

1.19.7 Impairment of financial assets

The Highways Agency assesses at each balance sheet 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 balance sheet 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.

1.20 Financing costs payable and receivable

Interest receivable and payable arising from financial assets and liabilities is calculated using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of a financial asset or financial liability

Interest determined impairment losses and translation differences on monetary items are recognized in the Operating Cost Statement.

2. Staff Numbers and Costs

	2008-09			2007-08
	Permanent staff	Others	Total	Total
	£000	£000	£000	£000
Wages and salaries	99,230	7,342	106,572	102,138
Social Security costs	7,492	–	7,492	7,394
Other pension costs	19,301	–	19,301	18,750
Total cost	126,023	7,342	133,365	128,282
Capitalised staff costs	(15,745)	–	(15,745)	(14,578)
Total Net Staff Costs	110,278	7,342	117,620	113,704

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

Pension Costs

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme but the 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-pensions.gov.uk).

For 2008-09, employers' contributions of £19,301,000 were payable to the PCSPS (2007-08 £18,750,000) at one of four rates in the range 17.1% to 25.5% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions usually every four years following a full scheme valuation. From 2009-10, the rates will be in the range 16.7% to 24.3%. The contribution rates are set to meet the cost of the benefits accruing during 2008-09 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 £78,549 (2007-08 £57,535) were paid to one or more of the panel of three appointed stakeholder pension providers. This amount is included in the total contributions of £19,301,000 above. 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 £6,024 (2007-08 £724) were payable to PCSPS to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Retirements due to ill-health

Seven persons (2007-08: 5 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to nil, as the costs are borne by the PCSPS.

Average Number of Persons Employed

The average number of full time equivalent (FTE) persons employed (including senior management) during the year was as follows:	2008-09 Permanent staff	2008-09 Others	2008-09 Total	2007-08 Total
Staff funded from administration budgets				
Staff engaged on maintenance projects	708	54	762	910
Specialist support staff: Engineering, Finance, HR, IT and Procurement	73	6	79	94
Management and admin staff	402	30	432	517
Staff funded from programme budgets				
Traffic Officer staff	1,626	19	1,645	1,521
Direct support to front line delivery staff	244	31	275	160
Staff engaged on capital projects	344	26	370	351
Average FTE persons employed	3,397	166	3,563	3,553

2008-09 has seen continued reductions in the number of administration funded roles due to efficiency gains arising from Shared Services, Workforce Strategy and other initiatives. This has, however, been offset by increases in frontline roles, notably in the Traffic Officer Service, as well as staff working on capital projects

3. Other Administration Costs

	Note		2008-09 £000	2007-08 £000
Communication			1,543	1,181
Consultancy			1,311	1,657
Information technology			336	132
Maintenance			1,291	1,561
Professional services			240	330
Recruitment and training			3,316	3,020
Rent, rates and building costs			5,434	4,757
Stationery, postage and printing			428	989
Travel and subsistence			3,462	3,675
Other administration costs:				
Provision for doubtful debt			8	3
Other costs			1,669	1,935
			19,038	19,240
Rentals under operating leases:				
Hire of plant and machinery		209		265
Other operating leases		7,520		7,563
			7,729	7,828
Non-cash items:				
Depreciation				
tangible fixed assets	6	2,054		2,894
Amortisation				
intangible fixed assets	7	805		929
Loss on sale of admin assets		999		
Cost of capital charge		323		709
Notional Costs				
Auditors' remuneration and expenses		320		300
Payroll and superannuation services		238		260
Provisions				
Provided in the year	12	4,761		2,867
Total: non-cash items			9,501	7,959
			36,268	35,027

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

4. Other Programme Costs

	Note		2008-09 £000	restated 2007-08 £000
Research and development expenditure			11,349	13,792
Capital maintenance			498,237	480,449
Current maintenance			531,489	534,714
Interest on PFI finance leases			72,127	74,885
PFI service charges			180,646	160,528
Information technology			24,346	27,954
Other programme costs				
Provision for doubtful debt			762	492
Provision for slow moving stock			96	1,042
Other costs			32,171	25,561
			1,351,223	1,319,417
Non-cash items:				
Depreciation:				
tangible owned fixed assets	6	282,753		286,428
tangible fixed assets held under PFI leases	6	16,123		22,498
Impairment of non network fixed assets	6	11,483		1,123
Write down of network assets	6	681,533		684,213
Cost of capital charge		2,957,191		2,833,422
Notional costs				
Legal services		436		270
Payroll and superannuation services		280		224
Loss on sale of programme assets		3,981		1,541
Provisions:				
Provided in the year	12	5,818		123,872
Total: non-cash items			3,959,598	3,953,591
			5,310,821	5,273,008

For comparative purposes, the 2007-08 capital maintenance figure has been reduced by £8,123,000 being spend relating to roads detrunked and trunked in the current year, and treated as a de-merger in accordance with accounting policy 1.3. This adjustment is also reflected in the Cash Flow Statement.

5. Operating Income

Operating income principally arises from:

- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors;
- rental income from offices where the Agency is the main occupier and surplus accommodation is let to other organisations;
- rental income from properties acquired for road schemes which have yet to be disposed of;
- recoveries from third parties in respect of claims for damage to the motorways and trunk roads;
- interest receivable, including interest on the Severn Bridge subordinated loan (see Note 9);
- grants and contributions from the European Union; and
- other income including contributions on schemes.

Operating income analysed by classification and activity is as follows:

	2008-09			2007-08
	Appropriated in aid	Not Appropriated in aid	Total	Total
	£000	£000	£000	£000
Administration income				
Fees and charges to external customers	1,115	–	1,115	933
Cost recoveries / rental income	548	–	548	986
Other income	740	(6)	734	432
	2,403	(6)	2,397	2,351
Programme income				
Fees and charges to external customers	20,073	–	20,073	17,285
Rental income from properties	4,497	–	4,497	3,622
Claims for damage to Network	16,714	–	16,714	12,992
Interest receivable	–	14,587	14,587	7,011
European Union income	–	1,043	1,043	1,014
Recovery of costs incurred on M6 Toll scheme	29,657	–	29,657	14,070
Other	10,993	(303)	10,690	20,238
Profit on sale of fixed assets	3,654	–	3,654	1,139
	85,588	15,327	100,916	77,371

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

Disclosure under the HM Treasury Fees and Charges Guide *

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

	2008-09			2007-08		
	Income	Full Cost	Surplus / (deficit)	Income	Full Cost	Surplus / (deficit)
	£000	£000	£000	£000	£000	£000
Fees and charges to external customers	21,188	21,188	–	18,218	18,218	–
Cost recoveries / rental income: admin	548	548	–	986	986	–
Rental income from programme properties	4,497	3,796	701	3,622	4,066	(444)
Claims for damage to network	16,714	17,594	(880)	12,993	13,676	(683)
Interest receivable, of which:						
Severn River Crossing Plc loan	7,564	–	7,564	6,917	–	6,917
Midland Expressway Ltd debtor	6,907	–	6,907	502	–	502
European Union income	1,043	–	1,043	1,014	–	1,014
RPI on Midland Expressway Ltd (MEL) debt	5,265	–	5,265	3,071	–	3,071
Recovery of other costs from MEL	24,392	24,392	–	8,147	8,147	–
Recovery of Safety Camera scheme costs	–	–	–	1,877	1,877	–
Recovery of costs incurred on other schemes	10,446	10,446	–	16,127	16,127	–
Profit on sale of fixed assets	3,654	–	3,654	1,139	–	1,139
Other income	1,094	495	599	5,109	297	4,812
	103,312	78,459	24,853	79,722	63,394	16,328

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

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

6. Tangible Fixed Assets

	Infrastructure Assets	Assets under construction	Land and Buildings excluding Dwellings	Dwellings	Plant and Machinery	Information Technology	Total
	£000	£000	£000	£000	£000	£000	£000
At Replacement Cost or Valuation							
At 1 April 2008 restated	95,565,662	505,807	293,088	49,691	107,018	118,541	96,639,807
Adjustment to opening position	(338,839)	18,746	704	130	–	–	(319,259)
Capital additions	–	1,148,843	121	680	271	1,000	1,150,915
Valuation adjustments	–	(681,533)	–	–	–	–	(681,533)
Disposals	–	–	(14,390)	(6,598)	(6,714)	(5,738)	(33,440)
Revaluation	5,646,725	–	(40,999)	852	1,111	(418)	5,607,271
Impairments	–	–	(8,164)	(3,000)	(7)	(312)	(11,483)
Transfers	616,764	(646,322)	2,434	1,982	11,428	13,714	–
Reclassifications	–	–	(1,817)	1,817	–	–	–
Balance at 31 March 2009	101,490,312	345,541	230,977	45,554	113,107	126,787	102,352,278
Accumulated Depreciation							
At 1 April 2008 restated	11,969,879	–	22,630	–	82,385	77,657	12,152,551
Adjustment to opening position	(97,488)	–	–	–	–	–	(97,488)
Charge for the year	274,741	–	3,237	–	4,479	18,473	300,930
Disposals	–	–	(297)	–	(6,275)	(4,737)	(11,309)
Revaluation	1,677,382	–	(4,876)	–	441	(418)	1,672,529
Balance at 31 March 2009	13,824,514	–	20,694	–	81,030	90,975	14,017,213
Net Book Value	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009	87,665,798	345,541	210,283	45,554	32,077	35,812	88,335,065
Balance at 31 March 2008 restated	83,595,783	505,807	270,458	49,691	24,633	40,884	84,487,256
Asset financing							
Owned	85,582,473	207,902	208,588	45,554	32,077	24,093	86,100,687
On-balance sheet PFI contracts	2,083,325	–	1,695	–	–	11,719	2,096,739
M6 reversionary interest	–	137,639	–	–	–	–	137,639
Net book value at 31 March 2009	87,665,798	345,541	210,283	45,554	32,077	35,812	88,335,065

Infrastructure Assets

The opening position as at 1 April 2008 was restated to show amendments to the Agency Network asset databases. These amendments are not correction of fundamental errors but adjustments to records for operational reasons. These amendments are as follows:

- Dimensional variances – an adjustment of (£296,622,215) was made to reflect better information on the dimensions of individual bridges and other structures
- Re-referencing variance – adjustment of £26,429,009 was made to reflect changes arising from a number of schemes capitalised in prior year; and
- Route variation – adjustment of £28,841,245 was made due to changes in route management responsibilities.

Assets under Construction

The balance as at 1 April 2008 has been adjusted to include £18,745,562 of reversionary interest for the M6 toll road.

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

	2008-09	2007-08
	£000	£000
Freehold buildings (93.5%)	200,472	257,746
Long leasehold buildings (50+ years)	–	–
Short leasehold buildings (less than 50 years)	9,811	12,712
	210,283	270,458

7. Intangible Fixed Assets

	Software Computer Licenses
	£000
At Replacement Cost or Valuation	
Balance at 1 April 2008	6,392
Capital additions	–
Disposals (licence expiries)	–
Transfers & reclassifications	–
Balance at 31 March 2009	6,392
Accumulated Amortisation	
Balance at 1 April 2008	4,656
Charge for the year	805
Disposals (licence expiries)	–
Balance at 31 March 2009	5,461
Net Book Value	£000
Balance at 31 March 2009	931
Balance at 31 March 2008	1,736

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

8. Stocks

	31st March 2009	31st March 2008
	£000	£000
Communications / electrical equipment	21,598	15,197
DART Tags: a facility for regular users of the Dartford-Thurrock Crossing	3,612	3,458
Highway damage repair items: barriers and parts for the repair of bridges, tunnels and special structures	1,788	1,853
Salt	542	621
Uniforms for Traffic Officers working on the trunk road network	577	477
Total	28,117	21,606

9. Debtors

9. (a) Analysis by type

	31st March 2009 £000	31st March 2008 £000
Amounts falling due after more than one year:		
Other debtors, of which:		
Severn River Crossing Plc subordinated loan	96,868	92,215
Severn River Crossing Plc deferred interest	38,063	30,499
Midland Expressway Limited M6 concession	138,995	100,940
Staff relocation housing loans	67	71
	273,993	223,725

	31st March 2009 £000	31st March 2008 £000
Amounts falling due within one year:		
Trade debtors	7,643	5,976
Deposits and advances	7,683	8,495
VAT	79,345	84,478
Other debtors	10,522	1,878
Prepayments and accrued income	5,852	5,850
Amounts due from Consolidated Fund in respect of supply	–	73,636
	111,045	180,313

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing.

The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. It is predicted the concession period will end in 2016.

Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

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

Seven members of staff have relocation housing loans (2007-08: 8).

Deposits and advances include £2,625,000 (2007-08 £1,508,000) of advances made to utility companies under the New Road and Street Act (NRSW) 1991, and £4,917,000 (2007-08 £6,842,000) of road scheme prepayments.

9. (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling after more than one year	
	31st March 2009	31st March 2008	31st March 2009	31st March 2008
	£000	£000	£000	£000
Balances with:				
Other central government bodies	80,318	158,674	–	–
Local authorities	1,116	2,238	–	–
Public corporations and trading funds	–	–	–	–
Intra-government balances	81,434	160,912	–	–
Balances with bodies external to government	29,611	19,401	273,993	223,725
Total Debtors	111,045	180,313	273,993	223,725

10. Cash at Bank

	31st March 2009	31st March 2008
	£000	£000
Balance at 1 April 2008	(58,850)	333
Net cash (outflow) / inflow	107,833	(59,183)
Balance at	48,983	(58,850)
The following balances at 31 March are held at:		
Office of HM Paymaster General	48,970	(58,859)
Commercial banks and cash in hand	13	9
	48,983	(58,850)

11. Creditors

11. (a) Analysis by type

	31st March 2009 £000	31st March 2008 £000
Amounts falling due within one year:		
Other taxation and social security	–	11
Trade creditors	84,007	21,843
Accruals and deferred income	462,311	467,017
Amounts payable under PFI contracts	52,164	49,167
Consolidated fund extra receipts due to be paid to the Consolidated Fund		
received	9,245	8,523
receivable	–	455
Amounts due to DfT in respect of Dartford River Crossing road user charges	6,551	6,908
Amounts due to Consolidated Fund in respect of supply	25,069	–
Other creditors	25	288
	639,372	554,212

	31st March 2009 £000	31st March 2008 £000
Amounts falling after more than one year:		
Amounts payable under PFI contracts	1,107,591	1,159,830
Accruals and deferred income	5,351	5,401
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing Plc subordinated loan	96,868	92,215
Severn River Crossing Plc subordinated loan interest	38,063	30,499
Midland Expressway Ltd concession	44,119	37,211
Other Creditors		
Payable as agents in respect of the Midland Expressway Ltd concession	7,749	6,780
	1,299,741	1,331,936

Accruals and deferred income

	31st March 2009 £'000	31st March 2008 £'000
Amounts payable relating to road schemes	401,677	415,660
PFI Shadow Tolls	22,025	23,437
Administration accruals	8,704	5,466
Other	29,905	22,454
	462,311	467,017

The Severn River Crossing Plc (SRC) subordinated loan relates to the £60 million index-linked loan advanced on 26 April 1992 (Note 9). The loan carries an interest rate of 6% per annum and is indexed by reference to the Retail Price Index. The indexed loan and deferred interest is repayable by SRC at the end of the concession period, currently estimated to be 2016. Upon repayment by SRC, the monies are payable to HM Treasury Consolidated Fund.

The Midland Expressway Ltd (MEL) creditor relates to the recovery of costs from MEL (Note 9) which, upon repayment is payable to HM Treasury Consolidated Fund. Costs will be reimbursed to the Agency from October 2010.

11. (b) Intra-Government Balances

	Amounts falling due within one year		Amounts falling after more than one year	
	31st March 2009	31st March 2008	31st March 2009	31st March 2008
	£000	£000	£000	£000
Balances with:				
Other central government bodies	36,852	9,515	179,171	159,925
Local authorities	84	385	–	–
Public corporations and trading funds	–	–	–	–
Intra-government balances	36,936	9,900	179,171	159,925
Balances with bodies external to government	602,436	544,312	1,120,570	1,172,011
Total Creditors	639,372	554,212	1,299,741	1,331,936

12. Provisions for Liabilities and Charges

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Migration, pension and other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2008	242,764	58,671	125,897	241,484	2,251	10,488	681,555
Provided in the year	79,828	87,748	–	–	148	6,840	174,564
Provisions not required written back	(36,143)	(16,190)	(44)	–	–	–	(52,377)
Provisions utilised in the year	(78,315)	(40,045)	(14,459)	(27,980)	(612)	(5,491)	(166,902)
Reclassifications	–	–	–	–	87	–	87
Balance at 31 March 2009	208,134	90,184	111,394	213,504	1,874	11,837	636,927

Land and Property Acquisition

Land and property acquisition provisions relate principally to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of a road scheme. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities; it is expected that these costs will be incurred in the period up to 2018/19.

Engineering and Construction Services

The provision for engineering and construction services is required to meet the estimated cost of work to meet generally accepted highways standards after a road has been opened for traffic and disputed contractual claims. It represents costs that may be incurred within the next 3 years.

Bridge Strengthening

The provision is required to strengthen bridges and other structures to comply with legal minimum requirements, as established by European Community legislation and authoritative statements by Ministers in Parliament. It is expected that these costs will be incurred in the period up to 2013.

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

During 2008-09, the Highways Agency committed to an office move in Birmingham, to be completed in 2010, and this has resulted in the creation of around £3m in liabilities relating to dilapidations, parallel running costs and an onerous lease on part of the building we are moving out of. It is Agency policy to recognise such liabilities at the point at which we announce and are, in practical terms, committed to, the office move.

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 2009 that will actually be settled. It is expected that the majority of these costs may be incurred within the next 5 years.

In year increases and decreases in provisions

These can impact on both the Capital Expenditure and Operating Cost Statement. Capital Expenditure provisions increased by £111,608,000 (2007-08 £63,840,000) during the year. The following provisions were charged to the Operating Cost Statement:

	31st March 2009 £000	31st March 2008 £000
Programme:		
Land and property acquisition	264	5,020
Engineering and construction services	3,389	5,594
Bridge strengthening	(44)	(7,332)
Tunnels	–	123,600
Pensions and other liabilities	2,209	(3,010)
	5,818	123,872
Administration:		
Early retirement	148	1,093
Other	4,613	1,774
	10,579	126,739

13 General Fund

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

		2008-09	2007-08
	£000	£000	£000
Balance at 1 April 2008		39,278,532	39,460,241
Prior period adjustment:			
Detrunkings		(639,516)	(480,895)
Trunkings		–	–
Adjusted opening balance		38,639,016	38,979,346
Net Parliamentary funding		2,673,364	2,498,202
Amounts due (to) / from Consolidated fund in respect of supply		(25,069)	73,636
Net operating cost for the year		(5,361,397)	(5,342,017)
Consolidated fund extra receipts payable to the Consolidated Fund		(23,729)	(18,389)
Non cash charges:			
Auditors remuneration	320		300
Legal services	436		270
Payroll and superannuation services	519		484
Cost of capital charge	2,957,514		2,834,131
		2,958,789	2,835,185
In year adjustments relating to prior year transactions:			
Write back 2007-08 excess AinA not recognised on consolidation		8,408	–
Reversionary interest on M6 toll road	18,746		7,240
Adjustments to network fixed assets	(153,572)		155,917
In year spend on detrunked and trunked roads	(9,326)		(10,117)
		(144,152)	153,040
Realised element of revaluation reserve (Note 14)		107,086	99,529
Balance at 31 March 2009		38,832,316	39,278,532

14. Revaluation Reserve

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

	2008-09	2007-08
	£000	£000
Balance at 1 April 2008	44,014,606	40,708,540
Prior period adjustment:		
Detrunkings	(365,539)	(274,873)
Trunkings	–	–
Adjusted opening balance	43,649,067	40,433,667
Net gain / (loss) on revaluation	3,934,742	3,608,045
In year adjustments relating to prior year transactions		
Adjustments to network fixed assets	(87,780)	89,120
Adjustments to non-network fixed assets	835	(16,697)
Realised element of revaluation reserve (Note 13)	(107,086)	(99,529)
Balance at 31 March 2009	47,389,778	44,014,606

15. Transfer of Functions to / from Local Authorities

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

Detrunked section of the road:		Local authority	Date of transfer	Asset value £000
Major detrunking programme				
A38	Minworth to Warwickshire boundary	Birmingham	26-Feb-09	61,915
A38	Weeford Pole to Bassetts (Warwickshire boundary)	Staffordshire	26-Feb-09	58,238
A38	Bassetts Pole (Warwickshire boundary) to Birmingham boundary	Warwickshire	26-Feb-09	15,838
A4	Bristol (Hicks Gate Roundabout) to Bath (Twerton Fork Junction)	Bath & NE Somerset	9-Apr-08	54,633
A40	Gloucester boundary to Ross-on-Wye	Herefordshire	31-Mar-09	40,183
A4123	Sandwell to Wolverhampton boundary	Dudley	13-Nov-08	26,700
A4123	Birmingham boundary to Dudley boundary	Sandwell	13-Nov-08	68,675
A456	Junction with A449 Chester Rd to Worcestershire/Dudley boundary east of Hagley Wood RB	Worcestershire	28-Apr-08	61,463
A456	Worcestershire/Dudley Boundary east of Hagley Wood RB to M5 J3 RB	Dudley	28-Apr-08	50,455
A465	Hereford to Welsh border	Herefordshire	29-Oct-08	82,464
A570	M58 Junction 3 to Sefton boundary	Lancashire	1-Oct-08	68,521
A570	Lancashire Boundary to Kew island, Southport	Sefton	1-Oct-08	987
A63	A19/A63 Junction at Selby to junction at Barlby Crosswroads	N Yorkshire	31-Mar-09	3,157
A63	Roundabout near Hagg to A19/A63 Junction at Selby	N Yorkshire	31-Mar-09	138,550
A65	M6 to Lancashire boundary	Cumbria	31-Mar-09	41,482
A65	Cumbria boundary to N Yorks boundary	Lancashire	31-Mar-09	20,956
A65	Lancashire boundary to Thorlby Roundabout	N Yorkshire	31-Jan-09	209,394
Programme of major schemes				
A590	High and Low Newton Bypass	Cumbria	8-Apr-08	1,444
				1,005,055

In the instance of the programme of major schemes, a new section of road has been built to improve the road network. The old section has then been detrunked to the relevant local authority.

Trunked section of road	NIL

16. Notes to the Cashflow

	Note	2008-09 £000	restated 2007-08 £000
16. (a) Reconciliation of Operating Cost to Operating Cash Flows			
Net operating cost		(5,361,397)	(5,342,017)
Adjustment for non-cash transactions	3/4/5	3,965,444	3,960,411
(Increase) / decrease in stock	8	(6,511)	3,696
(Increase) / decrease in debtors	9	19,001	(100,525)
less movement in debtors relating to items not passing through the OCS		(73,636)	62,837
Increase / (decrease) in creditors	11	52,966	(41,748)
less movement in creditors relating to items not passing through the OCS		9,521	113,772
Use of provisions	12	(166,902)	(169,569)
Net Cash Outflow from Operating Activities		(1,561,513)	(1,513,143)
16. (b) Analysis of Capital Expenditure and Financial Investment			
Tangible fixed asset additions: investment in the network	6	(1,037,235)	(990,243)
Tangible fixed asset additions: investment in non network assets	6	(2,072)	(7,064)
Intangible fixed asset additions	7	–	(14)
Proceeds of disposal of fixed assets		20,804	6,302
Net Cash Outflow from Investing Activities		(1,018,503)	(991,019)
16. (c) Analysis of Financing			
From the Consolidated Fund (Supply): current year		2,673,364	2,498,202
From the Consolidated Fund (Supply): prior year		73,636	10,798
Less detrunking spend		(9,326)	(10,117)
Capital element of payments in respect of on balance sheet PFI contracts		(49,242)	(46,481)
Net Financing		2,688,432	2,452,402
16. (d) Reconciliation of Net Cash Requirement to Decrease in Cash			
Net cash requirement		(2,648,295)	(2,571,838)
From Consolidated Fund (Supply): current year		2,673,364	2,498,202
From Consolidated Fund (Supply): prior year		73,636	10,798
Amounts due to the Consolidated Fund received and not paid over		9,245	8,523
Amounts due to the Consolidated Fund received in a prior year and paid over		(117)	(4,868)
Amounts from the Consolidated Fund unspent		–	–
Increase / (decrease) in Cash	10	107,833	(59,183)

17. Capital Commitments

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

	31st March 2009 £000	restated 31st March 2008 £000
Contracted capital commitments for which no provision has been made	1,137,176	1,116,211

The prior year balance has been restated to include commitments previously understated in the prior year.

18. Commitments under Leases

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

Obligations under operating leases comprise:

	31st March 2009		31st March 2008	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Expiry within one year	–	570	982	733
Expiry after one year but not more than five years	1,440	1,481	387	2,924
Expiry thereafter	7,175	–	6,752	–
	8,615	2,051	8,121	3,657

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

Obligations under finance leases comprise:

	31st March 2009		31st March 2008	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Expiry within one year	–	237	–	–
Expiry after one year but not more than five years	–	871	–	–
Expiry thereafter	–	–	–	–
Less interest element		1,108		
	–	(107)	–	–
	–	1,001	–	–

19. Commitments under Private Finance Initiatives

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

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

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

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

	31st March 2009 £000	31st March 2008 £000
Rentals due within one year	121,369	121,246
Rentals due after two but no more than five years	450,688	456,540
Rentals due thereafter	1,364,167	1,552,885
	1,936,224	2,130,671
Less interest element	(776,469)	(921,674)
	1,159,755	1,208,997

Charge to the Operating Cost Statement and Future Commitments

The total amount charged in the Operating Cost Statement in respect of the service element of on balance sheet PFI transactions was £180,646,000 (2007-08 £160,258,000).

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

	31st March 2009 £000	31st March 2008 £000
Expiry within one year	–	–
Expiry within two to five years	20,706	20,706
Expiry within six to ten years	52,428	52,428
Expiry within eleven to fifteen years	–	–
Expiry within sixteen to twenty years	127,707	127,586
Expiry within twenty one to twenty five years	4,040	–
Expiry within twenty six to thirty years	6,150	10,190
Expiry within thirty one to thirty five years	–	–
	211,031	210,910

20. Financial Instruments

FRS 29, which supersedes the requirements of FRS 13 and FRS 25, requires specified 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 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 that would be typical of the listed companies to which FRS 29 mainly applies. The Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

Liquidity Risk

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

Credit risk

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

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

Interest Rate Risk

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

Exchange Rate Risk

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

Fair Values

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

	31st March 2009		31st March 2008	
	Book value	Fair value	Book value	Fair value
	£000	£000	£000	£000
Financial Liabilities:				
Finance lease obligations including on-balance sheet PFI imputed finance lease obligations	1,159,755	658,382	1,208,997	662,630

Basis of Fair Valuation

The fair value has been calculated using the net present value (NPV) of future capital payments, discounted at the rate implied in the individual contracts.

21. Contingent Liabilities and Assets disclosed under FRS 12

	31st March 2009	31st March 2008
	£000	£000
Land and property acquisition	362,059	390,744
Engineering and construction services	4,900	8,447
Other	8,517	8,366
Gross balance	375,476	407,557

Land and Property Acquisition

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

Acquisition and Blight

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

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

Compensation for Loss After Construction

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

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

Claims in Dispute

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

Engineering and Construction Services

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

Other Contingent Liabilities

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

21 (b) Contingent Assets

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

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

As it is not known for some years after the initial disposal whether any further income will arise the Agency has a contingent asset relating to future values. In 2008-09 amounts totalling £47,000 (2007-08 £671,000) were received under these arrangements.

22. Related Party Transactions

As stated on page 7 the Highways Agency is an Executive Agency of the Department for Transport. The Department is regarded as a controlling related party. During the year the Agency had a significant number of transactions with the Department. In addition the Agency had transactions with other Government departments and agencies, principally Treasury Solicitors, The Department for Communities and Local Government, The Central Office of Information, Valuation Office Agency, National Assembly for Wales and a number of Local Authorities.

In addition the Agency had transactions with QinetiQ, a public limited company in which the Ministry of Defence holds shares, and Yorkshire Forward, an organisation sponsored by BERR.

Any interest in third party transactions of Board members is disclosed on page 52.

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

23. 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.

In 2008-09 there was one case in excess of £250,000. There was a book-keeping error of £430,663 relating to an advance made for work carried out by a local authority.

Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation. The amounts involved are as follows:

	31st March 2009 £000	31st March 2008 £000
Losses:		
Bookkeeping/cash losses: 97 cases (2007-08 16 cases)	788	74
Fruitless payments: 1 case (2007-08 5 cases)	-	9
Claims abandoned/store losses: 2,885 cases (2007-08 3,586 cases) *	6,610	11,155
Special Payments:		
Ex-gratia compensation: 4 cases (2007-08 5 cases)	114	43

* Includes 2,885 cases valued at £6,610,000 (2007-08 3,551 cases valued at £10,767,000) for damages to the road network where the culprit could not be identified, or otherwise pursued for costs.

24. Third Party Assets

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

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

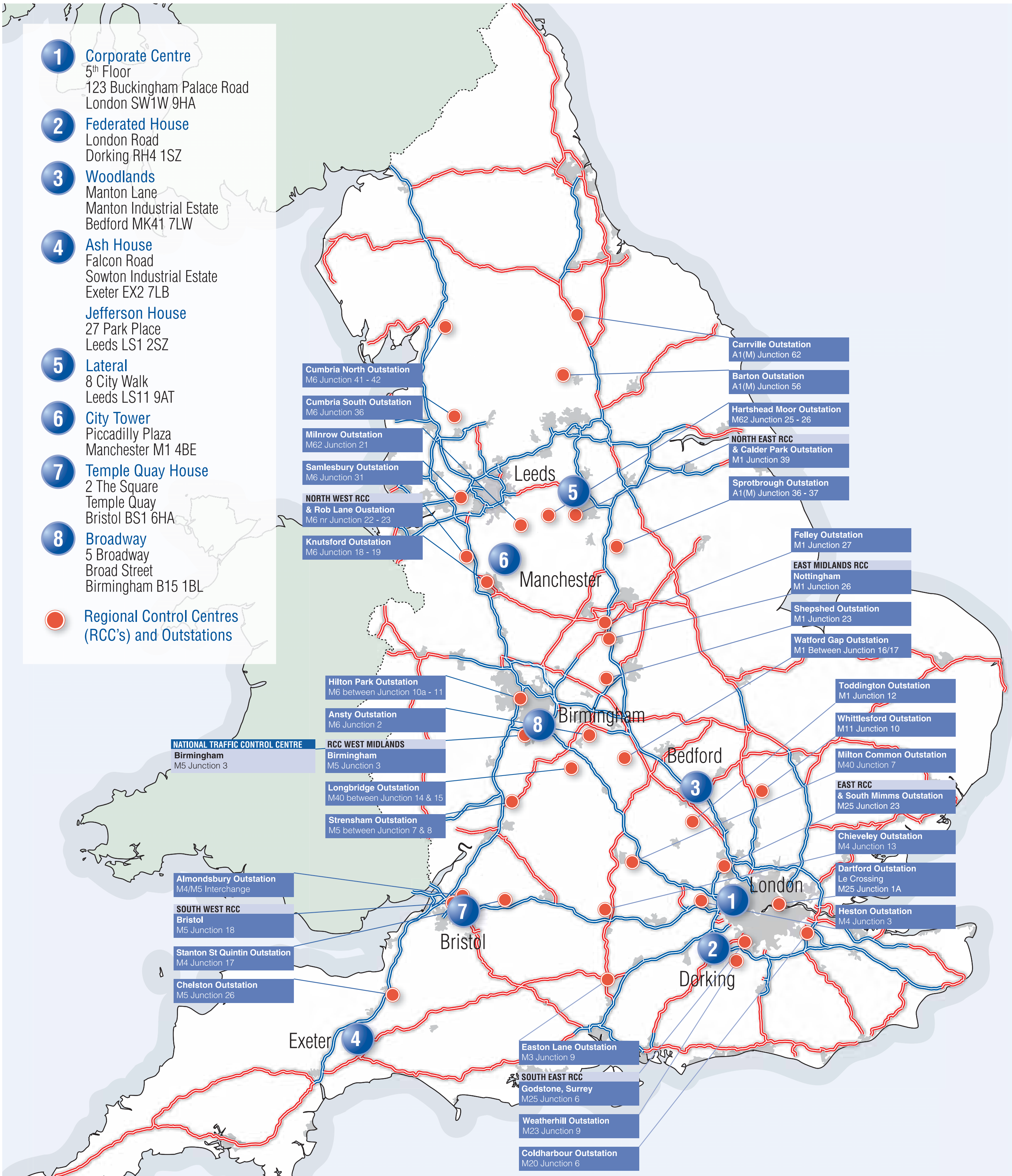
These are not Agency assets and therefore are not included in the accounts. The amounts held are set out in the table below:

	31st March 2009 £000	31st March 2008 £000
Lloyds TSB Escrow Bank Accounts	8,405	14,446
Lloyds TSB Euro Bank Account	35	275
	8,440	14,721

24. Post Balance Sheet Events

There have been no significant events between the balance sheet 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. Financial Reporting Standard (FRS) 21 requires the Highways Agency to disclose the date on which the accounts are authorised for issue. This is the date on which the certified accounts are despatched by the Highways Agency's management to the Secretary of State of the Department for Transport. The authorised date for issue is 16 July 2009.

Highways Agency offices, RCC locations and Outstations



Printed in the UK by The Stationery Office Limited
on behalf of the Controller of Her Majesty's Stationery Office

ID6141213 07/09

Printed on Paper containing 75% recycled fibre content minimum.

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Published by TSO (The Stationery Office) and available from:

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Highways Agency Publications Group **SW08220 PR124/09**

ISBN 978-0-10-295975-8
9 780102 959758