



Highways Agency  
**Annual Report and Accounts**  
2011-12

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Highways Agency  
**Annual Report and Accounts 2011-2012**

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# Contents

Highlights	4-5
Foreword by the Chairman	7
Chief Executive's Overview	9
<b>Section 1: What we do</b>	<b>11</b>
• Our role	11
• The strategic road network in England	11
• Vision and goals	11
• Looking to the future	12
• Our plans for 2012-13	12
<b>Section 2: Affordable and efficient delivery</b>	<b>13</b>
• Living within our means	13
• Our performance 2011-12	13
• Efficiency in delivery of major projects	16
• Improvements to the way renewal and improvement schemes are prioritised	16
• Improving the efficiency of traffic management	16
• Supporting economic growth through the Planning Protocol initiative	16
• New asset support contracts for maintenance and renewal of the network	17
• Integrated Asset Management Information System (IAM IS)	18
• Procurement	18
• Continued use of managed motorways	19
<b>Section 3: Serving the public</b>	<b>20</b>
• Providing a public service	20
• Safe roads	20
• Reliable journeys	23
• Informed travellers	24
• Listening to the customer	25
<b>Section 4: People and partnership working with our supply chain</b>	<b>27</b>
• The Highways Agency team	27
• Delivering through our supply chain	28
• Major investment projects	29
• Aiming for Zero	32
• Benefits of collaborative research	33
<b>Section 5: Sustainability Report</b>	<b>34</b>
<b>Section 6: Governance Statement for the Highways Agency 2011-12</b>	<b>43</b>
<b>Section 7: Remuneration Report for the year ended 31 March 2012</b>	<b>55</b>
<b>Section 8: Statement of Highways Agency and Accounting Officer's Responsibilities</b>	<b>60</b>
<b>Section 9: Certificate and Report of the Comptroller and Auditor General to the House of Commons</b>	<b>61</b>
<b>Section 10: Financial Statements</b>	<b>63</b>
• Statement of Comprehensive Net Expenditure	63
• Statement of Financial Position	64
• Statement of Cash Flows	65
• Statement of Changes in Taxpayers' Equity	66
• Notes to the Accounts	67-102
<b>Annex A: The Highways Agency Board and organisational structure</b>	<b>103</b>

# Highlights



- *A3 Hindhead tunnel was completed and opened to traffic.*

- *Our LEAN programme was shortlisted for Civil Service awards.*

- *A1 between Dishforth and Leeming upgraded to motorway standard.*

- *First asset support contract awarded, to deliver maintenance, renewal and improvement services more efficiently*



- *A404(M) bridge replacement wins Highways Magazine Excellence Awards 2011.*



- *A42 technology upgrade recognised by Institution of Civil Engineers.*

***ICE East Midlands merit awards***

***Highly Commended:  
A42 Junction 11 (M42)  
to M1 Technology  
Upgrade***

*Commissioning  
Authority:*

*Highways Agency*

*Principal Designer:  
Atkins*

*Principal Contractor:  
Birse Civils Ltd*



- *Our Estates and Sustainability team was awarded runner-up in the Best Green Office Environment category of the 2011 Public Sector Sustainability Awards.*



- *Traffic Officer Service won the Prince Michael International Road Safety Award.*



CONGESTION  
STAY IN LANE



50

50

50



*M6 Managed Motorway*

# Foreword by the Chairman



Alan Cook

It is now 18 months since I became the first non-executive chairman of the Highways Agency, and during that time I have got to know the Agency and its suppliers well and have been impressed at the commitment of so many people to deliver a good service to road users and to the communities we serve.

In my report *A Fresh Start for the Strategic Road Network* published in November I reflected on the ability of the Agency to respond quickly to changing priorities, to the demands placed upon it, and to rapidly changing funding profiles. I concluded that the Agency is unique as a civil service organisation in operating a vital national infrastructure asset. I went on to recommend that the Agency could operate more effectively and more efficiently if empowered and enabled to act in a more commercial manner, and I said that it could be more focussed on the views of its customers and of the communities it serves.

During the course of the year I have developed the existing board, setting a greater degree of ambition and providing a stronger challenge on performance to the executive team.

The Agency has performed well during the year, working to make customers' journeys more predictable while implementing the significant measures necessary to deliver maintenance, renewals and improvement projects within a challenging funding limit. With the basics now in place to manage within that funding envelope, it is time for the Agency to raise its ambition.

So I welcome the Secretary of State's view that the Highways Agency should strive to become a best in class executive agency. The challenge is a big one, and will see significant change in how the Agency works, in the level of professional skills amongst the staff, and in how it works alongside national government, local government, road users and suppliers.

A handwritten signature in black ink, which appears to read 'Alan Cook'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Alan Cook CBE





*Hindhead Tunnels*

# Chief Executive's Report



Graham Dalton

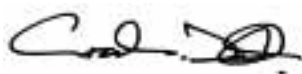
The opening to traffic of the new tunnels at Hindhead on 27 July, carrying the A3 trunk road under the Devil's Punchbowl and completing a dual carriageway link from London to Portsmouth, was a high point in a busy year for the Highways Agency. It was not just the technical achievements of tunnelling in an environmentally sensitive area that marked this project out, nor the excellent relations with the local community during construction, but it was the successful completion of another high risk project on time, and on budget. It highlighted the Highways Agency's capability as a leading public sector project manager and infrastructure business.

As well as major projects successfully delivered, we made good progress with changes to our motorway Traffic Officer Service, defining and implementing the first phases of our Future Operating Model that will see enhanced traffic and incident management delivered at significantly lower cost. Meanwhile, we let the first of our area asset support contracts to a new performance specification and renegotiated most of our existing contracts, again realising cost savings and ensuring that we can continue to provide a good service to road users within the funding available to us.

While there were many successes during the year, the tragic accident on the M5 near Taunton on 5 November when seven people died and fifty-one were seriously injured shocked the entire country. Though incidents of this severity are mercifully rare, it came as a stark reminder that too many people are killed or seriously injured on our roads every year. At the Highways Agency we will continue to operate, maintain and improve the network to the highest practicable levels of safety for both road users and road workers.

Our non-executive chairman, Alan Cook, published his report *A Fresh Start for the Strategic Road Network* in November 2011, and many of his recommendations were subsequently accepted by the Secretary of State in May 2012. Throughout the year and the course of this review our staff and many of our suppliers have worked hard to deal with the uncertainty that such a study brings. So we welcome Alan's conclusion that the Highways Agency is effective in fulfilling its role, and the Secretary of State's vision that it should strive to be a best in class executive agency. We will now rise to the challenge set by the Secretary of State.

The Highways Agency operates, maintains and improves one of the world's most intensively used road networks – serving four million road users every day. Our National Traffic Operations Centre and seven regional control centres work to reduce the number of incidents, to provide information to road users and to manage incidents efficiently to minimise delays. Our Traffic Officer service responds to more than 20,000 incidents per month. We can only achieve this through the continuing effort and commitment of every one of our staff, our contractors and our engineering consultants. We have a good team, and together we will continue to deliver.



**Graham Dalton**

# Highways Agency strategic road network

Motorways ———  
Trunk Roads ———



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## Section 1: What we do



Spaghetti Junction Birmingham  
M6/A38 interchange

### Key fact:

*Each year, an average of 1.6 billion tonnes of freight is transported using the strategic road network.*

### Our role

The Highways Agency, created in March 1994, is an executive agency of the Department for Transport (DfT). Our role is to help support the sustainability of the UK's economy by operating, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport. Our responsibilities are formally laid down by DfT in our Framework Document which is published on our website at [www.highways.gov.uk](http://www.highways.gov.uk).

We operate the strategic road network through a National Traffic Information Service which supports our National Traffic Operations Centre and seven regional control centres. We have a uniformed Traffic Officer Service who serve in control centres and patrol the key areas of the network, helping to manage and clear incidents as quickly and safely as possible.

Our role in maintaining and improving the network is delivered through a large and complex supply chain through a number and variety of contracts. We also set and maintain technical standards for roads and structures which we require our contractors to adhere to and which are referred to by many local and other national authorities for the roads that they manage.

The Agency is overseen by a Board which includes a non-executive chairman, three non-executive directors, the chief executive and five executive directors as shown in Annex A. Further details of our governance arrangements can be found in Section 6 of this report.

### The strategic road network in England

The strategic road network in England is some 4,300 miles long and is made up of motorways and trunk roads - the most significant 'A' roads. A map of the network is shown opposite. Whilst our network represents only two per cent of all roads in England by length, it carries a third of all traffic by mileage. Significantly, two thirds of all heavy goods vehicle mileage in England is undertaken on the strategic road network, making it the economic backbone of the country.

### Vision and goals

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

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

To support this we have set out a values statement, *'Delivering a professional and affordable service through innovation and partnership working'*, to communicate the behaviours required of staff and contractors to ensure the delivery of our goals and the fulfilment of our organisational objectives.

## Our plans for 2012-13

In the year ahead, the Agency will continue to employ initiatives that make best use of the network by providing additional capacity and improving use of existing space to reduce congestion whilst maintaining high standards of safety. This includes taking forward the additional infrastructure projects announced in the Chancellor's Autumn 2011 statement.



*M25 four lane capacity*

Full details of our plans can be found in the Highways Agency 2012-13 Business Plan, available on the Agency's website at [www.highways.gov.uk/businessplan](http://www.highways.gov.uk/businessplan)

## Looking to the future

The Government's vision is for a transport system that helps create growth in the economy, and tackles climate change by cutting carbon emissions. Following the Spending Review in October 2010 the Government announced plans to invest £2.3 billion in major roads improvements through to the end of 2014-15. This includes £1.4 billion to start 14 new schemes in the four years to 2014-15. We have committed to deliver the new schemes for 20 per cent less than the estimates approved before the Spending Review, saving £443 million and ensuring best value for public money.

On the 29 November 2011, the Chancellor announced his Autumn Statement which included a further £1 billion of investment to tackle areas of congestion and improve the national road network. This included £800 million to enable six major schemes to be brought forward to start before 2014-15 and a further two existing schemes to be accelerated to start earlier in the Spending Review period than previously scheduled. The investment also includes a 'pinch point fund' of £220 million over three years to help improve the performance of the network, by tackling congestion and improving both journey time reliability and safety to contribute to the growth and stimulus of the UK economy. As part of the Spending Review 2010, it was agreed that a review of how the Government delivers the strategic road network would be carried out. Alan Cook was appointed as the first ever non-executive Chairman of the Highways Agency Board in January 2011 and was asked to

complete this Strategic Roads Review. Alan presented his report, *A Fresh Start for the Strategic Road Network* to the Secretary of State for Transport on 24 November 2011. The report proposes a series of changes which he believes, taken together, will enable us to manage our roads better to drive economic growth, boost innovation and give road users more for their money. The proposed programme of strategic, high-level changes covers four broad areas:

- Longer term specification for the strategic road network.
- Committed, medium-term funding.
- Listening to and responding to our customers.
- Greater independence from Central Government.

On 19 March 2012, the Prime Minister made a speech on the importance of investing in the nation's infrastructure. He proposed using innovative approaches to the funding of our national roads to increase investment and reduce congestion. A feasibility study is underway to explore how we can deliver this, and a progress report is due in the autumn.

A response from the Secretary of State for Transport to the Strategic Roads Review was issued on 24 May 2012. The Secretary of State concluded that the Highways Agency should remain an executive agency, pending any further decision after the feasibility study concludes. Instead she has set the challenge for the Highways Agency to become a best in class executive agency.

## Section 2: Affordable and efficient delivery

### Living within our means

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

*The three key programme areas were:*

- Major Schemes, where we agreed to start a defined programme of 14 schemes by 2014-15 within a funding envelope that delivered at least 20 per cent efficiencies.
- Traffic Management, where we committed to a broad range of operational improvements to our Traffic Officer Service and other Traffic Management functions whilst also cutting costs by 20 per cent by the end of 2013-14.
- Maintenance, where we expect to reduce annual spending from an average of over £900 million to an average of about £700 million over the four year Spending Review 2010 period.

Our performance in 2011-12 sets us on a good trajectory to achieve the required savings whilst delivering a high level of service. More detail on how we are progressing on delivering these efficiencies can be found in this report.

The importance of investment in the strategic road network infrastructure was emphasised in the Chancellor's Autumn 2011 Statement which announced a significant tranche of investment to drive economic growth in

this country. This included an increase in funding for transport infrastructure, which is in addition to that announced in the Spending Review.

### Our performance in 2011-12

Our total budget for 2011-12 was £3,954 million and was divided into:

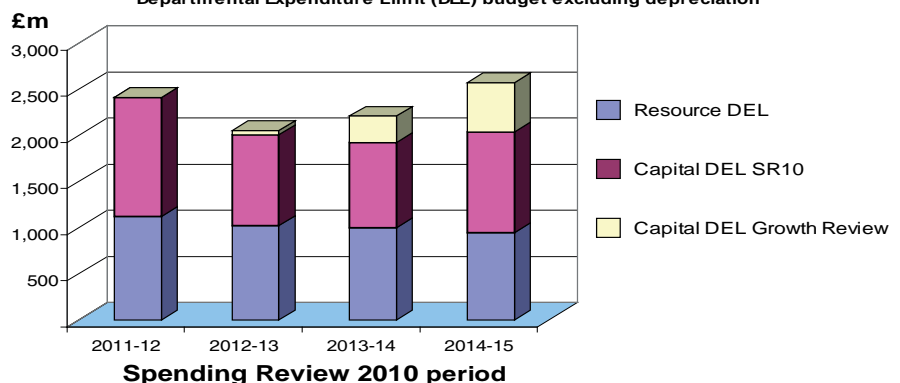
- Departmental Expenditure Limit (DEL) budgets which are the firm budgets (resource and capital) set in the Spending Review 2010.
- Annual Managed Expenditure (AME) budgets which apply to items that are volatile and which the Agency could not be expected to absorb within the firm DEL plans.

A segmental analysis of our 2011-12 expenditure is included at Note 2 to the accounts. The most significant segments are:

**Maintenance:** The infrastructure of the strategic road network is one of the most valuable single public assets, and maintenance of it consumed a high proportion of the Agency's spend in 2011-12 (over 33 per cent of the total DEL expenditure excluding depreciation). The work undertaken includes replacing and maintaining surfaces, bridges

**Spending Review 2010 Programme funding and Growth Review**

Departmental Expenditure Limit (DEL) budget excluding depreciation

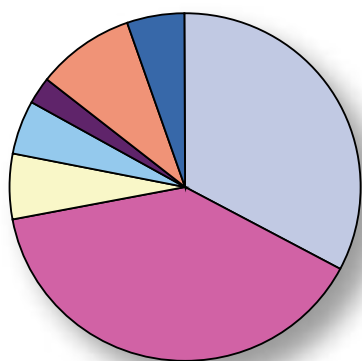


## Case Study: Spend Recovery Audit

In May 2011, the Department for Transport and its Agencies underwent an independent review of historic spending to ensure all recoverable amounts were identified. In the Agency the review sampled 383,000 invoices totalling some £17 billion of expenditure since 2002. Only 17 items were identified for recovery action, totalling £48,000. The results provide assurance as to the robust processes and controls that we have in place in the Agency.

### Net Resource Expenditure

(not including non-allocated income)



- Major Improvements
- Maintaining the Network
- Technology Improvements
- Traffic Management
- Smaller schemes and R&D
- Running Costs - Programme
- Running Costs - Admin

and other structures (over 700 renewal schemes delivered in the year). It also includes the associated upkeep of fencing, drainage, lighting and signage, and the cost of keeping the network open in winter.

#### Public Finance Initiative (PFI):

The Agency has 12 PFI contracts, 11 of which are for the design, build, finance and operation of sections of the network including the M25 widening and maintenance for 30 years. The expenditure is included in the Major Improvements segment and details of these contracts are included in Note 18 to the accounts. Approximately 40 per cent of the Agency's resource DEL expenditure (excluding depreciation) relates to the service payments on these contracts.

#### Major Capital Improvements:

During 2011-12, £831 million was invested in major projects on the strategic road network

**Outturn against budget:** The outturn against the budget is summarised as follows:

Budgetary Performance 2011-12	Actual £m	Budget £m	Variance £m
Resource DEL (excluding depreciation)	1,095	1,145	50
Resource DEL depreciation	788	870	82
Resource AME	492	651	159
<b>Total Net Operating Cost</b>	<b>2,375</b>	<b>2,666</b>	<b>291</b>
Capital DEL	1,315	1,288	(27)
Capital AME	(33)	-	33
<b>Total Capital Budget</b>	<b>1,282</b>	<b>1,288</b>	<b>6</b>
<b>Total Budget</b>	<b>3,657</b>	<b>3,954</b>	<b>297</b>

including the completion of major investments on the A3 at Hindhead, on the A1 between Dishforth and Leeming and on the A46 between Newark and Widmerpool. New schemes were also started on the A23 between Handcross and Warninglid, on the M62 between J25-30 and on the M4/M5 interchange.

#### Resource DEL (excluding depreciation)

The positive variance of 4 per cent reflects:

- higher income than budgeted.
- early action taken to reduce activity and spend levels in a controlled way slightly ahead of the reducing funding levels over the Spending Review period.
- a reduction in administration expenditure.
- programme prioritisation, including activity being taken in-house.

#### Resource DEL depreciation

The final depreciation charge against the infrastructure asset was less than budgeted. As well as the level of expenditure on capital renewals, the depreciation charge is impacted by the condition of road surfaces and indexation of the network valuation. Both of these factors are difficult to predict accurately

in advance and both have moved in a way that generates a positive variance.

#### Resource AME

The main item within this budget is the write-down of the infrastructure asset to reflect the difference between the actual cost of construction and the standard replacement cost.

Further details of this policy can be found in Note 1.4 to the accounts. The significant under spend reflects the difference between the prudent assumptions used at the time of deriving the AME write-down

budget and the actual capital investment programme that was subsequently agreed as part the Spending Review.

**Capital budget**

The capital investment programme has outturned very

close to the budgeted figure. This includes a 10 per cent efficiency saving across the capital renewals programme (thereby allowing additional projects to be delivered).

Details of performance against our measures published in our Business plan are shown in the table below.

Performance against 2011-12 Business Plan Measures			
HA Business Plan Measure	2011-12	2010-11	Commentary
Cost of operating the HA motorway and A road network per vehicle mile.	0.3 pence	0.3 pence	The results show that the cost of operating the motorway and A road network when compared to usage of the network has remained constant for the past two years.
Cost of maintaining the HA motorway and A road network per lane mile.	£43,000	£41,000	In 2011-12 maintenance costs associated with this measure increased by an additional 5 per cent compared with 2010-11. This additional activity had been planned and budgeted for in the Spending Review. The main elements of the increase were a planned increase in the M25 PFI service payments and increased capital renewals. Expenditure on maintenance, particularly in relation to capital renewals, reflects the varying demands of maintenance activity which is not necessarily comparable year-on-year.
Percentage of HA's appraised project spending that is assessed as good or very good value for money.	100%	N/A	This is a measure of the expected benefits for each pound of spending covered by the appraisal process. New measure in 2011-12.
Reliability of journeys on the HA motorway and A road network.	83.90% 'on time'	N/A	An 'on time journey' is defined as one which is completed within a set reference time. New measure in 2011-12.
Annual road fatalities on the HA motorway and trunk road network.	251	249	Due to the compilation method used these figures reflect the calendar rather than financial year.
The mean and median average incident duration times on motorways.	Mean 28 minutes Median 15 minutes (these are figures for the month of March 2012)	N/A	Measures the average time taken to clear incidents on motorways. Graph showing monthly trend found on page 21. New measure in 2011-12.
Contribute to national and international goals for a reduction in carbon dioxide emissions by lowering the HA's emissions.	9,321 tonnes CO <sub>2</sub> e reduction against baseline	5,000 tonnes CO <sub>2</sub> e reduction against baseline	We achieved a 9.7 per cent reduction in carbon dioxide emissions in 2011-12. A significant proportion of this reduction is due to a change to the Defra greenhouse gas emission factor for electricity, however there has been a substantial reduction in energy consumed.
The proportion of the network that is in a condition that does not require further investigation for possible maintenance	95.6%	N/A	This measure replaces a target introduced in 2004-05 to maintain the road surface at a specified condition.
For the programme of schemes in the construction phase, maintain a programme level of at least 1.00 against the cost performance index (CPI) and the schedule performance index (SPI).	CPI 1.12 SPI 1.05	CPI 1.00 SPI 1.04	CPI measures the cost of work performed against the target cost agreed with the supplier. SPI measures the time taken against the time planned. Exceeding 1.00 for both demonstrates that the programme of road improvements has been delivered below target cost and ahead of schedule.
The accident frequency rate of the HA supply chain.	0.20	0.20	This shows the number of accidents per 100,000 hours worked. It has remained constant for the past two years.



## Improving the efficiency of traffic management

The Future Operating Model for traffic management has been developed to provide improved levels of service to the public at a lower cost. The savings generated through the roll-out of this model are estimated at around 20 per cent by 2013. We have achieved a total in year saving of £43.8 million against the Spending Review 2010 baseline, exceeding the budgeted saving of £24.1 million. More detail on this can be found in Section 3: Serving the public.



Traffic Officer on patrol

## Efficiency in delivery of major projects

The Agency committed to reduce the cost of major projects in the Spending Review 2010 period by 20 per cent against baseline estimates, and now has additional projects to deliver following the Chancellor's Autumn Statement in November 2011. This puts a sharp focus on how we deliver those savings and become a more efficient client.

During 2011 we established two key enablers to ensure delivery of the efficiencies and savings. A Major Projects Delivery Hub now focuses on improving delivery by working closely with integrated delivery teams to:

- Develop and embed new ways of working across Agency business areas and supply chain to fully exploit collaborative opportunities and drive continuous improvement in the efficiency and effectiveness of project delivery.
- Support projects on common delivery issues, combined with delivering functions that have application across the programme as a whole.
- Focus on standardising solutions and processes and their consistent application, adopting lean principles and best practice.

## Improvements to the way renewal and improvement schemes are prioritised

We have also thoroughly reviewed our capital renewals programme at the start of the year with a target of achieving a 10 per cent

efficiency saving. This resulted in project savings of around £40 million - from a £336 million programme of over 600 schemes due to be completed by the end of the year. £29 million of the savings were then re-invested in additional projects.

The Spending Review 2010 was a driving force to change the way we prioritise road schemes. We score road schemes to reflect the benefits they will bring and these scores are then used to prioritise the allocation of resources. This process is called Value Management and requires collaboration between ourselves and our service providers. We have undertaken a review of this process and the outputs of this highlighted a series of improvements. A single Value Management document has been produced, covering all asset types, and describing how this process should be applied. This will bring clarity and consistency on outcome requirements, clear roles and responsibilities, and technical annexes for applying Value Management scoring to all asset types.

## Supporting economic growth through the Planning Protocol initiative

The Planning Protocol was launched in early 2011 and has gained both wider awareness and adoption throughout 2011-12. The Protocol is aimed at saving developers and the Agency both time and money in dealing with planning applications which potentially impact upon the strategic road network and also, through early engagement, increases the chances of reaching a positive outcome for developers.

The Protocol has been widely viewed as good practice and its adoption has reduced the time and cost incurred by us in dealing with such applications. Reductions in costs for developers are achieved through making our modelling and traffic flow data available at no cost and through clearer guidance on what level of information is required at each stage.

## New asset support contracts for maintenance and renewal of the network

Over the coming years we need to continue to meet and exceed customers' needs in providing roads that are both safe and reliable, but at a lower cost. In 2011 we developed the new asset support contract (ASC), which will gradually replace the existing arrangements, known as managing agent contractor (MAC) contracts, and will underpin the delivery of maintenance, renewal and improvement services for most of our motorway and trunk road network whilst delivering greater efficiency. The new ASCs reflect changes in our delivery requirements and provide more flexibility in the way asset maintenance and improvements are delivered.

The North West Service Delivery team, in discussions with its contractors and through careful risk management, has delivered savings totalling £5.4 million in 2011-12, which were subsequently reinvested in further network improvements.



The savings were achieved by:

- Combining individual schemes to reduce the number of site compounds, overhead and staffing costs.
- Reviewing working methods such as contra flow traffic management and lane widths.
- Adopting a flexible approach to network occupancy by extending the contractors working time where this could be done without adverse impact on traffic flow.



*Contraflow in place to minimise lane closure*

## Case Study: Savings made through introduction of LEAN techniques

- Introducing managed daytime weekend lane closures and overnight motorway closures.
- Considering alternative options for vehicle recovery and speed cameras.

The team has also been involved in cutting waste through the applications of LEAN techniques. The idea of LEAN is to maximise the value to customers whilst minimising waste. Techniques included introducing LEAN daily management boards on all major construction projects and holding regular LEAN training sessions with their supply chain to drive carbon and monetary savings. Specific modifications to construction techniques have been introduced on a number of sites including the M60 Junctions 19 to 22. £0.65 million cash and efficiency savings have been achieved in 2011-12.

**Key features of the new asset support contracts include:**

- Longer contract duration and higher cost threshold for works to deliver efficiencies and reduce cost.
- A new specification. The asset maintenance and operational requirements (AMOR) are outcome-based and less prescriptive about how and when work is delivered, without compromising safety.
- Affordable levels of service, with appropriate levels of quality.
- Clearer incentives for innovation and efficiency, including the opportunity for contract extensions based on outstanding performance.
- Simplified pricing mechanisms with a schedule of rates and a year-on-year cost reduction requirement.
- A higher threshold for directly delivered works, to allow more procurement through the asset support contract rather than by separate tender.
- Managing technology maintenance and improvement contracts through the main contract, for more efficient delivery.
- An increase in the threshold for the direct recovery of costs by suppliers, for the repair of damage to the network.
- Complementary contracts in the form of asset support and category management frameworks.

The first ASC was awarded in 2011-12 to Atkins Skanska JV for maintaining and improving our network in the South West. This covers motorways and trunk roads in Gloucestershire, Somerset, Dorset, Wiltshire, and parts of Devon and Hampshire and will be operational in July 2012. The second ASC, for roads covering parts of the North West, is scheduled to be awarded later in 2012 with the remaining area-based maintenance contracts moving to ASCs by 2015.

The contract renewal programme is phased over three years. In order to deliver optimum savings within the Spending Review 2010 period, we have negotiated the retrofit of some of the cost saving aspects of the ASC and AMOR into the existing MACs with effect from April 2012. The agreed changes will deliver savings of around £80 million over the Spending Review 2010 period.

**Integrated Asset Management Information System (IAM IS)**

The Integrated Asset Management Information System (IAM IS) is a key enabler to us becoming a mature asset management organisation, by improving our ability to plan and deliver a network that makes best use of available funding to meet performance requirements, reducing risk, and enhancing the road user experience.

IAM IS will replace 17 Agency and supply chain legacy asset systems, and bring £104 million of savings to the Agency over 10 years. There will be additional benefits such as having improved asset condition knowledge

leading to intervention at the right time, as well as economic benefits resulting from a reduction in disruption over the life of an asset. The system will be released in a phased roll out beginning with the maintenance management and customer enquiry modules being made available to Area 2 in July 2012 and Area 10 in September 2012. This aligns with the roll out of the ASC programme, aligning system capabilities with the requirements of our new contracting approach.

**Procurement**

We are continuing to work on key actions from our Procurement Strategy. Frameworks implementing sub-tier category management have been awarded and are operational. These frameworks are designed to consolidate Agency business

**Case Study:  
Innovative drainage systems**

We successfully trialed two innovative drainage systems that assist in meeting compliance with water quality objectives and the management of flooding from highway discharges, whilst also reducing the risk of negative impacts on road users. These systems are the Vortex Grit and Oil Separator that improves water quality and capitalises the reduction in maintenance achieved through the introduction of sumpless gullies, and the Reservoir Pavements system that facilitates storage of carriageway runoff beneath areas of non-trafficked carriageway.

## Case Study: Electricity used to strengthen A21 road embankments

The technique, known as electro-osmosis, delivers significant environmental advantages and avoids the need for restrictions on the road while work is being carried out. Traditionally, embankment strengthening involves clearing the slope of vegetation, and requires lanes to be closed on adjacent carriageways. Electro-osmosis avoids both of these, and uses an electric current to strengthen the soil in the slopes. With the new technique, a small crawling rig installs anodes and cathodes into the ground around the existing trees on the failed embankment and an electric current is applied over a period of weeks. This removes moisture from the soil, hardening and strengthening it

around the electrodes which are then grouted to form conventional soil nails.



*Wiring the anode*

The new technique did not involve any excavation or lane closures and most of the existing vegetation was kept. This meant



*Cables in place between the trees*

the carbon footprint was lower and we caused less disruption to road users.



*Electro-osmosis: a small crawling rig installs anodes and cathodes into the ground*

at sub-tier level providing cost, quality and consistency benefits. Internally the Agency is reviewing its procurement processes with the aim of reducing time, resource and supplier costs during the tendering process.

## Continued use of managed motorways

Managed motorway schemes are designed to deliver additional capacity and reduce congestion without the need for road widening. The hard shoulder is opened to traffic at peak times



*Managed motorways help ease congestion*

to ease congestion and speed limits are varied according to the volumes of traffic. Drivers are kept informed through overhead signals and gantry mounted signs.

Managed motorway technology is currently operating successfully on the following sections of motorway:

- M42 between junctions 3a and 7
- M6 between junctions 4 and 5
- M6 between junctions 8 and 10a

We are changing the framework for how future managed motorway schemes will operate. We have produced a design where the hard shoulder is converted to a running lane for traffic on a permanent basis. This new design is quicker and cheaper to build and operate.

# Section 3: Serving the public

## Providing a public service

*The public, and in particular users of our network, are at the heart of everything we do. To help them with journeys we provide information to enable them to plan their journey, and help plan any action whilst using our network.*

*We do this through our National Traffic Information Service (NTIS) supporting our National Traffic Operations Centre (NTOC) and seven regional control centres (RCCs). We also have a uniformed Traffic Officer Service who operate at the RCCs and patrol key parts of the strategic road network, helping road users first-hand, monitoring the condition of the network, and managing incident clearance.*

### Key fact:

*Since its launch in 2004, the Highways Agency's Traffic Officer Service has attended almost 1.8 million incidents.*

## Safe roads

### Road user safety

We have launched the *Safety Framework for the Strategic Road Network* in which we identify the actions we need to take to improve road user safety. In 2011-12 we sought to maximise safety benefits through our planned engineering interventions. We



**A52 Bramcote to Queens Medical Centre**  
*Works include signalling and laying down new road surfaces. Pedestrian crossings and existing signalled junctions along the A52 were upgraded and the carriageway widened at junctions to improve capacity.*

identified a range of short to medium term interventions that demonstrate sound economic and safety benefits. Whilst major road schemes will be primarily focused on reducing congestion they will also bring safety benefits as we continue to improve these routes and reduce the risk to

specific road user groups such as pedestrians and cyclists.

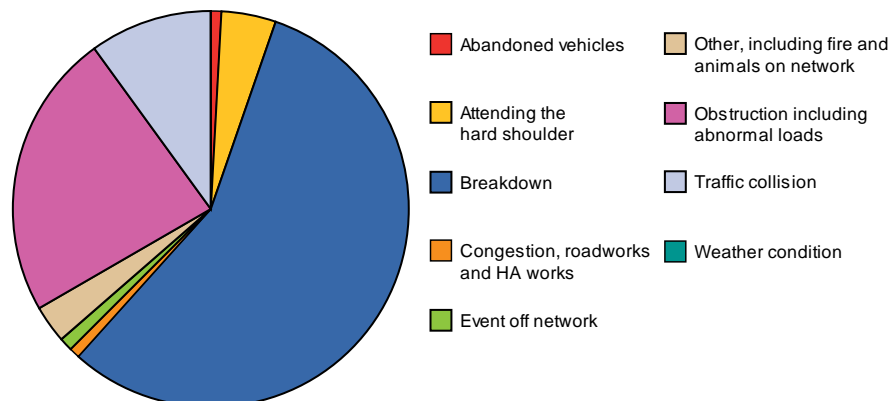
We are mindful of the need to work closely with other road safety groups to raise awareness of the need to address poor road user behaviour. During 2011-12 we have worked collaboratively across the Agency, and with the DfT's policy and THINK! teams, to identify where driver and rider behaviour needs to be addressed. We have now established a new safety communications group that is planning a series of measures to tackle the behaviours that contribute to incidents and collisions.

### Responding to incidents

The Traffic Officer Service plays a vital role in incident clearance on motorways and trunk roads. Regional control centres deploy resources to scenes, setting appropriate signs and signals to warn and inform road users ensuring risk is minimised.

When incidents occur, roads may need to be closed to allow the emergency services to safely treat those who may be injured and, where necessary, for the Police to investigate the incident. Traffic officers will be

**Incidents attended by Traffic Officer Service during 2011-12**  
(broken down by incident category)





Traffic Officer laying out cones to provide a safe working area for the emergency teams

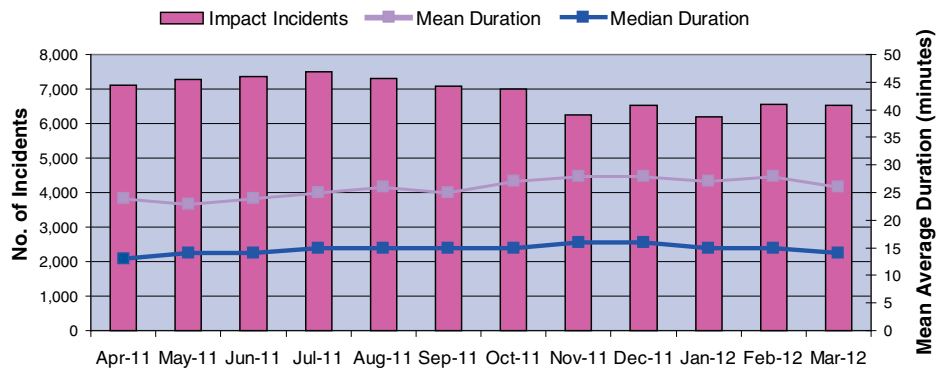
deployed to the scene and work in conjunction with emergency services, providing a safe working area, enabling temporary closures from a single lane closure to a full closure of the motorway, with diversion routes clearly signed to keep the public moving. Incident scenes can be challenging and dynamic in nature. Our main focus is to clear the carriageway effectively and minimise risk to the travelling public, whilst ensuring that road users are kept informed of incidents through media and on-road message signs.

A number of initiatives are being developed to improve incident management. A 'CLEAR' Initiative has been developed in

conjunction with the DfT, Home Office and the Association of Chief Police Officers (ACPO) to improve motorway incident management and reduce the cost on the economy of incident related congestion.

The following graph displays the monthly profile of mean and median incident duration times on motorways throughout 2011-12. This is the first full year for which the data has been compiled and we are therefore unable to identify seasonal variations. It illustrates that both the mean and median incident duration times increased in the second half of the year while the number of incidents recorded decreased.

**Mean and median incident duration times throughout 2011-12**



**Case Study:**  
Acetylene gas research reduces incident related delays

The Agency has been a key contributor in implementing a change to Fire and Rescue Service (F&RS) policy that will significantly reduce disruption to road users. Following combined research as part of the National Acetylene Stakeholder Group into the properties of acetylene gas, a recommendation has been made that in the event of an incident on the network involving acetylene gas, the hazard zone duration be reduced from potentially twenty-four hours to just three, at which

point the cylinder can be removed from the network. We should now see much quicker resolution to these incidents for our customers, whilst not increasing the risk to operational fire fighters.

Opposite:  
Fire and Rescue Services attending an incident scene



## Case Study: A19 DBFO achieves 1 million injury-free hours of work

Autolink, the design, build, finance and operate (DBFO) company which manages the A19 Dishforth to Tyne Tunnel route on our behalf, has achieved more than one million injury-free hours of work. This is equivalent to more than three years work on the route. The A19/A168 Dishforth to Tyne Tunnel trunk road is a vital route linking Tyneside, Wearside and Teesside to the A1(M), providing an important link into the industrial areas of the north east of England. The route is of major importance in satisfying the traffic demand of the Teesside conurbation.

### Major Incidents

We responded to several major incidents which occurred on the network during 2011-12, including:

- On 4 November 2011, a road traffic collision occurred on the M5 in Somerset, closing the motorway in both directions near Bridgwater and Taunton. Seven people lost their lives and a further fifty-one were injured and required treatment in hospital. Throughout the weekend we worked with the emergency services at the scene. Once the Police had completed their on-site investigations, we worked with our contractors to re-open the damaged motorway as quickly as was safely possible.



*Vehicle recovery*

- A serious road traffic collision near junction 7 of the M25 in Surrey on Friday 5 August 2011 caused both carriageways to be closed until Saturday evening. Due to the seriousness of the incident and subsequent repairs required, it took some time for the carriageway to be restored.
- The M1 Deans Brook viaduct, which carries the M1 over parts of North London, was badly damaged when a fire broke out in a scrapyard beneath it in April 2011. Intensive work was required to assess the damage and carry out the repairs. The viaduct is a key part of one of England's busiest motorways and it was of utmost importance to get the M1 open again as soon as safely possible.

### Managing the impact of severe weather

Although the weather this winter was generally not as severe as that experienced over recent years, our winter service teams were still kept very busy, with the winter fleet treating the equivalent of over 1.5 million miles of network. As a result of the severe weather experienced over the last few years, we had implemented a number of winter service improvements and were ready when severe weather struck. These improvements included increasing our salt stocks to include a reserve stock of 120,000 tonnes, as well as managing the country's national salt reserve of 250,000 tonnes.

As well as ensuring that we maintain optimum salt stocks, we carried out an assessment of locations on our network that were vulnerable to severe weather



*Loading a gritting lorry*

and developed plans to better manage severe weather impact. We also improved our process for coordinating the response of our winter related services to help speed up clearance times should difficult conditions be experienced. As well as technical improvements to our winter service, we also improved our winter communications. We undertook a comprehensive

## Case Study: M53 Bidston Moss scheme achieves one million injury-free hours of work

The M53 Bidston Moss scheme achieved an important milestone, securing one million injury-free hours worked. This means that since the project started in March



*M53 Bidston Moss*

2009 there have been 120 weeks without a reportable accident. At any one time up to 250 people are working on the site. The M53 Bidston Moss Viaduct is a 720 metre long, 37 metre span steel box girder structure on the Wirral approach to the Kingsway Tunnel under the River Mersey. It carries the M53 over the A554 roundabout as well as the Birkenhead to New Brighton railway.

marketing campaign working with over 160 partners including AA, RAC, professional freight associations, local authorities and shopping centres to deliver winter messages through their own communications channels. We also widened our own use of social media with dedicated twitter feeds resulting in 53,000 hits on related websites, giving advice to road users during winter weather.

### Reliable journeys

#### Managing traffic

We have devised an enhanced method of service delivery, known as the Future Operating Model, for our traffic management functions. This model aims to provide improved delivery of services to road users at a lower cost. Changes that have been agreed and are now being implemented include:

- Variable crewing of traffic officer vehicles.
- Introduction of 50 new fleet vehicles, replacing ageing and unreliable vehicles and saving cost.
- Intelligence led deployment of our traffic officers, both saving money in fuel and reducing our environmental impact.
- Introduction of a Central Contact Centre to handle all public and non-incident related calls and contacts.
- The withdrawal of information services where take up was low, including Traffic Radio and the Highways Agency automated telephone information service.
- Renewed contracts for the collection and dissemination of traffic data at significantly reduced cost.

- Flexible resourcing model to more closely align the work patterns of our people with the demands on our service from road users.

We forecast that this model will transform the efficiency of traffic management, with savings estimated at around 20 per cent in 2011-12. We have achieved a total in-year saving of £43.8 million against the Spending Review 2010 baseline, exceeding the budgeted saving of £24.1 million. This has been delivered through change projects and through changes in the way we manage our day-to-day business in accordance with the model.

### Managing road works – night time working

We are always seeking ways to reduce the impact that road works have on road users and rarely carry out routine maintenance during peak times. From April 2011 to March 2012, 99.94 per cent of the Agency's road network was available for road users at peak times, and 99.61 per cent available at night (excluding closures caused by incidents or unplanned works).



*Night-time resurfacing of the M1, at Junction 19*





*Incident Support Unit*

However, the amount of works carried out at night and at the weekend must be balanced against the higher costs involved. We continue to strengthen our approach to the delivery of traffic management to ensure we operate the road network safely and effectively, whilst seeking to minimise the impact on road users when determining the most cost effective approach to schemes.

## Preparing for the London 2012 Olympics

We have worked closely with the Olympic Delivery Authority and the London Organising Committee for the Olympic Games throughout 2011-12 to ensure that athletes and officials are able to travel easily between Olympic venues and that the rest of our roads continue to run smoothly during the Olympic period. A programme of activities was developed to help us achieve these aims. These activities include:

- The 24/7 operation of a dedicated Highways Agency desk in the Games Transport Co-ordination Centre to enable effective communication with the other Olympic and Paralympic transport organisations.
- The introduction of a 'Games Family Lane' on the M4 between Heathrow and Central London to reduce journey times for Games Family traffic. This will be operational 12 days before the Games opening ceremony.
- An embargo on roadworks in the East and South East regions close to London, and some routes in the South West, so that no planned daytime work will disrupt the Games.



- The operation of Traffic Officers on the non-motorway London to Weymouth route for the first time, supported by the use of portable variable messaging signs to provide live traffic information to road users.
- Extra Traffic Officer patrols and pre-positioned vehicle recovery units to be stationed at key locations to ensure a swift response to incidents.

## Informed travellers

### Providing information to road users

We have come a very long way since the days of the 'Cones Hotline', which was introduced in 1992 before the Agency was formed. The provision of accurate and timely information is central to our role as network operator. We collect and process traffic information on the strategic road network, disseminating this information to road users, internal Agency functions and operational partners, including the Traffic England website, Highways Agency Information Points and the Highways Agency Information Line.



*Variable message sign (VMS)*

We continue to use variable messaging signs (VMS) tactically and strategically to keep road users informed. We will also



*The HA iPhone app provides live traffic information*

extend our use of VMS to advise road users when lengthy closures have been completed and to communicate with trapped traffic during disruption.

Our iPhone app, which we continue to support, provides live traffic information to road users including information on incidents, planned roadworks and events. We also provide data to the Traffic England website.

On 1 September 2011, the contract to deliver the National Traffic Information Service (NTIS) went live in Quinton, Birmingham. NTIS is being delivered under a seven year contract by Network Information Services (NIS) Ltd, a joint venture between Mouchel and Thales, as part of our commitment to provide real-time traffic information to help road users plan their journeys and avoid delays. The NTIS will contribute to the Government's structural reform priorities to tackle congestion on our roads and make journeys more reliable. Furthermore, provision of traffic information enables

the Government's commitment to deliver greater transparency and measurement of Agency performance against the DfT's priorities. NTIS will enable operational efficiencies and improved network performance through better quality and more timely traffic data, new traffic technology, automated detection of incidents, and by providing a single view of the network. These improvements will allow the Agency to clear incidents quickly, deliver more reliable journey times, enhance safety and inform road users what to expect both before and during their journey.

### Listening to our customers

#### Road User Satisfaction Survey

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



*Traffic England website*



*The National Traffic Operations Centre, Quinton, Birmingham*

**Key fact:**

*189,000 enquiries were made to the Highways Agency Information Line last year, and the Traffic England website received, on average, one million visits per month.*

needs of road users. The surveys provide national and regional data, enabling us to highlight regional differences in perceptions. In 2011-12, 91.48 per cent of road users were satisfied with their last journey on our network. The satisfaction rating rose during the year from 88.05 per cent in April 2011 to 93.14 per cent in March 2012. Road users are asked questions about the following five key areas:

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



*Highways Agency Information Line (HAIL) operator*



*Traffic Officer attending an incident in severe weather*

When asked whether they were satisfied with their journey time, 91.0 per cent of road users responded favourably. 69.8 per cent of road users responded that they were satisfied when asked about our management of roadworks on their journey. When asked about the general upkeep of the network, 92.7 per cent responded that they were satisfied. 91.8 per cent of road users responded that they were satisfied when asked about the road signs they saw on their journey, and 94.2 per cent of road users responded that they felt safe on our network.

## Stakeholder engagement

We run and manage two key Committees made up of our stakeholders, meetings of which are held twice a year. The National Road User Committee and National Environment Committee help us to build positive and lasting relationships with the groups and individuals who work in partnership with us. Successes in the past year include:

- The signed Memorandum of Understanding with the Freight Transport Association (FTA)
- The developing Memorandum of Understanding with the Road Haulage Association (RHA)
- The development of National Sub-committees which are topic based and have been developed in response to stakeholders' specific requests to address areas that they feel are under represented, for example the Vulnerable Road Users Sub-committee

In addition to the committees we also work to establish partnerships with organisations that have an active interest in managing the roads and traffic information. This includes developing and maintaining Partnership Agreements with Local Authority partners, and other Highways Authorities. We explore joint working opportunities and work in coordination on communicating the Agency's driving and safety campaigns.

## Section 4: People and partnership working with our supply chain

The Highways Agency team

*As at the end of March 2012, there were 3385 permanent, full time equivalent staff working directly for the Agency, with 1698 permanent, full time equivalents working as part of our Traffic Officer Service. We aim to recruit and retain staff who reflect the diverse nature of our customers. We want them all to feel engaged in the workplace and to receive recognition for doing their jobs well.*

### Engagement

We conduct an annual People Survey to build an accurate picture of the views of our staff, which forms part of a wider Civil Service survey. In 2011 our People Survey had a record participation rate of 86 per cent, which means that the results give us a meaningful picture of the views and opinions of our staff. The results were less positive than 2010; our overall engagement score – which measures the degree of attachment and commitment to our organisation



*Investing in staff working together*

and work – decreased by four percentage points, and the majority of responses were down on the 2010 survey. We are taking actions at local levels, and in the business areas which are responsible for different themes in the survey, as well as developing an enhanced approach to improving staff engagement.

Another measure which is often associated with engagement is staff sickness absence. We have a very clear management and reporting process to monitor the levels of attendance of our people. This is measured as the average number of days off work due to sickness absence for each full time equivalent employee. In 2011-12 this was 9.6 days, compared to 8.5 days in 2010-11, which is a cause

for concern and we are taking focussed management action to reduce this.

### Staff recognition

We want our staff to receive recognition for the good work that they do. In addition to performance pay, we also recognise achievement through our Staff Appreciation and Recognition Scheme (STARS) and annual 'You Make it Happen' awards. STARS recognises and commends staff who have demonstrated a special achievement by going beyond their normal duties. Anyone can nominate a colleague or member of their team for an award and nominations are considered in each directorate of the Agency. In 2011-12, 441 staff received a STARS recognition.

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

### Building capability

The Resourcing and Capability Group co-ordinates a range of programmes and activities that support learning and development in line with the Agency's business needs. We are working with all directorates and heads of profession to agree delivery

## Delivering through our supply chain Supplier Recognition Awards

This year we introduced a new annual award scheme to reflect the important contribution made by our suppliers in supporting the operation, maintenance and improvement of the strategic road network. The aim is to share best practice, create healthy competition and recognise world-class performance. The awards were based on the following criteria:

- Managing down cost.
- Supply chain management.
- Health and safety.
- Building and sustaining capability.
- Delivering sustainable value and solutions.

The scheme highlights the efforts of suppliers who demonstrated leading performance and delivered better customer services. We invited entries from all businesses in our supply chain – those in direct contact with us and those in the extended supply chain. In total, 79 individual entries were received and the award ceremony was held on 30 November 2011.

Nine of our suppliers received an award, with a further eleven receiving a highly commended recognition. A-one+ received an award in the managing down cost category for introducing 10 per cent cost savings across their four maintenance contracts. Costain received an award in the health and safety category for improving access and ventilation and significantly reducing health and safety risks on the M53 Bidston Moss scheme. Other winners included Costain Carillion, Carillion Morgan Sindall, EnterpriseMouchel, Balfour Beatty Civil Engineering, Balfour Beatty and Hanson.

priorities. These priorities aim to drive forward capability within the Agency, and are based around four key areas of activity; contract performance, project and programme performance, people performance and operational delivery performance.

The wider work of the group supports the delivery of the Agency's resource and capability plans that ensure we have the right people with the right skills to deliver our business objectives. We have also developed the skills development plan that works together with our personal development plan process to ensure that the development needs of staff are discussed and recorded at the same time as objectives for the year are agreed

The first in an ongoing series of 'toolbox talks' has recently been delivered to 450 line managers with the aim of engaging, informing and developing staff around a wide range of topic areas.

## Equality and diversity

Providing fair and equitable services is at the heart of what we do, and is reflected in the Agency's Single Equality Plan that has been developed over the last three years. In 2011-12, we delivered the remaining outcomes that focused on fairness, inclusion and accessibility for our customers and staff. Because much of what we do is delivered by our supply chain, we strengthened our procurement pre-qualification process for large Agency contracts relating to major project schemes and the ASC. We also worked with key suppliers to increase diversity capability across the sector.

Other outcomes included delivering network enhancements that took account of local disability issues, and increasing the diversity capability of our staff. As part of the specific requirements of the public sector equality duty, we published information in January 2012. This described how we gathered and analysed evidence that enabled our staff and senior managers to consider the needs of people with protected characteristics when making business decisions. This also influenced the setting and publishing of our new long-term equality objectives that commenced in April 2012 to cover a four year period.

## Maintaining the network

We allocate funding for road schemes in a way which ensures that projects approved for funding are substantiated by robust and auditable evidence, representing the need of the network and benefits which the scheme will deliver. Improved governance and assurance of the nationally prioritised programme has been introduced during 2011-12.

We have introduced Asset Management Plans (AMPs) both at an area level and at a national level. AMPs represent a very positive addition to asset management within the Agency. AMPs place the renewals and improvement programmes of work being delivered into the wider context of network need, and are a vehicle for highlighting network issues and risks for resolution in a consistent way.

## Case Study: A404(M) bridge replacement wins Highways Magazine Excellence Awards 2011

We have completely demolished and replaced the Western Region railway bridge. This carries the A404(M) over the railway between London and the west of England. The re-opening marks the completion of the two-year project, which has used innovative techniques to keep the A404(M) open to traffic at peak times throughout construction, as well as minimising disruption for passengers on the Great Western mainline railway



*Sliding in a bridge section*

beneath. The scheme has involved dismantling and rebuilding the bridge in sections, and then sliding the newly built sections, weighing up to 1,300 tonnes each, into place. In total, three of these bridge slides have been carried out. The scheme won the **Highways Magazine Excellence awards 2011 - Major Project Award.**

## Major investment projects

### Dartford 'Free-Flow' Charging

The Secretary of State for Transport is committed to improving traffic flow and reducing delays at the Dartford Crossing. The Highways Agency is delivering the Dartford 'Free-Flow' Charging scheme which aims to reduce delays and improve the road user experience at this location. This will be achieved through changes to the road layout and the introduction of newer technology to collect payment without the need for drivers to stop at the time of crossing.



*The QEII bridge Dartford Crossing*

### A3 Hindhead

This project involved building a new section of road to complete the dual carriageway link between London and Portsmouth. The new road is four miles long and includes a twin bored tunnel under the Devil's Punch Bowl, a Site of Special Scientific Interest. The southbound tunnel was opened to traffic on 27 July 2011 and the northbound on 29 July 2011.



*Miss James Bridge and Hindhead Tunnel*

The project delivers quicker, more reliable journeys on a safer road, and removes much of the present peak time traffic from the country roads around Hindhead. This

Extensive repairs were required following damage to the M1 Deans Brook viaduct caused by a fire which broke out in a scrap yard. 3D laser scans and modelling helped our service providers to identify the most suitable repair solution and ensured the repairs could be carried out as quickly and safely as possible. The laser scanning system enabled engineers to recreate the underside of the viaduct which bore the brunt of the blaze, revealing the full extent of the damage. This was then used to build a 3D model of the affected area which helped to generate a programme of works.

## Case Study: 3D technology used during repair work on M1 Deans Brook viaduct



*Inspecting the damage at Deans Brook viaduct*

**Key Fact:**

*737,000 cubic metres of earth was excavated during the construction of the Hindhead tunnel and used to cover over the old road.*



*A1(M) Dishforth Rainton Bridge*

project involved the closure of the existing A3 around the Devil's Punch Bowl and restoration of the route to countryside, bringing considerable environmental benefits to an internationally prized area. The centre of Hindhead is now free from gridlock, with the result that the project brings benefits to road users, local residents, and the environment.

**A1 Dishforth to Leeming**

This improvement scheme has upgraded a 13.7 mile long section of the A1 in North Yorkshire, between Dishforth, near Ripon and Leeming from an all-purpose 2-lane dual carriageway to dual 3-lane motorway standard. The existing road had poor alignment and a number of sub-standard accesses and junctions.

The project included the provision of a new local access road

alongside the proposed A1(M) which will take traffic from the surrounding communities and provide access to the strategic road network at two new grade separated junctions. The contract to upgrade the A1 was awarded in 2004. An Early Contractor Involvement contract was used to allow supplier engagement at an early stage in the project. This enabled us to draw in industry experience to the design and preparation stages and construction work started in March 2009. The road opened to traffic in March 2012. The primary objectives of the scheme were to provide a motorway with consistent standards in order to improve highway safety and to give better journey time reliability.

**Catthorpe Viaduct replacement**

Work to replace Catthorpe viaduct completed in March 2012. The

**Major Schemes Commenced in 2011-12**

Project	Purpose	Benefits	Completion Expected
A23 Handcross to Warninglid Improvement	To upgrade 2.4 miles to dual three lane carriageway standard.	Congestion on this stretch will be reduced and journey time reliability improved to and from Gatwick Airport. This is an International Gateway and has planning permission to grow significantly in the future.	Summer 2014
M62 J25 to 30 managed motorways	To increase capacity by making the existing hard shoulder suitable for use as a running lane and by introducing managed motorway technology.	The M62 provides the strategic Trans-Pennine east-west route across the north of England, connecting Merseyside, Lancashire and Manchester to Yorkshire and the Humber. This scheme will improve safety, make journeys more reliable and, by doing so, create economic benefits for the region.	Winter 2013
M4 J19 to 20 and M5 J15 to 17 managed motorways	To increase capacity by making the existing hard shoulder suitable for use as a running lane and by introducing managed motorway technology.	The M4 J19-20 & M5 J15-17 scheme centres on the M4/M5 interchange, known locally as the Almondsbury Interchange, and extends to junction 19 on the M4 and to junction 17 on the M5. The scheme will improve capacity on a section of the network which experiences high levels of congestion due to commuter flows into Bristol conflicting with longer distance strategic traffic.	Spring 2014



**Catthorpe Viaduct Demolition**

*Demolition work underway of the old viaduct at Catthorpe (Leicestershire), which carried the M6 southbound over the M1. The structure was demolished within a 36 hour period. This started at midnight on Friday night (6 January 2012) and the Highways Agency was able to reopen the M6 southbound carriageway three hours ahead of schedule at 9.00am, and all routes were open again by 12.30pm on Sunday 8 January 2012.*

viaduct forms the southbound link from the M6 to the M1 at junction 19 of the M1 (which is used by more than 170,000 vehicles per day). The condition of the viaduct had been monitored over several years and the need for a replacement structure was identified.

Approval was given in August 2009 and work commenced in July 2010. This involved a replacement structure being built within the existing highway boundary, south of the existing viaduct, allowing the network to remain operational. Following the completion of the new viaduct and it being opened to traffic in December 2011, the original 85 metre, 3,500 tonne viaduct was demolished in a 36-hour period over a weekend in January 2012.

**A46 Newark to Widmerpool**

The A46 is an important regional route in the East Midlands linking Leicester and Lincoln. The 17.4 mile section between Newark and Widmerpool was the last remaining single carriageway section of the A46 between the M1 J21a north of Leicester and Newark Western Relief Road.

The existing road was generally

straight and undulating as it followed the line of the old Roman Road - Fosse Way. This made safe overtaking difficult and was made worse by many junctions and accesses to fields, farms and houses. The new road is a two-lane, dual carriageway from the A606 junction at Widmerpool to an improved roundabout at Farndon, just south of Newark. The improvement will reduce congestion, improve safety and provide a bypass for East Stoke and Farndon. Advanced work began in March 2009 to prepare the sites ready for start of work. The main construction work began in July 2009 with the road opening to traffic in March 2012.

**M53 Bidston Moss**

Work was undertaken to strengthen and refurbish this 730 metre long bridge on the M53 in the Wirral. Work started in April 2010 and was completed on time in March 2012. The project was delivered for £5 million under the original budget, and was funded by the Highways Agency, the DfT, Wirral Council and Merseyside Integrated Transport Authority (Merseytravel).

The Bidston Moss Viaduct carries the motorway over the A554 and a railway line, before taking traffic



*Aerial view of M53 Bidston Moss*



**Key Fact:**

*This year, over 10.6 million man hours were spent on the construction of our major projects.*

into the Kingsway Tunnel under the River Mersey. It is used by 50,000 vehicles every day as a major route to and from Liverpool, but in recent years only the inside lane of each carriageway was in use as the 42-year-old structure needed to be strengthened. This strengthening work was completed in September 2011, three months earlier than planned, while the other work continued. Now all weight restrictions and roadworks on the M53 have been removed and large goods vehicles are able to travel in both lanes on either side of the motorway. As well as the strengthening works, the scheme included concrete repairs to the underside of the viaduct, and repainting of all the steelwork. The road has also been resurfaced, lighting has been upgraded and drainage has been improved.

**Aiming for Zero**

'Aiming for Zero' (AfZ) is our strategy for improving the health and safety (H&S) of our workforce.

road workers, construction and maintenance workers, traffic officers and office-based staff. We take Health and Safety performance very seriously and continue to measure and report the 'accident frequency rate' of our supply chain. We have worked with our supply chain to significantly improve road worker safety, as set out in our *Road Worker Safety Strategy*, to implement innovative temporary traffic management techniques to reduce risks to road workers working on, or close to, the live carriageway. We have also worked in partnership with our supply chain to conduct a number of 'on



*Safety at night - illuminated roadside warning*



*Incident Support Unit laying out cones from the safety of the support vehicle in preparation for roadworks*

It sets an unambiguous goal for the required performance, confirms the Agency's leadership role in the industry and brings together H&S work across the whole business. AfZ covers

road' trials in 2011-12 which has provided vital evidence on the safety of these new techniques. We have published guidance which enables the removal of signs during off-peak periods used to warn road users that they are approaching road works. This will lead to a substantial reduction in the need for road users to cross live carriageways on foot.

In 2011-12, there were no recorded road worker fatalities on the Agency's network. This year we implemented a campaign to raise awareness of office safety to ensure that our office-based staff are provided with a healthy, safe and secure environment to work in.

## Benefits derived from collaborative research

The Highways Agency has continued to seek opportunities to maintain and establish relationships with organisations on an international platform, to seek best practice and opportunities for collaborative investment in projects and programmes of shared interest.



*Traffic management on the motorway*

The Agency now leads a transnational programming group, within the Conference of European Roads' (CEDR's) Research Group, to continue the good work of the EC-funded ERA-NET ROAD II (ENR2) project, which completed on 31 December 2011. Since 2008, a new European collaborative research road research programme has been launched each year, increasing in value year-on-year from €1.35 million in 2008, to €5.13 million in 2011, reflecting increased confidence from National Road

Administrations in the successful delivery of research. The financial benefit to National Road Administrations is highly visible, with the Agency receiving a financial benefit of over six times our contribution.

In April 2011 the chief executives for both the Highways Agency and the Dutch highways authority, Rijkswaterstaat (RWS) gave their approval for a programme of work focussed on defining a new generation of traffic management systems, which may be jointly purchased by both organisations. The programme is called CHARM (Common Highways Agency-Rijkswaterstaat Model) and aims to define solutions to allow the next generation of traffic management centres to:

- Be flexible and scalable to meet current and future traffic management processes.
- Enable technology resilience.
- Use open standards, commercial off the shelf products and/or managed services.
- Significantly reduce the cost of ownership and number of supporting contracts.

In December 2011 a comparison of the business processes in both organisations was completed which shows that the Agency and RWS are sufficiently similar in the way they operate their strategic road networks that a common new generation of traffic management systems can be defined. The work will conclude in December 2012 with the delivery of a business case and procurement strategy for the new generation of traffic management systems.

# Section 5: Sustainability report



*Sustainability Framework Workshop,  
Birmingham, March 2011*

*Note: Figures for 2010-11 are as reported in last year's annual report. The 2010-11 figures for business travel exclude project and operations related travel and the water consumption figures exclude consumption at our Birmingham, Manchester and London offices. 2011-12 figures are for the whole of the Highways Agency activity and estate.*

## Introduction

Whilst our key role is to support the sustainability of the UK's economy by operating, maintaining and improving the strategic road network in England, we recognise that we also need to develop and implement more sustainable ways of doing this.

We champion the need to be more transparent about both our impacts and the work we are doing to mitigate them where they have an adverse effect on the environment. We have had a published Business Plan measure related to our carbon emissions for the last three years and will be continuing to monitor our impact in 2012-13. We also monitor and report on progress against the Cabinet Office's cross-government Greening Government Commitments.

We have published a Sustainable Development Plan on our website each year since 2007. So far these have delivered 105 actions across the Agency's business, contributing to the embedment of sustainability as a part of our corporate culture. We have also made progress in improving our understanding of the impacts of our work and brought a greater focus on the need to minimise social and environmental harm. Our new Sustainable Development Plan takes a longer view, aligning with the corporate planning

cycle over the period 2012 to 2015, with the overarching aim of mainstreaming sustainable development in the Agency and its supply chain. In particular:

- Strengthening our contribution to a sustainable transport system.
- Supporting national economic recovery.
- Meeting the diverse needs of all our customers.
- Promoting national wellbeing.
- Continuing to develop our sustainable approach.

We support the delivery of the DfT Carbon Reduction Strategy for Transport and its Climate Change Adaptation Plan which contributes to the achievement of the DfT's strategic objectives to deliver economic, social and environmental benefits.

## Summary of performance

In 2011-12 we have made strong progress in delivering our sustainability commitments. We have monitored progress against our Business Plan measures and reduced our greenhouse gas emissions. We are also on track to contribute to the requirement of the Greening Government Commitments to reduce greenhouse gas emissions across Government by 25 per cent by 2014-15, but it should be noted that road safety considerations in relation to lighting the strategic road network must take precedence over greenhouse gas reduction.

An overview of our sustainability performance is set out in the table opposite. Details of our sustainability performance are set out in the tables on pages 40 and 41.

Sustainability Performance Overview	Performance 2011-12	Performance 2010-11
Greenhouse gas emissions (tCO <sub>2</sub> e)	115,004	127,310
Business travel emissions (tCO <sub>2</sub> e)	1,202	1,440
Business Travel (£m)	£3.136	£2.520
Whole estate waste (tonne)	252	287
Office water Consumption (m <sup>3</sup> )	18,468	13,900

## Case Study: Public Sector Sustainability Awards

The Agency was awarded runner up in the **Best Green Office Environment** category of the **2011 Public Sector Sustainability Awards**.

There were over 100 entries in our category which came from across the public sector.

The judging criteria were:

- Communications
- Cost effectiveness
- Partnerships
- Innovation and product selection/diversity
- Carbon reduction (how and by how much we reduced our carbon footprint)

We are being recognised for our commitment to reducing our carbon emissions and the impact we have on the environment. We have improved processes and introduced new initiatives such as:

- Installing Sabien Gas technology that optimises the efficiency of each boiler.
- Reducing the number of printers by 50 per cent across the estate.
- Improved internal communications, 'Climate Week' initiatives, local 'Green Days' and the 'Green Pledges'.

## Governance

We monitor our sustainability performance as an integral part of our monthly performance management reporting regime. The Highways Agency Board receives monthly reports on performance in this area both in terms of Business Plan measures, such as carbon emissions, and performance against the Greening Government Commitments laid down by the Cabinet Office for all central government organisations. Internal Audit regularly reviews internal sustainability reporting, focussing on validating data that supports external reports as part of the Carbon Reduction Committee Energy Efficiency Scheme and reporting performance against our Business Plan measures.

## Greenhouse gas emissions

Over the year we have continued to implement measures to reduce our greenhouse gas emissions from our office estate, business travel and from the strategic road network. We have achieved a further 9.7 per cent reduction in greenhouse gas emissions in 2011-12. A significant proportion of this reduction is due to a change to the Defra emission factor for electricity, however a substantial reduction in energy consumption has been achieved



*Lights switched off on the network*

through a range of energy saving interventions including:

- Switching off lighting on the network at a further three sites.
- Replacing lighting and roadside equipment with more energy efficient equipment at the end of the existing equipment's useful life.
- Further reducing energy consumption in our offices. The Highways Agency used 16 per cent less energy on its estate compared with 2010-11. Savings have been achieved by relocating to more energy efficient premises and by reducing the area of floor space we heat and light at less busy times, eg during the Christmas holidays.



*New fuel efficient vehicles*

- Reducing emissions from our Traffic Office Service through improved deployment strategies which maintain operational performance whilst reducing mileage. We are also implementing a phased programme of replacing old vehicles with more fuel efficient vehicles of the same type.

We continue to improve the data we collect to help us understand and reduce our carbon footprint. In 2011-12 we worked with our major maintenance and construction suppliers to improve the way we work together to manage their greenhouse

## Case Study:

### A46 Newark to Widmerpool zero waste to landfill

The upgrade of a 17.5 mile stretch of the A46 was designed as a model of good practice for long term environmental sustainability. The project benefited from an integrated approach to sustainability, documented in a sustainability action plan. This contributed to a reduced use of finite materials, lower transport costs, lower carbon emissions and waste, specifically:

- Avoidance of 1,143 tCO<sub>2</sub>e of greenhouse gas emissions through reuse of excavated topsoil.
- Use of 115,920 m<sup>3</sup> of site collected water.
- 100 per cent locally sourced aggregate, 27 per cent recycled aggregate.
- Recycling of construction and temporary road materials.
- Zero construction waste to landfill.

*Hindhead under construction. The tunnel portals may not have changed much, but the brightly coloured sandstone gives a clue to how much material has been excavated. The excavated material was used as infill for the old A3 removed from the Devil's Punchbowl*

gas emissions. In 2011-12 our managing agents have exceeded their target of a three per cent reduction in greenhouse gas emissions from their maintenance vehicles compared to 2010-11.

### Switching off road lighting

To support the Government's wider agenda on reducing carbon emissions we have, since 2009, been switching lights off or in some cases removing lighting on motorways at locations with good safety records. So far we have switched off motorway lighting, between midnight and 5am, at 14 sites across England. We have also undertaken four successful full switch-off schemes - on the M58, M65, M66 and the M1. Evidence suggests that the Agency's process for selecting sites for switching off lights is appropriate as early results indicate that there has been no adverse impact on safety at the sites where lighting has been switched off.

On 27 March 2012 lighting was permanently switched off on the M4 between Junctions 20 and 22 as well as on the M48 at Aust (Junction 1). Almondsbury Interchange and the approaches will remain lit, as will the Toll Plaza at M48 Severn Bridge.



### Construction waste

We are improving the quality of data that the Agency collects on waste generated at its maintenance and construction sites. For the first time we are able to report the total volume of waste removed from our major project sites to landfill which in 2011-12 was 3,190 tonnes, of a total waste volume of over 350,000 tonnes. See the table on page 41 for more details.

### Office waste

In 2011-12 we have reduced the volume of waste arising from our offices by 10 per cent when compared to 2010-11. 67 per cent of our office waste was sent for recycling compared to 63 per cent in the previous year. We will seek to improve the management of office waste by collecting data about the treatment of our non-recycled office waste. We will use this information to minimise the volume of office waste sent to landfill.

### Litter removed from the network

We remove nearly 250,000 sacks of litter from our network every year, which costs money – approximately £40 per sack, or £10 million in total – and puts the safety of our road workers at risk.

Roadside litter is not only unsightly, but is also a threat to the environment and wildlife, blocking drains and causing flooding. Clearing litter diverts much-needed resources away from road maintenance and repairs, while items thrown from moving vehicles can be a hazard to other road users.

## Case Study: Environmental benefits delivered from A3 Hindhead scheme

*Devil's Punchbowl Hindhead: Local schoolchildren re-seed the old A3*

Hindhead Common; a beneficial impact on the Surrey Hills Area of Outstanding Natural Beauty; with no direct impact on the Devil's Punch Bowl SSSI/SPA



This section of the A3 passes through an environmentally sensitive area in terms of biodiversity, heritage and landscape. It lies within the Surrey Hills Area of Outstanding Natural Beauty, passes around and through the Devil's Punch Bowl Site of Special Scientific Interest (SSSI) also part of the Wealden Heaths Special Protection Area (SPA), with much of the area owned by the National Trust. Complying with Government Policy on minimising the



*The tarmac has been removed*  
impact of transport schemes on environmentally sensitive areas, the objectives of the A3 Hindhead Scheme were to provide a beneficial impact on air quality and noise for local residents and



*View north from above the new the tunnel*

while re-uniting the commons by closing the old A3 in this area and reinstating it to heathland. The closure of the old A3 also provided substantial gains for the historic landscape of Hindhead Common.



*Aerial view of the old A3 skirting the Devil's Punchbowl - now restored to heathland. The new tunnel runs under the hill at the top of the image*



*Worker picking litter*

A roadside message campaign last summer, which reminded drivers to dispose of their litter responsibly, saw a decrease in the amounts of litter collected on motorways in the North West and East Midlands. During the month that we ran the campaign we collected about three thousand fewer sacks of litter than we did during the previous year, saving approximately £120,000.

## Water

Water scarcity is a serious issue across many parts of the country. It is vital that we fully understand how water is used in the delivery of our services and that we take action to carefully manage our water consumption, being mindful of the impact on local catchments.

In 2011-12 we reduced water consumption in our offices by seven per cent, and we will seek ways to further improve our management of water and so further reduce our water consumption.

The Agency has started to monitor water consumption at construction and maintenance sites and in partnership with industry partners has produced a guide on reducing water consumption in construction. We are working to further improve the accuracy

of reporting water consumption at construction sites to establish a baseline against which we can measure progress.

We are keen to encourage our supply chain to reduce water consumption yet further; water saving measures include rainwater harvesting and recycling of water used in washing vehicles at our depots and those operated by our suppliers.

## Biodiversity

Preparation for a new Biodiversity Action Plan (BAP) is in hand, while we continue to work to meet the aspirations of wider Government policies for the protection and enhancement of the natural environment.



*Environmental worker surveying pond wildlife*

We continue to manage Sites of Special Scientific Interest (SSSIs) wholly within the roadside estate at “favourable condition” status, and where we only manage a part of a SSSI, we are working with others to achieve “favourable condition” status.

We will play our part in helping to achieve the Government’s recently published Natural Environment White Paper ambition to create “coherent and resilient ecological networks”.



*Stream running under the new road*

## Noise from the network

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

We have also investigated locations which Defra have identified as those most severely affected by road traffic noise, 'First Priority Locations'. Feasible noise mitigation measures to address the excessive traffic noise levels in these



*Noise barrier*

'First Priority Locations' have been identified. We will be consulting with local authorities on the results of our investigations during 2012, with a view to installing the noise mitigation identified in 2013 and beyond, subject to funding availability.

*The stored mounds of sandstone on the right of the picture have been saved from the tunnel excavations and will be used to help return the old A3 around the Devil's Punchbowl to nature.*

## Adaption to climate change

In 2011 we published our climate change risk assessment and approach to climate change adaptation which provides a comprehensive analysis of climate risks affecting the strategic road network. It sets out a clear approach for a programme that covers all aspects of the asset, including the design and construction of new and replacement parts of the network, the maintenance and management of the existing road network, and the daily traffic management functions that allow road users to experience safe, reliable and informed journeys.

Maintaining our approach to adaptation will benefit the overall performance of the strategic road network over time, while achieving best value for road users. It marks an important step, setting out the actions that will inform the way our work is prioritised, planned and delivered, while reinforcing the need to increase resilience to climate change. This will support our goals of delivering sustainable solutions and a network which is dynamic and resilient.



## Sustainable procurement

To maximise the opportunities which the procurement process offers in relation to sustainability, and in line with the priorities set out in our 2009 Procurement Strategy, we:

- continue to apply sustainability measures at the pre-qualification stage of the procurement cycle via the Strategic Alignment Review Tool (StART).
- draw up and place contracts that include requirements to deliver sustainable working operations that use resources effectively (reducing waste and maximising recycling/reuse), reduce energy, water consumption and carbon emissions, and that implement diversity, equal opportunities and skills/apprenticeship policies. This approach is being reinforced through the incorporation of Government Buying Standards.
- monitor sustainability performance, post-contract award, by means of Sustainability Action Plans agreed between suppliers and the Agency.



## 2011-12 Highways Agency Sustainability Report

	GREENHOUSE GAS (GHG) EMISSIONS	2009-10	2010-11	2011-12	Graphical Analysis
<b>Gross Emissions (tonne CO2e)</b>	<b>Scope 1:</b> Direct traffic officer fuel and estates gas usage	7,000	7,110	5,971	<b>Greenhouse Gas Emissions 2011-12</b> 
	<b>Scope 2:</b> Indirect emissions from network and estates electricity consumption	124,000	119,000	107,891	
	<b>Scope 3 item:</b> Business Travel	1,500	1,200	1,202	
	<b>Scope 3 items:</b> Suppliers' emissions	561,236	507,000	411,124	
	<b>Total</b>	<b>693,876</b>	<b>634,310</b>	<b>526,188</b>	
<b>Related Consumption Data</b>	Estates (HA Offices) Electricity (kWh)	2,616,372	3,543,898	3,459,849	<b>Business Travel GHG emissions by mode</b> 
	kWh per full time employee	1,383	1,774	1,714	
	Estates (HA Offices) Gas (kWh)	1,646,612	1,512,680	1,572,247	
	kWh per full time employee	1,193	1,421	1,202	
	Private car mileage (million road miles)	1.680	1.250	1.226	
	Hire car mileage (million road miles)	1.750	1.250	1.402	
<b>Financial Indicators</b>	Total energy expenditure (roadside lighting and equipment, offices, RCCs and outstations)	N/A	£20,300,000	£22,121,000	
	CRC related expenditure (admin fee and provision for allowances)	-	£2,240	£1,009,290	
	Expenditure on business travel	£4,150,000	£2,520,000	£3,126,000	

## PERFORMANCE COMMENTARY INCLUDING MEASURES

**Performance commentary**

In 2011-12 the Agency achieved an overall 9% reduction in its greenhouse gas emissions from direct energy and fuel use, network energy and business travel compared to emissions in 2010-11. Overall our gross emissions have reduced by 13% since 2009-10, the greening government commitment baseline year.

**Commentary on emission factors**

Scope 1 direct emissions from the consumption of fuel in Traffic officer vehicles have reduced by 10% compared to 2010-11. About 3% of this reduction is due to a change to the Defra emissions factor.

Scope 1 direct emissions from the consumption of gas in our offices has reduced by 14 per cent compared to 2010-11, the reduction had been achieved by a number of measures to improve the efficiency of gas heating systems. 2011-12 figures above are for the whole office and control centre estate, but outstations and depots are excluded. 2010-11 figures exclude consumption at our Manchester office.

Scope 2 indirect emissions from the consumption of electricity in our offices and regional control centres has reduced by 11 per cent. A significant proportion of this reduction is due to a change to the Defra conversion factor. 2011-12 figures above are for the whole office and control centre estate, consumption in outstations and depots is included in network energy. Electricity consumption for our London office has been estimated using the average per capita emissions across the rest of the Highways Agency estate as incomplete data is available. 2009-10 consumption figures exclude our offices in Bristol, London and Manchester.

Scope 2 indirect emissions from the consumption of electricity in lighting, communication, signs and signals on the strategic road network and in our outstations and depots has reduced by 9%. A significant proportion of this reduction is due to a change to the Defra conversion factor. Scope 3 indirect emissions from business travel have decreased compared to 2009-10 mainly due to increased use of video and tele conference facilities. Note: figures for 2010-11 stated in last year's Annual Report were for business travel relating to administrative activity.

## CONTROLLABLE IMPACTS COMMENTARY

**Performance commentary****Scope 3 emissions from our supply chain**

Reported emissions from managing agents and DBFO companies have reduced by 8 per cent in 2011-12 compared with 2010-11. A specific target for managing agents to reduce the greenhouse gas emissions from their maintenance and incident support vehicles by 3 per cent has been exceeded. The quality of data received continues to improve. Work to further improve the way the data is managed and used within the Highways Agency was initiated in 2011-12, better management of data will enable the Agency and its supply chain to work together to achieve further reductions in future years.

Emissions from construction sites have fallen by 33 per cent compared to 2010-11. The level of emissions from construction sites is in direct relation to the amount of construction work happening on the network in any year. Increased construction activity in 2009-10 and in 2010-11 meant there was much higher emissions in those years.

## OVERVIEW OF INFLUENCED IMPACTS

**Performance commentary**

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

The Highways Agency also seeks to minimise the greenhouse gas emissions of its employees commuting to and from our workplaces. Flexible working, car parking policy, car share schemes, etc all contribute to a reduction in commuters' emissions.

WASTE		2009-10	2010-11	2011-12	Graphical Analysis
Non - Financial Indicators	Total Admin waste (tonnes)	189	287	252	
	Recycled waste (tonnes)	124	155	168	
	Kg per FTE	95	184	100	
	Percentage recycled	66%	54%	67%	
Non - Financial Indicators	Construction waste			355,716	
	Percentage waste to landfill			0.9%	
	Non-hazardous waste			354,725	
	Percentage recovered			99%	

## PERFORMANCE COMMENTARY INCLUDING MEASURES

**Estates waste:** Figures for 2011-12 above are for the whole office and control centre estate, but outstations and depots are excluded. Previous years figures exclude waste from our offices in Manchester and Bristol. 2009-10 figures also exclude waste from our regional control centres. In the locations reported in both 2010-11 and 2011-12, the Agency has reduced the total volume of waste generated at its offices by 30 tonnes. Of the total volume of waste, 67 per cent was recycled compared with 54 per cent in 2010-11. The Highways Agency will seek to improve its data on the treatment of office waste so we can monitor the volume of waste that is sent for incineration, with the aim of minimising the volume of waste that is sent to landfill.

## CONTROLLABLE IMPACTS COMMENTARY

**Construction waste:** We are improving the quality of data that we collect on waste generated by our major projects construction sites, we have also worked with our contractors to develop performance indicators on diverting waste from landfill for our major projects.

Figures in the table are collated from all Site Waste Management Plans from our major projects in their construction phase in 2011-12, with the exception of the M53 Bidston Moss Viaduct replacement scheme, where no data was available. Almost 87 per cent of all construction waste was reused and 12 per cent recycled.

## OVERVIEW OF INFLUENCED IMPACTS

See section on 'Litter removed from the network' contained earlier in the report.

FINITE RESOURCE CONSUMPTION		2009-10	2010-11	2011-12	Graphical Analysis
<b>PAPER USE</b>					
Non-Financial Indicators	Reams used	22,128	no data	15,601	
	<b>WATER CONSUMPTION</b>				
Non-Financial Indicators	Estates Water m <sup>3</sup>	5,882	13,900	18,468	
	Estates Water tonnes (tonne CO <sub>2</sub> e)	1.8	4.2	6.1	
	m <sup>3</sup> per FTE	5.4	4.6	5.3	
	Water use at construction sites	no data	no data	212,725	

## PERFORMANCE COMMENTARY INCLUDING MEASURES

**Office water usage:** Figures for 2011-12 above are for the whole office and regional control centre estate, but outstations and depots are excluded. Water consumption at our London and Birmingham offices has been estimated using the average per capita usage across the rest of the estate, as incomplete data is available. Previous years figures exclude water use in our Birmingham, Manchester and London offices, 2009-10 figures also exclude our regional control centres.

In the locations reported in both 2010-11 and 2011-12, we have reduced water usage by 1,210 cubic metres, 7 per cent. The reduction has been achieved by introducing water management measures such as waterless urinals and automatic taps.

**Paper.** Figures above are for the whole office and control centre estate, but outstations are excluded. We have achieved a 33 per cent reduction in paper use since 2009-10 by halving the number of printers available and encouraging paper reduction by setting the printing default to double sided and by challenging the need for printed documents at meetings.

## CONTROLLABLE IMPACTS COMMENTARY

We are putting in place processes to better understand our water use. We will be working with the supply chain to further understand their water sources and to drive efficiency and reduce water use. During 2011-12 we have made good progress in motivating our supply chain to provide data on direct water use in operating our site offices, facilities and fixed plant.

Figures for 2011-12 show that our major project schemes used a total of 212,725 cubic metres of water. We will use these figures, together with historical data, to set a baseline and target to reduce water consumption for major project schemes.

## OVERVIEW OF INFLUENCED IMPACTS

**Sustainable procurement:** we seek to maximise the opportunities which the procurement process offers in relation to sustainability, and in line with the priorities set out in the our 2009 Procurement Strategy, see text above for details.

### NOTES TO THE TABLES:

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

**Note 2:** The Defra conversion factors appropriate for each year have been used to account for greenhouse gas emissions. Scope 3 Supplier emissions calculations have also used the following sources:

Environment Agency- Carbon Calculator for Construction Activities, Ofwat (2007) Security of Supply Report, Bath Inventory, Capita Symonds- Carbon Footprint of Motorway Electrical Equipment, Environment & Heritage Service - Municipal Waste Data Monitoring and Reporting, Department of Environment (1997) Energy Efficiency in Hotels, Defra/DECC National Energy Statistics and CIBSE (2004) - Guide G: Public Health Engineering.

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

**Note 4:** At present estimation methodologies in relation to utilities is considered separately by each different responsible unit. Each estimation method has been documented in the commentary above. Best practice for the Highways Agency has been developed and applied to each business unit as facilities management contracts allow.

## Financial Statements

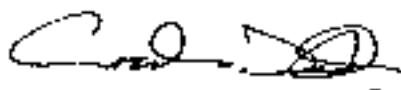
The financial statements cover the period 1 April 2011 to 31 March 2012 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at [www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk). The financial statements of the Agency are audited by the Comptroller and Auditor General (C&AG), head of the National Audit Office. The financial statements have been prepared in accordance with the 2011-12 Financial Reporting Manual (FReM) issued by HM Treasury.

Past and present employees are covered by the provisions of the Principle Civil Service Pension Scheme. Details of the costs associated with this can be found at note 1.11 and note 3(a) of the financial statements in section 10.

## Auditors

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

The statutory audit of the Agency's financial statements is undertaken by the National Audit Office (NAO) and costs £275,000 (2010-11 £275,000). In addition £14,000 plus VAT (2010-11 £13,500) was paid to the NAO in respect of the audit of the 2010-11 Dartford-Thurrock Road User Charging Scheme account, and a charge of £14,000 (2010-11 £14,000) was made for the audit of the 2010-11 Severn Bridges account. No amounts were paid to the NAO for non-audit work.



**Graham Dalton**

Accounting Officer

**10 July 2012**

# Section 6: Governance statement for the Highways Agency 2011-12

## Introduction

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

*HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011. The new code builds on the principles of the original code published in July 2005, focussing on the role of boards, since these provide leadership. I have provided details below, of how the Highways Agency's system of corporate governance has operated during 2011-12, including any areas where the system has not operated in line with the Code.*

## Role of Accounting Officer

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

## Highways Agency governance

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

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

- The Highways Agency Board and sub-committees
- Highways Agency Audit Committee
- A good governance culture
- An effective risk management framework
- A sound system of internal control
- Audit and assurance

Each of these areas is explained more fully in this statement, and illustrated in the diagram of the governance framework on page 54.

## Highways Agency Board, Executive Committee and sub-committees

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

The **Highways Agency Board** 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. The composition is as follows:

**Chair: Alan Cook** (Non Executive Chairman)

**Members:**

**Graham Dalton** (Chief Executive)

**Peter Adams**

(Director of Major Projects)

**Ginny Clarke**

(Director of Network Services)

**Stephen Dauncey** (Director of Finance and Business Services)

**Simon Sheldon-Wilson** (Director of Traffic Management)

**Derek Turner** (Director of Network Development & Delivery)

**Tracey Barlow** (Non Executive Director)

**David Hughes** (Non Executive Director)

**Tim Walton** (Non Executive Director)

The Board is chaired by the Non Executive Chairman who gives assurance to the Secretary of State on the quality with which the Agency is run and the effectiveness with which it is meeting its objectives.

## SECTION 6: Governance statement

The objective of the Highways Agency Board is to advise the accounting officer and to ensure that the Agency is organised, resourced and motivated to deliver its objectives efficiently and effectively, giving collective leadership to the Agency by:

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

Key items discussed by the Board this year were:

- Monthly Corporate Performance Reports.
- Quarterly health and safety updates.
- Corporate risk reviews.
- Quarterly reviews of Spending Review 2010 implementation plans.
- Quarterly Olympics updates.
- 2012-13 Business Plan.

The Highways Agency Board commissioned an internal board effectiveness evaluation in April 2012 reflecting on performance during 2011-12.

The Board has since discussed the findings of the evaluation and agreed to action a number of areas. These areas include; leadership and development, succession planning, board skills and experience and training for board members. The Agency will review progress on these areas throughout the coming year.

Steve Williams, former Business Services Director, retired in May 2011. The Business Services Directorate was then merged with the Finance Services Directorate to create the Finance and Business Services Directorate, under the leadership of Stephen Dauncey. Nirmal Kotecha resigned from his role as Major Projects Director in October 2011. Peter Adams was appointed acting Major Projects Director in October 2011, and then appointed on a permanent basis in January 2012.

The **Executive Committee** meets frequently to consider the day-to-day administration of the Highways Agency. The composition is as follows:

**Chair:** Graham Dalton (Chief Executive)

**Members:** Peter Adams (Director of Major Projects)  
 Ginny Clarke (Director of Network Services)  
 Stephen Dauncey (Director of Finance and Business Services)  
 Simon Sheldon-Wilson (Director of Traffic Management)  
 Derek Turner (Director of Network Development & Delivery)  
 Andrew Powles (HR Divisional Director)

Attendance at Board meetings	Board	Audit Committee	Senior Appointments Committee
<b>Member:</b>			
Alan Cook (Non Executive Chairman)	10 (10)		3(3)
Graham Dalton (Chief Executive)	10 (10)	4 (4) <sup>1</sup>	3(3)
Peter Adams (Major Projects)	5 (5)		
Nirmal Kotecha (Major Projects)	5 (5)		
Ginny Clarke (Network Services)	10 (10)		
Stephen Dauncey (Finance and Business Services)	10 (10)	4 (4) <sup>1</sup>	
Simon Sheldon-Wilson (Traffic Management)	10 (10)		
Derek Turner (Network Development & Delivery)	10 (10)		
Tracey Barlow (Non Executive Director)	9 (10)	4 (4)	
David Hughes (Non Executive Director)	10 (10)	4 (4)	3(3)
Tim Walton (Non Executive Director)	8 (10)	4 (4)	3(3)

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

<sup>1</sup> Graham Dalton and Stephen Dauncey are not members but are invited to attend the Audit Committee. They have no voting rights.

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

- Executive performance reports.
- Communications forward looks.
- Spending Review implementation plans.
- Resource plans.

The Board and Executive Committee are supported as follows:

**Senior Appointments Committee:**

**Responsibilities:**

The Senior Appointments Committee (SAC) has been formed to ensure succession planning and progression/developmental strategies are in place for senior roles across the Agency. The SAC is a sub-committee of the Board and meets on a quarterly basis or more regularly if required. The SAC is made up of the Agency's Non-Executive Chairman, Chief Executive, two non-executive directors and the HR Divisional Director. SAC will focus in particular on:

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

**Highways Agency Audit Committee:**

The Audit Committee is responsible for providing assurance, to me as Accounting Officer, that the Agency's system of internal control is operating effectively. It meets approximately every quarter and reviews the Board's assessment of corporate risk, considering wider Departmental risk as appropriate. In addition, it considers reports from the Fraud Sub-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. It also monitors the performance of external audit.

The Audit Committee is made up of the Agency's three non-executive directors, with David Hughes as Chair. The Chair of the Agency's Audit Committee also sits on the DfT Audit Committee and meets with his fellow audit committee chairmen. I, as Chief Executive, my Head of Internal Audit, Finance Director and representatives from DfT and National Audit Office attend meetings of the Audit Committee but have no vote. The Chairman of the Audit Committee advises, as appropriate, on key risk and control issues arising from the work of the Committee. The Audit Committee specifically reviewed or considered various topics including the:

- 2011-12 Highways Agency Annual Report & Accounts.
- 2011-12 Internal Audit Annual Report & Opinion.
- 2011-12 Highways Agency Stewardship Report.
- The Highways Agency's Corporate Risk Register.
- Reporting of instances of identified fraud, together with assurance over the relevant central enforcement, as appropriate.
- Internal Audit and NAO audit strategies and progress for providing assurance to the Chief Executive as Accounting Officer.
- NAO Value for Money work.
- Dartford River Crossing and Severn Bridge Accounts 2010-11.
- Planning and accounting policy changes for 2012 including network valuation and depreciation.
- The Health and Safety audit programme and sources of assurance analysis.
- The Audit Committee's terms of reference and related matters.

The Audit Committee reviews its effectiveness on an annual basis and takes forward actions to improve its performance. The last exercise was undertaken in February and actions were agreed by the Committee at their May meeting. Progress on implementation will be monitored throughout the year and results incorporated into its next exercise.

## **SECTION 6: Governance statement**

### **Fraud Sub-Committee:**

The Fraud Sub-Committee is chaired by the Director of Finance and Business Services and its membership comprises the Agency's Fraud Management Advisor, the Head of Audit and a non executive board member, with representation from the business, as required. The sub-committee meets approximately every quarter (in line with the Audit Committee) and reviews the results of investigations that have been identified through the fraud and whistleblowing facility to establish whether the incident was unfounded, fraudulent or can be dealt with through other management routes.

During the year an assessment was undertaken relating to the Bribery Act 2010 and the potential risk of non compliance. The results clearly indicated that the risk of our staff receiving or entering into a bribe was low and that controls are in place to mitigate against this occurring. A fraud horizon scan was also undertaken by the Fraud Management Advisor to evaluate the control environment where the potential for fraud is more significant. Results and ongoing actions are monitored through the Fraud Sub-Committee.

The sub-committee reviews its own effectiveness on an annual basis and takes forward actions to improve its performance. The last exercise was undertaken in March 2012 and actions were agreed by the committee at its next meeting. Progress on implementation will be monitored throughout the year and results incorporated into the next exercise.

During the course of the year a fraud was identified within a contractor in the supply chain where an individual had defrauded the contractor and consequently the Agency had made overpayments through the creation of fictitious schemes and over-scoping costs on small works over a number of years. This fraud impacted a relatively small number of task orders placed with the main contractor at the time in this one region. We worked with the contractor to investigate the mechanics of the fraud and reviewed our own related control framework to understand how the fraud had been exercised and also not been detected earlier. The results from this work have identified that whilst the breakdown of control rested solely with the contractor in the supply chain, certain

improvements are needed to our own controls, which will ensure stronger mitigation of the risk. The Police were engaged in the investigation and arrests have been made. Our investigations have shown that the fraud ran for a number of years including under the previous contractual arrangement. Agreements have been reached with all of the contractors involved to recover fully all monies which have been overpaid.

To provide assurance that similar weaknesses did not exist elsewhere within the supply chain, the internal audit team carried out detailed reviews across the tier one suppliers, concentrating on the controls relating to small works procurement, delivery and payment. The internal audit reviews confirmed that overall, a reasonable level of control was currently exercised by our contractors. Management are taking the findings forward with the supply chain community to ensure improvement in their control environment.

### **Delivery of Investment Programme Sub-Committee:**

#### **Responsibilities:**

The Delivery of Investment Programme Sub-Committee (DIP) is responsible for monitoring the capital investment programme, tracking the delivery of efficiencies and ensuring a strategic approach to supply chain and commercial activities.

DIP provides reports to the Executive Committee, and by copy of minutes to the Board, of any material risks to the delivery of the principal capital investment programmes set out by DfT for the Agency to deliver. It also monitors progress in the delivery of the Agency's capital investment programme with specific review of potential under or over spends in the year, across the Spending Review 2010 period, and beyond. DIP also considers how to mitigate against these variances, either within the Agency or, in conjunction with DfT Finance, across the Department. Outcomes from PCF stage gate and OGC gateway reviews are tracked, with common themes identified and learning and best practice shared with the business.

One of the responsibilities of DIP is to challenge the financial outcomes of Spending Review 2010 delivery plans (existing cost plans) to ensure clarity and the existence of a strong evidence

base for claimed efficiency savings. DIP then tracks the efficiencies delivered by the supply chain using unit cost information captured within MP and NDD Directorates.

DIP assesses the spend profiles and performance of the supply chain across all Directorates against a range of measures and uses intelligence to inform the strategic supply chain direction. It supports consistency across all directorates in how we engage contractors and consultants and ensures best practice in cost and commercial management is maintained across all directorates. DIP reviews sector activity delivery risks and mitigating actions and, where appropriate, ensures strategic risks are captured and assigned, key learning is captured and is being applied to future investment planning, risk logs are consistent and financial implications are recorded. DIP also reviews the pipeline of procurement opportunities in line with future procurement strategy and ensures that strategic procurement opportunities are considered. DIP then tests that the procurement strategy delivers reduced bureaucracy, incentivised consistent high performance, collaborative working at fair market prices with appropriate risk transfer.

### **Network Performance Group: Responsibilities:**

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

- Safety
- Traffic performance
- Network availability (including winter service)
- Customer service (information and feedback)
- Network development

NPG is a sub group of the Executive Committee, and takes the lead in facilitating cross-directorate communication, collaboration and issue resolution relating to all of the above issues. Key elements discussed in 2011-12 were the London 2012

Olympics, network performance and network strategy.

## **Conflicts of Interest**

The Highways Agency is required to disclose 'related third party transactions' in its Annual Accounts. To that end the Agency's senior staff and certain others are required to complete a Third Party Interests Declaration Form, the results from which are recorded in the Register of Third Party Interests.

My internal auditors reported in January 2011 on the policy and process surrounding the identification and recording of any third party interests and potential conflicts of interest relating to the Agency's personnel, and other temporary consultancy or advisory personnel employed by the Agency. Several management actions were agreed to ensure the effective operation of controls, or to put controls in place where necessary. A follow up audit was undertaken in February 2012 which reported that with a few exceptions, these actions had largely been completed. Those outstanding, and some additional issues which the audit identified, will be addressed by the end of 2012.

Improvements made to date include:

- the updating of the policy to include the requirement to capture declarations for temporary staff.
- amendments to procurement procedures to emphasise the need for conflict of interests checks to be undertaken when awarding contracts.
- six monthly sampling checking of procurement files to verify compliance with the above.

Nirmal Kotecha, former Director of Major Projects accepted a post with UK Power Networks (UKPN) in July 2011, and in line with usual civil service contractual arrangements for senior civil servants, continued to work for the Highways Agency during his three month notice period. UKPN is a supplier of services to the Highways Agency, and Mr Kotecha had authorised a number of payments to UKPN prior to accepting his post. To address this (potential) conflict of interest, responsibility for approving payments during the notice period was transferred to two other directors, Steve Dauncey and Ginny Clarke,



## SECTION 6: Governance statement

who, as an additional safeguard, reviewed and countersigned a schedule of the payments previously made to UKPN in the 2011-12 financial year. These amounted to approximately £300,000 in total.

### The Governance Culture

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

A key element of culture is the engagement of staff. In 2011 the Civil Service Staff Engagement Survey results showed that the Agency's engagement index decreased by four to 53 per cent, which is three points below the Civil Service overall. The results of all five engagement questions are less positive than last year, and less positive than the Civil Service overall. We are focusing on several areas to ensure we deliver real improvements and make the Agency a better place to work.

The vast majority of our work is delivered through a tiered relationship with our supply chain. Our procurement strategy positions us to deliver a first class and consistent approach to procurement, based on the three key themes of value-for-money, delivery and sustainability. We are determined that the procurement function should develop beyond delivering a process, into a position where the Agency is actively encouraging and demanding best practice and innovation to fulfil these aims. The Agency does not make grants to locally governed organisations.

### Risk Management

The Agency's executive directors and other senior managers are responsible for risk management in their commands. The Agency has a published Risk Management Policy which is available to all staff via the intranet. The guidance outlines key aspects of the risk management process and identifies the main reporting procedures. Senior managers have received training in risk management tailored to their responsibilities and concerns.

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

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

The 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 wider Government receive focused, cost justified management attention.
- Where appropriate, action is escalated via a formal process through the line management chain, to the Agency's Board, to DfT and to Ministers.

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

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

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

I am keenly aware that risks to public stakeholders arise from many aspects of the development and operation of the strategic road network. While developing new works, the Agency involves the public in risk management through the normal consultation process. My senior staff and I regularly meet with stakeholder groups and cover their views on risks to their interests in these meetings. Road safety risks are managed through a developing set of safety action plans based on the views from the public and stakeholders with the objective of meeting the targets set by the DfT Road Safety Strategy. This is supplemented by the introduction of our 'Aiming for Zero' strategy, which has a goal of zero accidents and ill-health for our workforce. Legal compliance is seen as the minimum standard of health and safety. The strategy covers both our own staff in the Traffic Officer Service and our people who work in and from our offices. It also applies to our supply chain of operatives working on our network.

The Highways Agency Board has a Corporate Risk Register which is the main tool used to monitor the management of the most significant risks in the Agency. These include:

- A terrorist incident on the network results in serious congestion.
- The Agency is unable to maintain the network in a serviceable condition.
- Loss, irregular disclosure or corruption of important data.
- Failure to be ready for the additional pressures of the London Olympics 2012.

## Internal Control

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

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

The key internal control processes are as follows:

- **Business Planning** - We have clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning.
- **Financial Management and Stewardship** - We ensure efficiency, best value, integrity, propriety and regularity in the use and stewardship of public funds and assets and that clear accountability for expenditure and stewardship of assets is in place through a variety of control systems including:
  - A mandatory Investment Control Framework which encompasses HM Treasury *Green Book* and DfT investment appraisal standards for all expenditure. This includes a process of testing whether a proposed project or expenditure offers value for money and considers affordability, prioritisation, risk and strategy. These arrangements dovetail with those of our parent Department for larger investments that require approval from DfT or Ministers.
  - The Investment Control Framework also addresses financial propriety and other requirements from HM Treasury's *Managing Public Money* and other requirements.
  - An Oracle financial accounting system with embedded controls.
  - Asset Management procedures to record and account for all assets.
  - An officer coordinates action on fraud related matters and a Fraud Sub-Committee meets regularly to oversee the handling of any significant issues or allegations, all of which are taken very seriously by the Agency and fully investigated. The Fraud Sub-Committee is a sub-committee of the Agency's Audit Committee and provides regular updates to them on anti-fraud measures and any

## SECTION 6: Governance statement

investigations undertaken. A non executive director attends each meeting of the Fraud Sub-Committee.

- The Agency is Investors in People accredited. This is a proven business improvement framework that significantly improves financial performance, productivity and employee involvement and focus.
- **Project & Contract Management -** We manage our projects and contracts to ensure delivery on time, within budget and to the appropriate quality. Control systems include:
  - A Project Control Framework which specifies the detailed governance processes and procedures that major projects must follow to ensure they deliver the required outputs of each project phase on time and to budget. The framework also defines the project lifecycle, roles and responsibilities and project deliverables.
  - Use of the OGC Gateway Review method of providing project assurance. Competent programme and project management ensures that issues are not overlooked, time and money is not wasted, and resources are effectively deployed.
  - Centralised procurement function for contracts >£15k which are handled by a central Division and any single tender action requires the personal approval of the Procurement Director.
  - Use of Earned Value Management on all key investments to inform and enable meaningful challenge.
  - Compliance by Managing Agents to their contracts is checked by an external team of auditors under a Performance Audit Function Framework.
- **Compliance with Standards & Requirements -** Our people, partners and procedures comply with relevant legal, government, departmental and technical standards and requirements. The Agency's arrangements include:
  - A dedicated team deals with compliance with the statutory processes for the acquisition, management and disposal of land and property in connection with the Agency's activities. Other teams deal with

the statutory requirements concerning road building, and the management and maintenance of the strategic road network.

- Technical governance procedures to ensure that the Agency conducts its business in accordance with the appropriate technical standards, and include measures to govern any necessary departure from engineering standards.
- Compliance with European Union legislation and standards where appropriate regarding several areas including procurement and health and safety.

### Audit and Assurance

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

My Head of Internal Audit provides regular reports on key risk and control issues, to standards defined in the Government Internal Audit standards, and an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control together with recommendations for improvement. The implementation of recommendations is monitored closely by the Agency Board and is included on the performance scorecard. The Head of Internal Audit's opinion for the year 2011-12 is that on the basis of the evidence obtained during the year a 'Reasonable' assurance rating can be provided on the adequacy and effectiveness of the Agency's arrangements for corporate governance, risk management and internal control, ie that they are generally established and effective, with some minor weaknesses or

gaps identified. In their opinion other than the fraud which occurred in the supply chain and was discussed under the Fraud Sub-Committee heading, there are no significant weaknesses that fall within the scope of issues that should be reported in the Governance Statement.

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

All existing staff including executive and non-executive Board members are required to sign up to an Acceptable Use Policy before gaining access to our business IT and have been trained in data handling. All new staff are required to complete this training and pass a test demonstrating their understanding in their first week of employment.

We continue to pursue a policy of continuous improvement in our controls and have no personal data related incidents to report. We are trialling end port control software which once rolled out, will ensure that no unauthorised devices will be able to work on our business IT systems. This will ensure more proactive control of what goes onto our network and support data loss prevention and improve our system security in terms of virus attack. There have been a small number of cases of non compliance with processes which have resulted in disciplinary action but no data loss.

The Information Commissioner's Office, (ICO), the independent body responsible for the regulation of the Data Protection Act 1998, recently undertook a follow up to their data protection audit of the Agency last year.

ICO has noted the following improvements:

- The Highways Agency has developed an Information Asset Management System. Eventually, all Information Asset Owners (IAO) and Information Asset Administrators (IAA) will have access to this system and will be able to update the risks associated with their assets.

- The Highways Agency has utilised The National School of Government's (NSG) online DP training. NSG has now closed so the Highways Agency has rolled out an action plan to ensure all staff receive alternative refresher training and new starters are appropriately trained.
- A new email policy has been introduced which emphasises that emails required as corporate records must be saved in SHARE (a document and records management system) and declared as records.
- The Highways Agency has established a Security and Business Continuity Forum. This is chaired by the SIRO and members include the IT Security Officer and the IT Contracts Manager. The Forum will produce a coordinated risk register and issues can be reported directly to the Board via the SIRO.
- Data Protection Management Information, including Subject Access Request statistics, will be included with the Divisional Scorecard during this financial year.

We have maintained an open and close working relationship with the Major Projects Authority (MPA). Its confidence in our approach to Gateway Reviews and Government Major Projects Portfolio (GMPP) scrutiny appears to be strong and has resulted in the delegation of increased levels of responsibility to our Centre of Excellence. We now have the authority to manage high risk Gateway Reviews, in addition to the medium and low risk that we were already delegated. We are in discussion with the MPA regarding our two entries on the GMPP; the M25 design, build, finance and operate contract (DBFO) and the Managed Motorways programme. We are currently negotiating an early removal of the M25 DBFO from the portfolio, reflecting the good delivery confidence levels that have been observed from Gateway reviews.

Our Performance Audit Framework (PAF) is an assurance and process improvement function within the Network Delivery and Development Directorate that has replaced Integrated Audit & Assurance. PAF is independent of business activities and the team combines technical specialists with experienced auditors and

## SECTION 6: Governance statement

forensic accountants, delivering to an agreed methodology, offering a consistent and informed challenge to the way business is conducted within the supply chain community. Results from PAF work have identified a number of areas for improvement, which are monitored by our area teams to ensure agreed action is taken. During the year it was decided that the responsibility for providing the delivery of the PAF service will be transferred to our internal audit team at the start of the new financial year.

### Other explicit reviews/assurance mechanisms

- **Stewardship Reports** - twice a year, Agency Board Directors provide Stewardship Reports that take account of assurances from Divisional Directors and others who report on the full range of delegations, policies and procedures laid down by the Agency. Directors report on:

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

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

In the April 2012 year-end stewardship report, the bulk of assurance ratings are the same as reported in 2011. Of those which have changed, there are approximately equal numbers displaying either improved levels of assurance, or lower ratings. The lower ratings may be explained in part due to ratings being tied more rigorously to the defined evidence requirements.

During the year the process owners recommended a target assurance level for each process, and at year-end approximately half the reported ratings achieved these targets. There are a small number of processes where the target is being exceeded, with the remainder falling short to some degree. Where the latter is the case we are working to improve compliance levels.

- **Managing the risk of financial loss** – In October 2010, following a cross-Government Financial Systems Risk Review, the Treasury introduced new guidance and tools to support a review of organisations/processes which have an associated risk of financial loss. A 'financial loss' in the context of this work is defined as a loss of monetary assets in relation to deliberate or accidental errors during the processing of financial transactions.

In line with other Government Departments the Agency completed a review of all relevant processes by 31 March 2012 to ensure that risk controls have been assessed. The majority of financial processes were found to have the necessary levels of control in place. However, weaknesses were found to arise when processes are not managed from an end to end viewpoint.

A key recommendation of the project is to strengthen the role of the process owner to include responsibilities for managing risks of financial loss. Several processes were found to have control levels lower than required. These included the VAT, third party funded projects and national vehicle recovery scheme processes. Action plans have been put in place to address areas of weaknesses and progress against these actions will be monitored and reported throughout the year.

- **Controls around the Agency's Shared Services arrangement** – The Agency is party to a group arrangement with the DfT's Shared Service Centre for the provision of payroll and human resource services, which is led through the Single Client Function within the DfT. The Agency monitors the performance of Shared Services through the Single Client Function and the Single Client Board of which the agency Chief Executive is a member. A service level agreement is in place and is subject to periodic review to help improve the governance arrangements between the Agency and Shared Services.

The Agency receives a quarterly management assurance report that is based primarily on Shared Services management's risk and control monitoring activities and reporting processes. This assurance also draws upon

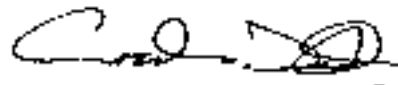
Internal Audit reports and other relevant risk/control reports and sources of assurance. Through this, Shared Services has reported to the Agency that its system of internal control met the criteria for effective internal control with a number of exceptions related to controls that did not directly impact the financial statements, the most critical of which related to succession planning, the completion of its disaster recovery policy, and a system for archiving/disposing of records. Shared Services also maintains a tracker of outstanding Internal Audit recommendations and the Agency receives independent assurance from the DfT Head of Internal Audit regarding any significant control weaknesses.

The Department has commenced a process to divest the Shared Service Centre during 2012-13. The Agency is working with the DfT Shared Service Futures team to ensure appropriate governance, control and assurance processes are built into the service specification and the contractual arrangements,

and that the Agency's processes are aligned to the post-divestment model.

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

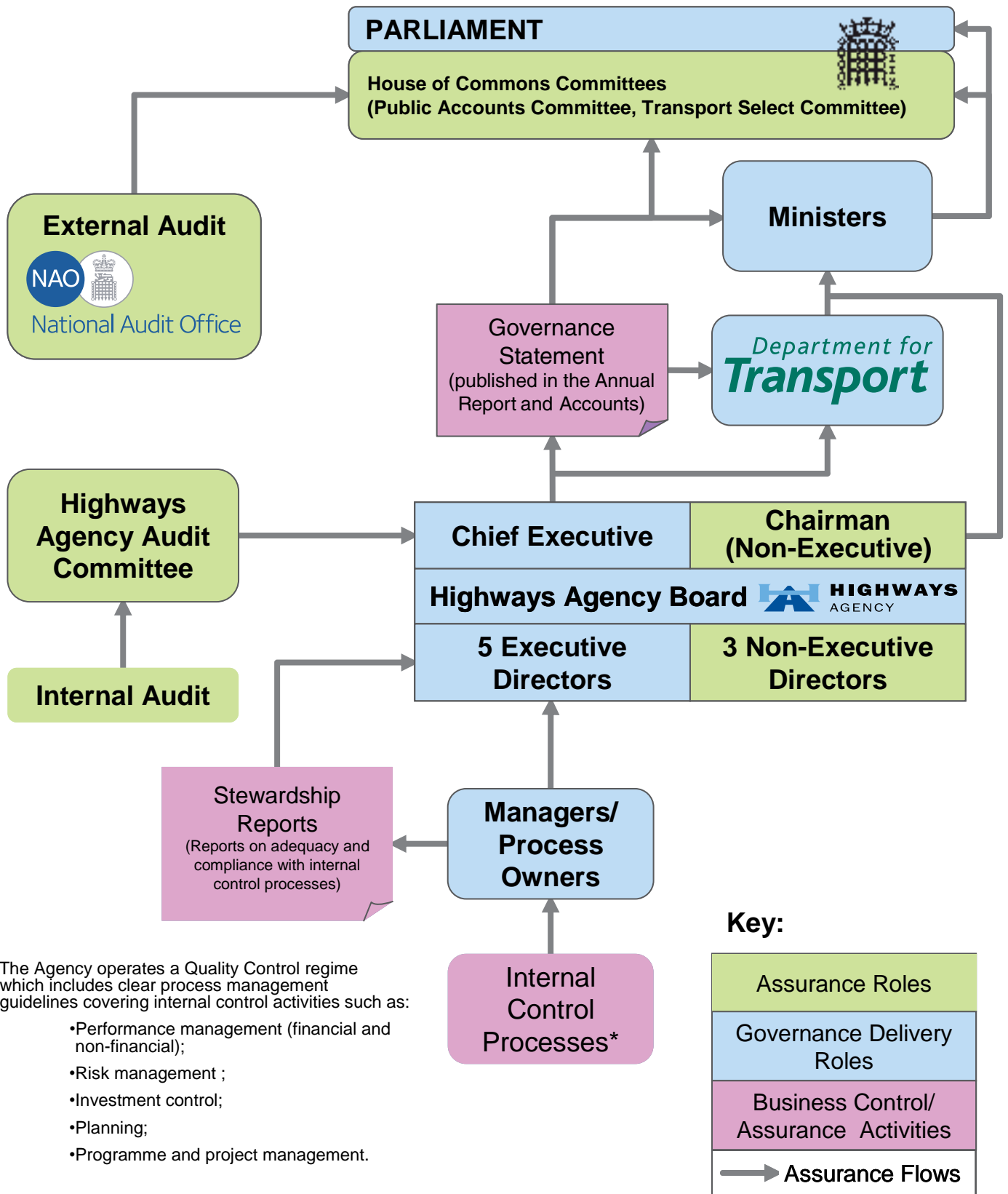
I have taken all necessary steps to make myself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information. In so far as I am aware, there is no relevant audit information of which the Agency's auditors are unaware.



**Graham Dalton**  
Accounting Officer

**10 July 2012**

# Highways Agency governance framework



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

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

# Section 7: Remuneration Report for the year ended 31 March 2012

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

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

## Remuneration Committee

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

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

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

- Pay - base salary which is consolidated, pensionable pay (for some members of the SCS not all base salary is pensionable), and variable pay which is a non-consolidated (non-pensionable and conditional) one-off award to recognise in-year performance for up to 25 per cent of eligible staff.
- Conditions - pension which is defined benefit and index-linked, and other contractual benefits such as annual leave.
- Benefits including any taxable benefits and allowances.
- Intangibles, for example, a commitment to work/life balance; interesting and socially valuable work; commitment to development; and, a supportive work environment made up of a diverse workforce.

## Pay System and Performance Management

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

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

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

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

SCS in the Agency have objectives in the following categories:

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



## SECTION 7: Remuneration report for the year ended 31 March 2012

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

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

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

- Top - Top 25% of performers
- Achieving - Next 65% of performers
- Low - Bottom 10% of performers

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

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

Performance Group is the starting point for non-consolidated performance pay determination. For 2011-12 only the top 25% of performers, those in the top Performance Group, will receive an award.

In 2011-12 no base pay increases were available for members of the SCS.

### Remuneration Policy for Non-Executive Directors

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

### Service Contracts

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

Further information about the work of the Civil Service Commissioners can be found at [www.civilservicecommissioners.gov.uk](http://www.civilservicecommissioners.gov.uk).

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

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

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

	Date of initial appointment	Unexpired term (months remaining at 31/3/12)
<b>Executive Directors serving at 31/03/12</b>		
Graham Dalton	30/06/2008	Open-ended
Peter Adams	09/01/2012	Open-ended
Ginny Clarke	02/07/2001	Open-ended
Stephen Dauncey	02/02/2009	Open-ended
Simon Sheldon-Wilson	01/02/2010	Open-ended
Derek Turner	07/03/2005	14
<b>Executive Directors leaving before 31/03/12</b>		
Nirmal Kotecha <sup>1</sup>	14/04/2008	-
Steve Williams <sup>2</sup>	12/03/2001	-
<b>Non-executive Directors serving at 31/03/12</b>		
Alan Cook <sup>3</sup>	01/01/2011	3
Tracey Barlow	01/08/2007	4
David Hughes	15/07/2009	15
Tim Walton	10/01/2011	9

<sup>1</sup> Nirmal Kotecha became a permanent member of staff from 15 April 2011 and left on 21 October 2011

<sup>2</sup> Steve Williams joined the Agency on 12 March 2001 and retired on 6 May 2011

<sup>3</sup> Alan Cook, a non-executive director of the DfT, joined the Agency on 1 January 2011 on a 12 month contract, which has since been extended until 30 June 2012

## Salary and Pension entitlements (audited)

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

	2011-12			2010-11		
	Salary £000	Bonus Payments £000	Benefits in kind (to nearest £100)	Salary £000	Bonus Payments £000	Benefits in kind (to nearest £100)
Graham Dalton	145-150	0-0	-	145-150	5-10	-
Peter Adams <sup>1</sup>	25-30	0-0	-	-	-	-
	<i>FYE 115-120</i>					
Ginny Clarke	105-110	0-0	-	105-110	5-10	-
Stephen Dauncey	115-120	5-10	-	115-120	5-10	-
Simon Sheldon-Wilson	90-95	5-10	-	90-95	5-10	-
Derek Turner	140-145	10-15	-	140-145	20-25	-
Nirmal Kotecha	80-85	35-40	-	150-155	65-70	-
	<i>FYE 150-155</i>					
Steve Williams	10-15	0-0	-	105-110	5-10	-
	<i>FYE 105-110</i>					

<sup>1</sup> Peter Adams joined the Board on 9 January 2012.

Full-year equivalent salaries are included for those directors joining or leaving the Agency part way through the year (FYE).

### Salary

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

### Bonus Payments

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

### Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by HM Revenue and Customs 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.

No directors in either 2010-11 or 2011-12 were in receipt of any benefits in kind.

### Median remuneration of staff (audited)

	2011-12	2010-11
Midpoint of salary range and bonus of highest paid director (£)	155,000	220,000
Number of staff	3,512	3,653
Median point	1,756	1,827
Median Remuneration (£)	25,420	24,097
<b>Ratio</b>	<b>6.10</b>	<b>9.14</b>

- Midpoint of salary range and bonus of highest paid director is calculated by summing the midpoint of the relevant £5k salary range with the midpoint of the relevant £5k bonus range.
- Median remuneration is the full time equivalent salary, and includes temporary responsibility allowances, bonus payments and shift allowance where appropriate. ERNIC, and superannuation contributions payments are not included.

## SECTION 7: Remuneration report for the year ended 31 March 2012

- Temporary staff have been included but not consultants/contractors. In the absence of relevant data these have been assumed to be paid at the average salary for the grade of the post (or if not known, pay band 7).

There is a large difference in both the median remuneration and ratio between 2010-11 and 2011-12. This reflects the departure of a senior Director during 2011-12, the contractual element of non SCS pay awards not affected by the current pay freeze and increases in the median salary due to a higher turnover in lower pay bands during an extended recruitment freeze. Hence the decrease in the highest paid Director's remuneration, the increase in the median and the resulting reduction in the ratio.

### Pension Benefits (audited)

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

	Accrued pension at pension age as at 31 March 2012 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31 March 2012 £000	CETV at 31 March 2011 £000
Graham Dalton	20-25 no lump sum	0-5 no lump sum	357	300
Peter Adams	5-10 no lump sum	0-5 no lump sum	37	34
Ginny Clarke	45-50 plus 135-140 lump sum	-5-0 plus -5-0 lump sum	983	927
Stephen Dauncey	10-15 no lump sum	0-5 no lump sum	208	164
Nirmal Kotecha	10-15 no lump sum	0-5 no lump sum	107	88
Simon Sheldon-Wilson	-	-	-	-
Derek Turner	15-20 no lump sum	0-5 no lump sum	284	226
Steve Williams	45-50 plus 140-145 lump sum	-5-0 plus -5-0 lump sum	1,093	1,091

	Real increase in CETV £000	Employer contribution to partnership pension account £000
Graham Dalton	25-30	-
Peter Adams	-5-0	-
Ginny Clarke	-25- -20	-
Stephen Dauncey	25-30	-
Nirmal Kotecha	15-20	-
Simon Sheldon-Wilson	-	11,107
Derek Turner	35-40	-
Steve Williams	-5-0	-

## The Cash Equivalent Transfer Value (CETV)

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

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

## Real increase in the value of the CETV

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

## Remuneration of Non-Executive Directors

The non-executive directors of the Board received the following remuneration for their services during the year ended 31 March 2012:

	2011-12	2010-11
	£000s	£000s
Alan Cook <sup>1</sup>	35-40	5-10
Tracey Barlow	10-15	10-15
David Hughes <sup>2</sup>	25-30	25-30
Tim Walton <sup>3</sup>	10-15	0-5
Andrea Gregory <sup>4</sup>	-	5-10

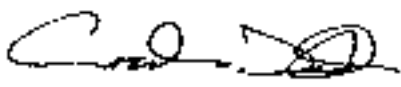
<sup>1</sup> Alan Cook is also a non-executive Director at the DfT, but his remuneration for that role is disclosed separately in the DfT accounts. Alan Cook joined the Board on 1 January 2011.

<sup>2</sup> David Hughes is a member of the DfT Audit Committee and his remuneration for that role is included in this total.

<sup>3</sup> Tim Walton joined the Board on 11 January 2011.

<sup>4</sup> Andrea Gregory left the Board on 31 August 2010.

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



**Graham Dalton**

Accounting Officer

10 July 2012

## Section 8: 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, changes in taxpayers' equity, and cash flows for the financial year.

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

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

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

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

## Section 9: 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 2012 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### **Respective responsibilities of the Chief Executive and auditor**

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

### **Scope of the audit of the financial statements**

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

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

### **Opinion on Regularity**

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

### **Opinion on the financial statements**

In my opinion:

- the financial statements give a true and fair view of the state of the Highways Agency's affairs as at 31 March 2012 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### **Opinion on other matters**

In my opinion:

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

**Matters on which I report by exception**

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

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

**Report**

I have no observations to make on these financial statements.

**Amyas C E Morse**

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

**11 July 2012**

## Section 10: Financial Statements

## Statement of Comprehensive Net Expenditure for the year ended 31 March 2012

	Note	2011-12			Restated
		Staff costs £000	Other costs £000	Income £000	2010-11 £000
<b>Administration Costs</b>					
Staff costs	3	21,575	-	-	25,931
Other administration costs	4	-	41,646	-	44,449
Operating income	6	-	-	(1,746)	(1,416)
<b>Programme Costs</b>					
Staff costs	3	98,508	-	-	98,079
Programme costs	5	-	2,278,966	-	2,186,133
Income	6	-	-	(61,345)	(90,937)
EU income		-	-	(1,978)	(3,291)
<b>Totals</b>		<b>120,083</b>	<b>2,320,612</b>	<b>(65,069)</b>	<b>2,258,948</b>
<b>Net Operating Cost</b>				<b>2,375,626</b>	<b>2,258,948</b>

The 2010-11 comparative costs have been restated to reflect changes in classifications arising from the 2010 Spending Review (see note 1.10 for details).

## Other Comprehensive Expenditure

	Note	2011-12 Total £000	2010-11 Total £000
Net (gain)/loss on revaluation of Property, Plant & Equipment	7,8,9	(2,752,080)	(10,783,151)
<b>Total comprehensive (income)/expenditure for year ended 31 March 2012</b>		<b>(376,454)</b>	<b>(8,524,203)</b>

All income and expenditure is derived from continuing activities. The notes on pages 67 - 102 form part of these accounts.

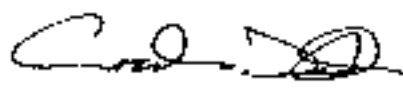


**SECTION 10: Financial Statements**

## Statement of Financial Position as at 31 March 2012

	Note	31 March 2012 £000	Restated 31 March 2011 £000	Restated 31 March 2010 £000
<b>Non-current assets</b>				
Property, plant and equipment	7	108,483,417	100,145,662	88,028,232
Intangible assets	8	5,306	10,437	16,442
Trade and other receivables	12	340,988	313,488	285,973
<b>Total non-current assets</b>		<b>108,829,711</b>	<b>100,469,587</b>	<b>88,330,647</b>
<b>Current assets</b>				
Assets classified as held for sale	9	17,620	12,519	8,062
Inventories	11	56,249	88,754	90,188
Trade and other receivables	12	124,271	133,959	144,058
Cash and cash equivalents	13	17,377	-	30,499
<b>Total current assets</b>		<b>215,517</b>	<b>235,232</b>	<b>272,807</b>
<b>Total assets</b>		<b>109,045,228</b>	<b>100,704,819</b>	<b>88,603,454</b>
<b>Current liabilities</b>				
Trade and other payables	14	638,285	592,640	727,948
Provisions	15	119,840	159,541	139,556
<b>Total current liabilities</b>		<b>758,125</b>	<b>752,181</b>	<b>867,504</b>
<b>Non current assets less net current liabilities</b>		<b>108,287,103</b>	<b>99,952,638</b>	<b>87,735,950</b>
<b>Non-current liabilities</b>				
Provisions	15	137,066	145,271	270,150
Other payables	14	2,054,170	1,742,658	1,374,953
<b>Total non-current liabilities</b>		<b>2,191,236</b>	<b>1,887,929</b>	<b>1,645,103</b>
<b>Assets less liabilities</b>		<b>106,095,867</b>	<b>98,064,709</b>	<b>86,090,847</b>
<b>Taxpayers' equity</b>				
General Fund		43,321,466	39,933,054	39,035,417
Revaluation Reserve		62,774,401	58,131,655	47,055,430
<b>Total taxpayers' equity</b>		<b>106,095,867</b>	<b>98,064,709</b>	<b>86,090,847</b>

*The notes on pages 67 - 102 form part of these accounts*



**Graham Dalton**  
Accounting Officer  
**10 July 2012**

## Statement of Cash Flows for the year ended 31 March 2012

	Note	2011-12 £000	Restated 2010-11 £000
<b>Cash flows from operating activities</b>			
Net operating cost		(2,375,626)	(2,258,948)
Adjustment for non-cash transactions	4,5	1,279,356	1,213,243
Decrease in Inventories		32,505	1,434
(Increase) in trade and other receivables <i>less movement in receivables relating to items not passing through the SCNE</i>		(17,812)	(17,416)
		(2,154)	(25,988)
Increase in trade and other payables <i>less movement in payables relating to items not passing through the SCNE</i>		357,158	209,334
		(22,570)	(26,347)
Use of provisions		(97,569)	(139,547)
Non-cash movement in classification of provision	15	-	(4,760)
Release from grant deferred reserve		(1,978)	(3,290)
Capital grant income		4,449	3,503
Adjustment for capital and interest element of PFI payments		52,443	58,856
<b>Net cash outflow from operating activities</b>		<b>(791,798)</b>	<b>(989,926)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	7(a)	(1,290,143)	(1,608,348)
Purchase on intangible assets - cash additions	8	-	(26)
Proceeds of disposal of assets held for sale		8,624	6,519
Capital element of movement in provisions	15	59,920	86,109
<b>Net cash outflow from investing activities</b>		<b>(1,221,599)</b>	<b>(1,515,746)</b>
<b>Cash flows from financing activities</b>			
From Consolidated Fund (Supply): Current year		2,072,880	2,502,720
From Consolidated Fund (Supply): Prior year		29,120	16,280
Capital element of payments in respect of on balance sheet PFI contracts		(52,443)	(58,856)
<b>Net Financing</b>		<b>2,049,557</b>	<b>2,460,144</b>
<b>Net (decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund</b>			
		36,160	(45,528)
Payments of amounts due to Consolidated Fund		(128)	(3,626)
<b>Net increase/(decrease) in cash and cash equivalents in the period</b>		<b>36,032</b>	<b>(49,154)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	13	<b>(18,655)</b>	<b>30,499</b>
<b>Cash and cash equivalents at the end of the period</b>	13	<b>17,377</b>	<b>(18,655)</b>

The notes on pages 67 - 102 form part of these accounts

**SECTION 10: Financial Statements**

 Statement of Changes in Taxpayers' Equity for the year ended  
 31 March 2012

	Note	General Fund £000	Revaluation Reserve £000	Restated Grant Reserve £000	Total Reserves £000
<b>Balance at 31 March 2010</b>		<b>38,908,966</b>	<b>47,084,328</b>	<b>7,314</b>	<b>86,000,608</b>
Detrunckings		(50,558)	(28,898)	-	(79,456)
Change in accounting treatment of Infrastructure Asset		177,009	-	-	177,009
Change in accounting treatment of EU Grants		-	-	(7,314)	(7,314)
<b>Restated Balance at 31 March 2010</b>		<b>39,035,417</b>	<b>47,055,430</b>	<b>-</b>	<b>86,090,847</b>
<b>Changes in taxpayers' equity for 2010-11</b>					
Net gain on revaluation of property, plant & equipment		-	10,783,151	-	10,783,151
Adjustments to non-current assets		559,046	322,821	-	881,867
Reversionary interest on M6 toll road		48,645	-	-	48,645
Non-cash charges - auditors' remuneration	4	275	-	-	275
Transfers between reserves		29,747	(29,747)	-	-
Net comprehensive expenditure for the year		(2,258,948)	-	-	(2,258,948)
<b>Total recognised income and expenses for 2010-11</b>		<b>(1,621,235)</b>	<b>11,076,225</b>	<b>-</b>	<b>9,454,990</b>
Funding from Department for Transport		2,519,000	-	-	2,519,000
CFERs payable to the Consolidated Fund		(34,168)	-	-	(34,168)
Change in accounting treatment of EU Grants		-	-	4,409	4,409
<b>Balance at 31 March 2011</b>		<b>39,899,014</b>	<b>58,131,655</b>	<b>4,409</b>	<b>98,035,078</b>
Change in accounting treatment of Infrastructure Asset	7	34,040	-	-	34,040
Change in accounting treatment of EU Grants		-	-	(4,409)	(4,409)
<b>Restated Balances at 31 March 2011</b>		<b>39,933,054</b>	<b>58,131,655</b>	<b>-</b>	<b>98,064,709</b>
<b>Changes in taxpayers' equity for 2011-12</b>					
Net gain on revaluation of property, plant and equipment		-	2,752,080	-	2,752,080
Adjustments to non-current assets		3,552,214	2,030,256	-	5,582,470
Reversionary interest on M6 toll road		6,120	-	-	6,120
Non-cash charges - auditors' remuneration	4	275	-	-	275
Transfers between reserves		139,590	(139,590)	-	-
Net comprehensive expenditure for the year		(2,375,626)	-	-	(2,375,626)
<b>Total recognised income and expenses for 2011-12</b>		<b>1,322,574</b>	<b>4,642,746</b>	<b>-</b>	<b>5,965,320</b>
Funding from Department for Transport		2,102,000	-	-	2,102,000
Supply payable		(36,162)	-	-	(36,162)
<b>Balance at 31 March 2012</b>		<b>43,321,466</b>	<b>62,774,401</b>	<b>-</b>	<b>106,095,867</b>

The notes on pages 67 - 102 form part of these accounts

## Notes to the Agency's Accounts

### 1 Statement of Accounting Policies

These financial statements have been prepared in accordance with the 2011-12 *Government Financial Reporting Manual* (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits the choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items considered material to the accounts.

#### 1.1 Accounting Convention

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

#### 1.2 Other recent accounting developments

##### Standards

The Agency has reviewed all new accounting standards, amendments and interpretations of standards that are effective in 2011-12 to determine the impact on the Agency's financial position. The following standards were issued

- IFRS 7 Financial Instruments Disclosure (amended); effective for annual periods beginning on or after 1 July 2011. This standard was amended to improve understanding of transfer transactions of financial assets. The Agency has reviewed relevant disclosures.
- IFRS 9 Financial Instruments: effective for annual periods beginning on or after 1 January 2013. However, this can be adopted in phases with phase 1 on or after 1 January 2009. This is a new standard on classification and measurement of financial assets that will replace IAS39. This will have no material effect on the Agency's financial statements.

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

##### FReM

The FReM includes the following accounting changes that have been issued and are effective in 2011-12:

- Governance Statement – Introduction of a Governance Statement to incorporate and replace the current Statement on Internal Control (see page 43).
- Sustainability Reporting – Requirement to include sustainability report within Annual Reports and Accounts from 2011-12 (see pages 40 and 41).

#### 1.3 Prior Period Adjustments

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

During the year the A3 Hindhead tunnel was opened to traffic, the structure was designated as a Special Structure for valuation purpose and valued at actual cost rather than standard cost. This approach resulted in £211,049,000 write back for prior periods.

## SECTION 10: Financial Statements

As at 31 March 2010	Note	As previously stated £000	Adjustment £000	As restated £000
Change in accounting treatment of Assets under Construction	7	710,963	177,009	887,972
		<b>710,963</b>	<b>177,009</b>	<b>887,972</b>
General Fund	SOCE	38,858,408	177,009	39,035,417
<b>As at 31 March 2011</b>				
Change in accounting treatment of Assets under Construction	7	1,120,578	34,040	1,154,618
		<b>1,120,578</b>	<b>34,040</b>	<b>1,154,618</b>
General Fund	SOCE	39,722,005	211,049	39,933,054

### 1.4 Non-Current Assets: Property, Plant and Equipment

Property, plant and equipment is sub-categorised into:

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

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

#### Capitalisation Policy

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

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

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

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

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

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

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

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

## Valuation

### *Network Infrastructure Assets*

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

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

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

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

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

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

Unit Cost	Unit cost determination
Road	The standard costing for roads has a series of road types created to identify all roads and determine the unit costs. Each road type will have a width for the carriageway, hard-strip or hard-shoulder, central reservations, etc.
Structures	<p><i>Non-Special structures</i> - Unit cost rates for bridges, tunnels, gantries and retaining walls are based on a number of standard road types and standard structure types.</p> <p><i>Special structures</i> - These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, eg the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data from modern equivalent structures. A full review of all special structures has been undertaken during the year and, where appropriate, costing information has been updated to ensure the most appropriate up to date valuation is made.</p>
Land	Land is an integral part of the road network and forms an important part of the valuation. Although some of the land occupied by the network may not actually be owned by the Agency, it is considered that, as the Agency had an entitlement to use the land in perpetuity, it is included within the valuation at freehold values. The unit cost rates for land is determined by a series of rates calculations based on Valuation Office indices.
Technology	Technology equipment unit costs are developed using rates from technology frameworks currently in place between the Agency and its contractors and bulk purchase prices for materials procured direct by the Agency. The unit costs also include a percentage of the subcontractors' preliminaries and other on-costs where applied to construction works.

## SECTION 10: Financial Statements

ended 31 March 2010. In addition during the year ending 31 March 2012 the Agency has reviewed the specific methodology for valuing structures, moving to a simpler categorisation of structure types and the application of standard road dimensions (rather than individual structure dimensions) where possible.

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

### Indexation

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

Indexation		
Roads and structures	Five year revaluation	Unit costs are calculated from projects opened to traffic over the last 5-10 years to value carriageways, structures and technology. Unit rates from projects with different opening dates are brought to a common baseline using Roadcon, a construction industry index. This index is calculated from tenders for highway works and reflects contractor's output costs.
Roads and structures	Year end revaluation	ROCOS is the index applied to roads and structures for yearly revaluation and reflects the movement in prices in the construction industry. ROCOS (resource cost index of road construction); published on a quarterly basis by the Department for Business, Innovation and Skills (BIS).
Land		Land indices published twice yearly by the Valuation Office Agency (VOA).
Technology		ROCOS is the index applied to all technology assets.

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

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

### Assets Under Construction

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

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

### Write-downs

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

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

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

### *Land and Buildings, including Dwellings*

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

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

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

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

### *Plant and Equipment*

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

### *Information Technology*

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

## 1.5 Depreciation

### *Network Infrastructure Assets*

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

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

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



## SECTION 10: Financial Statements

### Road Depreciation

Road surface assets comprises:-

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

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

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

### Structures

Depreciation for structures is determined in two parts as follows:

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

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

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

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

### Technology

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

### Impairment

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

### Non-Network Assets

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

<b>Property</b>	<b>Life in years</b>
• 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

<b>Plant and Machinery</b>	<b>Life in years</b>
• Winter maintenance equipment	10 to 25 years
• Office equipment	5 to 10 years
• Technology equipment	15 to 25 years
• Vehicles	5 to 10 years
• Test equipment	5 to 10 years
• IT equipment	5 years
• Database development costs	5 years
• Structural steelwork	10 years
• Assets in storage	no depreciation
• Assets awaiting sale	no depreciation

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

#### 1.6 Non-current assets:

##### *Assets held for sale*

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

##### *Intangible Assets*

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

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

- i) the software can be run on different hardware platforms;
- ii) there is an identifiable asset that will produce future benefits; and
- iii) the cost can be determined reliably.

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

#### 1.7 Inventories

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

## **SECTION 10: Financial Statements**

### **1.8 Research and Development**

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

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

### **1.9 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, and is measured at the fair value of the consideration received or receivable.

### **1.10 Administration and Programme Expenditure**

The Statement of Comprehensive Net Expenditure is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. In line with other Arms Length Bodies, the classification applied by the Agency was reviewed and clarified as part of the SR10 exercise. This resulted in some expenditure being reclassified between the two categories to ensure the Agency's approach was consistent with that now being applied across central government.

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, IT and office supplies.

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

### **1.11 Pensions and other employee benefits**

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

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

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

### **1.12 Leases**

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

Arrangements, including some PFI contracts that are not service concessions, whose fulfilment is

dependent on the use of a specific asset or which convey a right to use an asset, are assessed at their inception to determine if they contain a lease. If an arrangement is found to contain a lease, that lease is then classified as an operating or finance lease. Transactions involving the legal form of a lease, such as sale and leaseback arrangements, are accounted for according to their economic substance.

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

### 1.13 Service Concessions

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

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

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

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

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

### 1.14 Provisions and financial liabilities

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

### 1.15 Contingent Liabilities

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

## **SECTION 10: Financial Statements**

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

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

### **1.16 Financial Instruments**

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

#### **1.16.1 Financial assets and liabilities**

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

#### **1.16.2 Loans and receivables**

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

#### **1.16.3 Available for sale financial assets**

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

#### **1.16.4 Financial liabilities**

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

#### **1.16.5 Embedded derivatives**

Some hybrid contracts contain both a derivative and a non-derivative component. In such cases, the derivative component is termed an embedded derivative. Where the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract, and the host contract itself is not carried at fair value through profit or loss, the embedded derivative is separated and reported at fair value with gains and losses being recognised in the SOCNE. The Agency has carried out a review of its contracts and has determined that, as at 31 March 2012, it had no arrangements meeting the criteria to require separation.

#### **1.16.6 Determining fair value**

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

### 1.16.7 Impairment of financial assets

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

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

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

### 1.17 VAT

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

### 1.18 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 EU Grants

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

### 1.20 Segmental Reporting

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

### 1.21 Trunkings/Detrunkings

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

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

## 2 Segmental Reporting

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

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

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

### Segmental Income

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

## 3 Staff Numbers and Related Costs

### 3 (a) Staff costs

Staff costs comprise:

	2011-12			2010-11
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	106,819	2,452	109,271	115,325
Social Security costs	8,235	-	8,235	8,390
Other pension costs	19,214	-	19,214	20,610
<b>Sub Total</b>	<b>134,268</b>	<b>2,452</b>	<b>136,720</b>	<b>144,325</b>
Capitalised staff costs	(16,567)	-	(16,567)	(20,258)
Less recoveries in respect of outward secondments	(70)	-	(70)	(57)
<b>Total net costs</b>	<b>117,631</b>	<b>2,452</b>	<b>120,083</b>	<b>124,010</b>

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.



## SECTION 10: Financial Statements

### Pension costs

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

For 2011-12, employers' contributions of £19,102,015 were payable to the PCSPS (2010-11 £19,928,976) at one of four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2011-12 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 £105,204 (2010-11 £112,810) were paid to one or more of the panel of three appointed stakeholder pension providers.

Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £7,001 (2010-11 £7,852) 0.8% of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers at the balance sheet date were £13,253. Contributions prepaid at that date were £nil.

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

### 3 (b) Average number of persons employed

	2011-12			2010-11
	Permanent staff	Others	Total	Total
<b>Staff funded from administration budgets</b>	518	-	518	1,137
<b>Staff funded from programme budgets</b>				
Traffic Officer staff	1,652	-	1,652	1,742
Direct support to front line projects and service delivery	948	10	958	398
Staff engaged on capital projects	344	3	347	465
<b>Average FTE persons employed</b>	<b>3,462</b>	<b>13</b>	<b>3,475</b>	<b>3,742</b>

Over the course of the financial year, the actual full time equivalents (FTE) reduced from 3,564 to 3,397. See Note 1.10 for details of administration and programme classifications.

### 3 (c) Civil Service and Other Compensation Schemes – Exit Packages

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band (total cost)
<£10,000	0 (0)	0 (16)	0 (16)
£10,000 - £25,000	0 (0)	0 (16)	0 (16)
£25,000 - £50,000	0 (0)	1 (32)	1 (32)
£50,000 - £100,000	0 (0)	0 (29)	0 (29)
£100,000 - £150,000	0 (0)	0 (5)	0 (5)
£150,000 - £200,000	0 (0)	0 (1)	0 (1)
£200,000 - £300,000	0 (0)	0 (0)	0 (0)
<b>Total number of exit packages</b>	<b>0 (0)</b>	<b>1 (99)</b>	<b>1 (99)</b>
<b>Total resource cost (£000)</b>	<b>0 (0)</b>	<b>25 (4,270)</b>	<b>25 (4,270)</b>

During the financial year 2011-12, there were no payments made which were not covered by the Civil Service Compensation Scheme.

Nil (2010-11: One) payment under £10k of compensation for termination of employment;

Nil (2010-11: Two) payments between £50k and £100k of compensation for termination of employment;

Nil (2010-11: One) payment between £100k and £125k relating to flexible early retirement

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the department has agreed early retirements, the additional costs are met by the department and not by the Civil Service pension scheme and are not included in the table.

## 4 Other Administration Costs

		2011-12	Restated 2010-11
	Note	£000	£000
Communication		1,138	1,268
Consultancy		300	261
Information technology		18,896	18,232
Maintenance		552	507
Professional services		296	416
Recruitment and training		1,336	1,233
Rent, rates and building costs		4,699	5,660
Stationery, postage and printing		494	818
Travel and subsistence		920	1,678
Other administration costs		4,002	2,072
		<b>32,633</b>	<b>32,145</b>
<b>Rentals under operating leases:</b>			
Hire of plant and machinery		72	143
Other operating leases		6,096	6,314
		<b>6,168</b>	<b>6,457</b>
<b>Non-cash items:</b>			
<b>Depreciation:</b>			
Property, plant and equipment	7	2,086	1,921
<b>Amortisation:</b>			
Intangible fixed assets	8	65	237
Loss on disposal of property, plant and equipment		-	-
<b>Notional Costs:</b>			
Auditors' remuneration and expenses			
Annual Audit		275	275
Provision for doubtful debt		-	3
Provisions provided for in year	15	419	3,411
		<b>2,845</b>	<b>5,847</b>
<b>Total: Other administration costs</b>		<b>41,646</b>	<b>44,449</b>

The 2010-11 comparative costs have been restated to reflect changes in classifications arising from the 2010 Spending Review (see note 1.10 for details).

## 5 Programme Costs

	Note	2011-12 £000	Restated 2010-11 £000
Research and development expenditure		3,747	7,970
Maintenance and similar activities		541,600	549,283
Interest on PFI finance leases		119,707	105,331
PFI service charges		314,814	289,346
Information technology		-	1,571
Traffic Management vehicle costs		7,453	4,872
Carbon emissions licence		1,008	-
Other programme costs		14,127	19,871
		<b>1,002,456</b>	<b>978,244</b>
<b>Non-cash items:</b>			
<b>Depreciation:</b>			
Property, plant and equipment	7	680,650	379,652
Property, plant and equipment held under PFI leases	7	55,770	44,992
Impairment of non-current assets	10	33,136	73,469
<b>Amortisation:</b>			
Intangible fixed assets	8	5,066	5,794
Write down of network assets	7	506,593	724,717
<b>Notional Costs:</b>			
Loss on disposal of property, plant and equipment		294	3,387
Provision for doubtful debt		(475)	1,886
Provision for slow moving stock		6,152	24,099
Provisions provided for in year	15	(10,676)	(50,107)
		<b>1,276,510</b>	<b>1,207,889</b>
<b>Total: Programme Costs</b>		<b>2,278,966</b>	<b>2,186,133</b>

## 6 Operating Income

Operating income principally arises from:

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

	2011-12	2010-11
Operating income analysed by classification and activity is as follows (all Appropriated in Aid):	Total £000	Total £000
<b>Administration income</b>		
Fees and charges to external customers	-	911
Cost recoveries/rental income	767	326
Other income	979	179
	<b>1,746</b>	<b>1,416</b>
<b>Programme income</b>		
Fees and charges to external customers	10,546	26,688
Rental income from properties	4,031	3,545
Claims for damage to Network	8,219	12,949
Interest receivable	19,467	18,034
Recovery of costs incurred on M6 toll scheme	9,270	10,484
National Vehicle Recovery	2,794	1,868
Sales of strategic salt stock	179	5,602
Profit on sale of assets	-	493
Other income	6,839	11,274
	<b>61,345</b>	<b>90,937</b>

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

## Disclosure under the HM Treasury Managing Public Money

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

	2011-12			2010-11		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	10,546	10,546	-	27,600	27,600	-
Cost recoveries/rental income administration	227	227	-	326	326	-
Rental income from programme properties	4,031	4,549	(518)	3,545	6,112	(2,567)
Claims for damage to network	8,219	8,885	(666)	12,949	13,630	(681)
National vehicle recovery	2,794	5,403	(2,609)	1,868	5,457	(3,589)
Recovery of other costs from MEL	1,190	1,156	34	3,614	3,402	212
Recovery of costs incurred from schemes	2,883	2,883	-	5,477	5,477	-
Sales of Strategic salt stock	179	179	-	5,602	5,278	324
Other income	4,233	4,233	-	515	515	-
	<b>34,302</b>	<b>38,060</b>	<b>(3,759)</b>	<b>61,496</b>	<b>67,797</b>	<b>(6,301)</b>

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

**SECTION 10: Financial Statements**
**7 (a) Property, plant and equipment 2011-12**

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

## 7 (b) Property, plant and equipment 2010-11

	Infrastructure Assets	Assets under construction	Land	Buildings	Dwellings	Plant & Machinery	Information Technology	Total
Cost or valuation	£000	£000	£000	£000	£000	£000	£000	£000
At 1 April 2010	100,811,794	710,963	137,369	99,817	38,494	114,477	54,694	101,967,608
Detrunking	(91,324)	-	-	-	-	-	-	(91,324)
Prior period adjustment	-	177,009	-	-	-	-	-	177,009
<b>Restated Sub-total</b>	<b>100,720,470</b>	<b>887,972</b>	<b>137,369</b>	<b>99,817</b>	<b>38,494</b>	<b>114,477</b>	<b>54,694</b>	<b>102,053,293</b>
Adjustments to opening position	968,758	48,645	796	77	2,404	-	-	1,020,680
Capital additions	335,813	1,254,767	8	820	613	16,327	-	1,608,348
Valuation adjustments	(335,813)	(724,717)	-	-	-	-	-	(1,060,530)
Disposals	-	-	-	(47)	-	-	-	(47)
Revaluation	12,573,556	-	1,204	(4,099)	4,342	7,407	(2,538)	12,579,872
Impairments	(118,253)	-	(86)	(19,405)	(284)	(7)	(7)	(138,042)
Transfers	313,838	(346,089)	1,915	7,372	17,363	5,508	93	-
Reclassifications to Assets held for sale	-	-	(11,900)	4,933	(5,872)	(20,102)	-	(32,941)
<b>At 31 March 2011</b>	<b>114,458,369</b>	<b>1,120,578</b>	<b>129,306</b>	<b>89,468</b>	<b>57,060</b>	<b>123,610</b>	<b>52,242</b>	<b>116,030,633</b>
<b>Depreciation</b>								
At 1 April 2010	13,895,319	-	-	24,772	-	65,256	51,582	14,036,929
Detrunking	(11,868)	-	-	-	-	-	-	(11,868)
<b>Restated Sub-total</b>	<b>13,883,451</b>	<b>-</b>	<b>-</b>	<b>24,772</b>	<b>-</b>	<b>65,256</b>	<b>51,582</b>	<b>14,025,061</b>
Adjustment to opening position	90,169	-	-	-	-	-	-	90,169
Valuation adjustments	(335,813)	-	-	-	-	-	-	(335,813)
Impairment	(64,536)	-	-	(37)	-	-	-	(64,573)
Charged in year	411,703	-	-	2,458	-	9,883	2,520	426,564
Disposals	-	-	-	(47)	-	-	-	(47)
Revaluation	1,799,218	-	-	(3,817)	-	3,761	(2,441)	1,796,721
Transfers	-	-	-	-	-	-	-	-
Reclassifications of Assets held for sale	-	-	-	(98)	-	(18,973)	-	(19,071)
<b>At 31 March 2011</b>	<b>15,784,192</b>	<b>-</b>	<b>-</b>	<b>23,231</b>	<b>-</b>	<b>59,927</b>	<b>51,661</b>	<b>15,919,011</b>
<b>Carrying value at 31 March 2011</b>	<b>98,674,177</b>	<b>1,120,578</b>	<b>129,306</b>	<b>66,237</b>	<b>57,060</b>	<b>63,683</b>	<b>581</b>	<b>100,111,622</b>
<b>Carrying value at 31 March 2010</b>	<b>86,837,019</b>	<b>887,972</b>	<b>137,369</b>	<b>75,045</b>	<b>38,494</b>	<b>49,221</b>	<b>3,112</b>	<b>88,028,232</b>
<b>Asset financing</b>								
Owned	96,342,243	938,582	129,306	63,437	57,060	63,121	81	97,593,830
Finance leased	-	-	-	-	-	562	500	1,062
On-balance sheet PFI contracts	2,331,934	-	-	2,800	-	-	-	2,334,734
M6 reversionary interest	-	181,996	-	-	-	-	-	181,996
<b>Carrying value 31 March 2011</b>	<b>98,674,177</b>	<b>1,120,578</b>	<b>129,306</b>	<b>66,237</b>	<b>57,060</b>	<b>63,683</b>	<b>581</b>	<b>100,111,622</b>



### Network Assets

#### *Adjustment to opening position*

The Infrastructure asset valuation as at 1 April 2011 was restated to include the following adjustments:

- Change in structure classification – in 2011-12 a prior year adjustment of £34,040,000 (2010-11 £177,009,000) was made in Assets Under Construction for a change in the valuation classification of the A3 Hindhead tunnel. The new Hindhead tunnel was part of the wider project to upgrade and deliver a new A3 by-pass at Hindhead. The project was designated an improvement project and this determined the valuation classification of the project at the start of construction and resulting level of write-downs. However, the Hindhead tunnel is one of the longest land tunnels in the UK and due to its innovative construction techniques the Agency decided this was best classified as a special structure and valued as per the valuation methodology for such unique structures (ie at actual cost). This results in a prior year write back of write-downs.
- There was an adjustment of £190,534,000 for dimensional variance. This variance results from improved information on dimensions for road pavements, individual structures etc.
- There was an increase of £55,646,000 in the infrastructure valuation due to re-referencing. This is the outcome from improvement in data re-measurement, changes in individual road sections etc.
- During the year the Agency revised the methodology for structures valuation to provide an improved methodology that places less reliance on detailed engineering data. In addition, a full review was undertaken of the valuation of special structures which are those structures that, due to a combination of their size, construction and character, valuation is based on unit rates and actual cost data of modern equivalent structures. The changed estimation technique resulted in an overall increase in the book value of structures by £5,336,047,000.

#### *Valuation Adjustments*

This consists of the following:

- Capital renewal - the Agency spent £345,103,000 on capital renewal expenditure during 2011-12. This reflects the ongoing programme to update and improve on a wide variety of renewals schemes that will yield benefits in future years. The above amount represents the gross value of materials replaced by the capital renewal programme and is therefore removed from the gross value of the infrastructure assets.
- Write-down – the Agency valuation of the infrastructure network is based on standard cost and indexation. There is always a difference between the actual cost of construction and the standard cost valuation methodology. This difference is defined as write-down. In 2011-12 the write-down was £506,593,000. This amount is impacted by the type of scheme under construction or opened to traffic during the year.

#### *Revaluation*

The network infrastructure valuation increased by £2,710,465,000 as a result of indexation:

- Each financial year the Agency applies an indexation factor to the gross valuation of the network infrastructure assets to reflect the impact of current price. The indexation applied is based on an agreed construction industry index.
- Indexation was also applied to the revised valuation methodology for all structures including specials.

#### *Depreciation*

The network is depreciated on a yearly basis to reflect the current condition of the network. The charge for 2011-12 was £727,557,000 (2010-11 £411,703,000). This charge included £35,505,000 for deterioration in the road condition (2010-11 - there was an improvement in the road condition which resulted in a credit of £44,220,000). The 2011-12 road condition charge is low indicating the road surface is in relatively good condition.

**Assets under Construction**

The 1 April 2011 opening position was adjusted to include an additional £6,120,000 of reversionary interest for the M6 toll road.

	2011-12 £000	2010-11 £000
Freehold buildings (96%)	219,681	186,087
Long leasehold buildings (50+ years)	-	-
Short leasehold buildings (less than 50 years)	9,078	9,456
<b>Total</b>	<b>228,759</b>	<b>195,543</b>

**8 Intangible assets**

	Software Licences £000	Developed Costs £000	Total £000
<b>Cost or valuation</b>			
Balance at 1 April 2010	6,391	76,088	82,479
Additions	26	-	26
Disposals	-	-	-
Balance at 1 April 2011	6,417	76,088	82,505
Additions	-	-	-
Disposals	-	-	-
<b>At 31 March 2012</b>	<b>6,417</b>	<b>76,088</b>	<b>82,505</b>
<b>Amortisation</b>			
Balance at 1 April 2010	6,103	59,934	66,037
Charged in year	237	5,794	6,031
Disposals	-	-	-
Balance at 1 April 2011	6,340	65,728	72,068
Charged in year	65	5,066	5,131
Disposals	-	-	-
<b>At 31 March 2012</b>	<b>6,405</b>	<b>70,794</b>	<b>77,199</b>
<b>Carrying value at 31 March 2012</b>	<b>12</b>	<b>5,294</b>	<b>5,306</b>
<b>Carrying value at 31 March 2011</b>	<b>77</b>	<b>10,360</b>	<b>10,437</b>

## 9 Assets classified as held for sale

	Land and Buildings £000	Dwellings £000	Plant & Machinery £000	Total £000
<b>Balance at 1 April 2010</b>	3,897	4,165	-	8,062
Disposals	(2,901)	(5,383)	(1,129)	(9,413)
Revaluation	-	-	-	-
Reclassifications from property plant and equipment	6,869	5,872	1,129	13,870
<b>Balance at 1 April 2011</b>	<b>7,865</b>	<b>4,654</b>	<b>-</b>	<b>12,519</b>
Disposals	(2,809)	(3,531)	-	(6,340)
Revaluation	(964)	(622)	-	(1,586)
Impairment	(103)	(221)	-	(324)
Reclassifications to/from property plant and equipment	5,317	8,034	-	13,351
<b>Balance at 31 March 2012</b>	<b>9,306</b>	<b>8,314</b>	<b>-</b>	<b>17,620</b>

## 10 Impairments

	2011-12 £000	2010-11 £000
Total impairment charge through Statement of Comprehensive Net Expenditure	33,136	73,469

The above impairment charge for 2011-12 mainly comprises:

- £5,344,000 of technology asset impairment (2010-11 £50,694,000) reflecting removal of damaged equipment from the network.
- The A3 Hindhead scheme was opened to traffic in 2011-12. Part of this scheme involved returning parts of the old A3 back to 'pasture' to restore the natural beauty of the area. The associated impairment cost was £12,580,000.
- A number of overbridges and gantries were demolished as part of the ongoing renewals process. The associated impairment cost was £12,713,000.

## 11 Inventories

	31 Mar 2012 £000	31 Mar 2011 £000
Communication/electrical equipment for strategic road network	40,450	65,152
Highway damage repair items - barriers and parts for the repair of bridges, tunnels and special structures	1,279	1,382
Salt	14,096	21,696
Uniforms for Traffic Officers	424	524
<b>Total</b>	<b>56,249</b>	<b>88,754</b>

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

## 12 Trade and other receivables

### 12 (a) Analysis by Type

<b>Amounts falling due within one year</b>	<b>31 Mar 2012</b> <b>£000</b>	<b>31 Mar 2011</b> <b>£000</b>
Trade receivables	5,004	10,602
Deposits and advances	6,252	11,122
VAT	85,560	89,959
Midland Expressway Limited M6 concession	11,446	10,613
Prepayments and accrued income	15,623	11,628
Other receivables	386	35
	<b>124,271</b>	<b>133,959</b>
<b>Amounts falling due after more than one year</b>	<b>31 Mar 2012</b> <b>£000</b>	<b>31 Mar 2011</b> <b>£000</b>
Severn River Crossing Plc subordinated loan	105,011	100,045
Severn River Crossing Plc deferred interest	64,361	54,815
Midland Expressway Limited M6 concession	162,634	153,977
Deposits and advances	8,947	4,605
Staff relocation housing loans	35	46
	<b>340,988</b>	<b>313,488</b>
<b>Total</b>	<b>465,259</b>	<b>447,447</b>

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing. The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. It is currently predicted the concession period will end in May 2018. This has been extended following an agreement between the Agency and SRC to compensate for 'Adverse Relevant Events' brought about by changes to tax legislation. Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period.

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

## 12 (b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2012 £000	31 Mar 2011 £000	31 Mar 2012 £000	31 Mar 2011 £000
Balances with:				
Other central Government bodies	86,419	90,031	-	-
Local authorities	4,004	5,354	-	-
Public corporations and trading funds	211	-	-	-
<b>Total Intra-Government balances</b>	<b>90,634</b>	<b>95,385</b>	<b>-</b>	<b>-</b>
Balances with bodies external to Government	33,637	38,574	340,988	313,488
<b>Total</b>	<b>124,271</b>	<b>133,959</b>	<b>340,988</b>	<b>313,488</b>

## 13 Cash and cash equivalents

	2011-12 £000	2010-11 £000
Balance at 1 April 2011	(18,655)	30,499
Net change in cash and cash equivalent balances	36,032	(49,154)
<b>Balance at 31 March 2012</b>	<b>17,377</b>	<b>(18,655)</b>
The following balances at 31 March were held at:		
Commercial banks	45	-
Government Banking Service	17,332	(18,655)
<b>Balance at 31 March 2012</b>	<b>17,377</b>	<b>(18,655)</b>

In 2010-11, the bank overdraft of £18,655,000 was reported in Note 14 Trade and Other Payables.

## 14 Trade and other payables

### 14 (a) Analysis by type

	Note	31 Mar 2012 £000	31 Mar 2011 £000
<b>Amounts falling due within one year:</b>			
Other taxation and social security		4,475	4,624
Trade payables		3,078	29,997
Accruals and deferred income		500,197	450,143
Current part of finance leases		-	998
Current part of imputed finance lease element of on balance sheet PFI contracts		57,574	51,245
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:			
Received		-	128
Receivable		6	6
Amounts due to DfT in respect of Dartford River Crossing road user charges		7,040	7,099
Amounts due to the Consolidated Fund in respect of supply		65,282	29,120
Bank Overdraft	13	-	18,655
Other payables		633	625
		<b>638,285</b>	<b>592,640</b>
<b>Amounts falling after more than one year:</b>			
		<b>31 Mar 2012 £000</b>	<b>31 Mar 2011 £000</b>
Imputed finance lease element of on balance sheet PFI contracts		1,795,146	1,497,871
Consolidated Fund extra receipts due to be paid to the Consolidated Fund in respect of:			
Severn River Crossing plc subordinated loan		105,011	100,045
Severn River Crossing plc subordinated loan interest		54,815	54,815
Midland Expressway Ltd concession		61,497	61,497
Other payables, accruals and deferred income:			
Payable as agents in respect of the Midland Expressway Ltd concession		10,132	9,089
Other		27,569	19,341
		<b>2,054,170</b>	<b>1,742,658</b>
<b>Total</b>		<b>2,692,455</b>	<b>2,335,298</b>

## SECTION 10: Financial Statements

### Accruals and deferred income comprise:

	31 Mar 2012 £000	31 Mar 2011 £000
Amounts payable relating to road schemes	441,303	383,923
PFI Shadow Tolls	29,639	31,041
Third party funded projects (s278)	18,365	14,561
Administration accruals	9,566	9,823
Other	1,324	10,795
	<b>500,197</b>	<b>450,143</b>

### 14 (b) Intra-Government Payables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2012 £000	31 Mar 2011 £000	31 Mar 2012 £000	31 Mar 2011 £000
Balances with:				
Other central Government bodies	71,320	34,990	231,456	216,357
Local authorities	193	299	-	-
Public corporations and trading funds	28	-	-	-
<b>Total intra-Government balances</b>	<b>71,541</b>	<b>35,289</b>	<b>231,456</b>	<b>216,357</b>
Balances with bodies external to Government	566,744	557,351	1,822,714	1,526,301
<b>Total</b>	<b>638,285</b>	<b>592,640</b>	<b>2,054,170</b>	<b>1,742,658</b>

## 15 Provisions

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2010	171,619	45,427	87,497	87,685	1,819	15,659	409,706
Provided in the year	48,441	77,111	2,000	10,000	2,653	2,655	142,860
Provisions not required written back	(34,556)	(12,867)	(2,000)	(53,077)	-	(947)	(103,447)
Provisions utilised in the year	(36,409)	(45,076)	(34,720)	(18,113)	(704)	(4,525)	(139,547)
Reclassification incl. accruals	-	-	-	-	-	(4,760)	(4,760)
<b>Balance at 1 April 2011</b>	<b>149,095</b>	<b>64,595</b>	<b>52,777</b>	<b>26,495</b>	<b>3,768</b>	<b>8,082</b>	<b>304,812</b>
Provided in the year	26,673	57,482	8,496	1,448	-	3,668	97,768
Provisions not required written back	(38,631)	(6,543)	(1,571)	-	-	(1,360)	(48,105)
Provisions utilised in the year	(24,024)	(31,697)	(32,726)	(4,928)	(907)	(3,287)	(97,569)
<b>Balance at 31 Mar 2012</b>	<b>113,113</b>	<b>83,837</b>	<b>26,977</b>	<b>23,015</b>	<b>2,861</b>	<b>7,103</b>	<b>256,906</b>

### Analysis of expected timing of discounted flows:

	Land and property acquisition	Engineering and construction services	Bridge strengthening	Tunnels	Early retirement	Migration pension & other liabilities	Total
	£000	£000	£000	£000	£000	£000	£000
In 2012 - 2013	20,443	54,945	26,782	12,578	795	4,297	119,840
Between 2014 and 2018	86,391	28,892	195	10,437	2,066	2,806	130,787
Between 2019 and 2023	6,279	-	-	-	-	-	6,279
Thereafter	-	-	-	-	-	-	-
<b>Balance at 31 March 2012</b>	<b>113,113</b>	<b>83,837</b>	<b>26,977</b>	<b>23,015</b>	<b>2,861</b>	<b>7,103</b>	<b>256,906</b>

### Land and Property Acquisition

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

### Engineering and Construction Services

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

### Bridge Strengthening

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



## SECTION 10: Financial Statements

### Tunnels

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

### Migration, Pensions and Other Liabilities

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2012 that will require settlement by the Agency.

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

### In year increases and decreases in provisions

These can impact on both the Capital Expenditure and Statement of Comprehensive Net Expenditure. Capital Expenditure provisions increased by £59,920,000 (2010-11 increased £86,109,000) during the year. The following provisions were charged to the Statement of Comprehensive Net Expenditure:

<b>Programme:</b>	<b>2011-12 £000</b>	<b>2010-11 £000</b>
Land and property acquisition	(11,506)	(151)
Engineering and construction services	(1,060)	(7,809)
Bridge strengthening	-	-
Tunnels	-	(43,077)
Early retirement	-	768
Pensions and other liabilities	1,890	1 62
	<b>(10,676)</b>	<b>(50,107)</b>
<b>Administration:</b>		
Early retirement	-	1,885
Other	419	1,526
	<b>(10,257)</b>	<b>(46,696)</b>

## 16 Capital Commitments

	31 Mar 2012 £000	31 Mar 2011 £000
<b>Contracted capital commitments at 31 March 2012 not otherwise included in these accounts:</b>		
Property, plant and equipment	229,913	418,054

## 17 Commitments under Leases

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

Obligations under operating leases comprise:	31 Mar 2012		31 Mar 2011	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	8,644	19	7,258	195
Later than one year and not later than five years	34,183	14	33,892	305
Later than five years	59,219	-	66,718	-
	<b>102,046</b>	<b>33</b>	<b>107,868</b>	<b>500</b>

The Agency has the following minimum lease payments under finance leases:

Obligations under finance leases comprise:	31 Mar 2012		31 Mar 2011	
	Land and Buildings £000	Other £000	Land and Buildings £000	Other £000
Not later than one year	-	-	-	998
Later than one year and not later than five years	-	-	-	307
Later than five years	-	-	-	-
	-	-	-	<b>1,305</b>

## 18 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 - Derby link
- M40 Junctions 1-15
- A19 Dishforth to Tyne Tunnel
- A30/A35 Exeter to Bere Regis
- A69 Carlisle to Newcastle
- A1(M) Darrington to Dishforth
- A249 Iwade to Queenborough
- - National Roads Telecommunications Services
- M25 London Orbital Motorway contract

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

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

	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	172,150	164,186
Later than one year and not later than five years	762,245	627,348
Later than five years	2,995,921	2,266,542
	<b>3,930,316</b>	<b>3,058,076</b>
Less interest element	(2,077,596)	(1,508,960)
	<b>1,852,720</b>	<b>1,549,116</b>

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

	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	553,453	402,845
Later than one year and not later than five years	2,092,012	1,778,124
Later than five years	12,938,142	11,916,188
	<b>15,583,607</b>	<b>14,097,157</b>

The total amount charged in the Statement of Comprehensive Net Expenditure in respect of the service element of on balance sheet PFI transactions for the year was £314,815,000 (2010-11 £289,346,000).

## 19 Financial Instruments

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

### Liquidity risk

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

### Credit risk

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

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

### Interest Rate Risk

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

### Exchange Rate Risk

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

### Fair Values

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

## 20 Contingent liabilities and assets

### 20 (a) Contingent liabilities

	31 Mar 2012 £000	31 Mar 2011 £000
Land & property acquisition	173,550	168,651
Engineering & construction services	7,500	7,110
Other	8,770	4,446
	<b>189,820</b>	<b>180,207</b>

#### Land and Property Acquisition

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

##### *Acquisition and Blight*

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

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

##### *Compensation for Loss After Construction*

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

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

##### *Claims in Dispute*

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

##### *Engineering and Construction Services*

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

##### *Other*

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

## 20 (b) Contingent Assets

The 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 2011-12 amounts totalling £318,000 (2010-11 £12,000) were received under these arrangements.

## 21 Losses and special payments

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

	2011-12 £000	2010-11 £000
<b>Losses:</b>		
Bookkeeping/cash losses: 44 cases (2010-11: 21 cases)	772	394
Fruitless payments: 1 case (2010-11: 8 cases)	37	42,142
Claims abandoned/store losses: 3,699 (2010-11: 1,948)	5,530*	5,524
<b>Special Payments:</b>		
Ex-gratia compensation: 4 cases (2010-11: 6 cases)	25	41

\* The losses disclosed above include 3,078 cases valued at £5,066,000 (2010-11: 1,863 cases valued at £4,510,111) for damage to the road network where the culprit could not be identified or otherwise pursued for costs.

During 2011-12 there were two cases of £267,000 and £429,000 where debts from third parties have been written off due to book-keeping errors in prior years (2010-11: one case of £366,000).

During 2010-11, eight road schemes in the course of development were cancelled as a result of the Government decision, taken as part of the 2010 Spending Review, to proceed with 14 other schemes to be started between 2011-12 and 2014-15.

During 2011-12 there were several confirmed incidents of metal theft across the Agency's road network. The cost to repair and reinstatement has been estimated at £5.9 million. This excludes any costs arising from the loss of service.

**22 Related Party Transactions**

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

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

There were no Board member interests in third party transactions.

**23 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 Agency as work progresses.

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

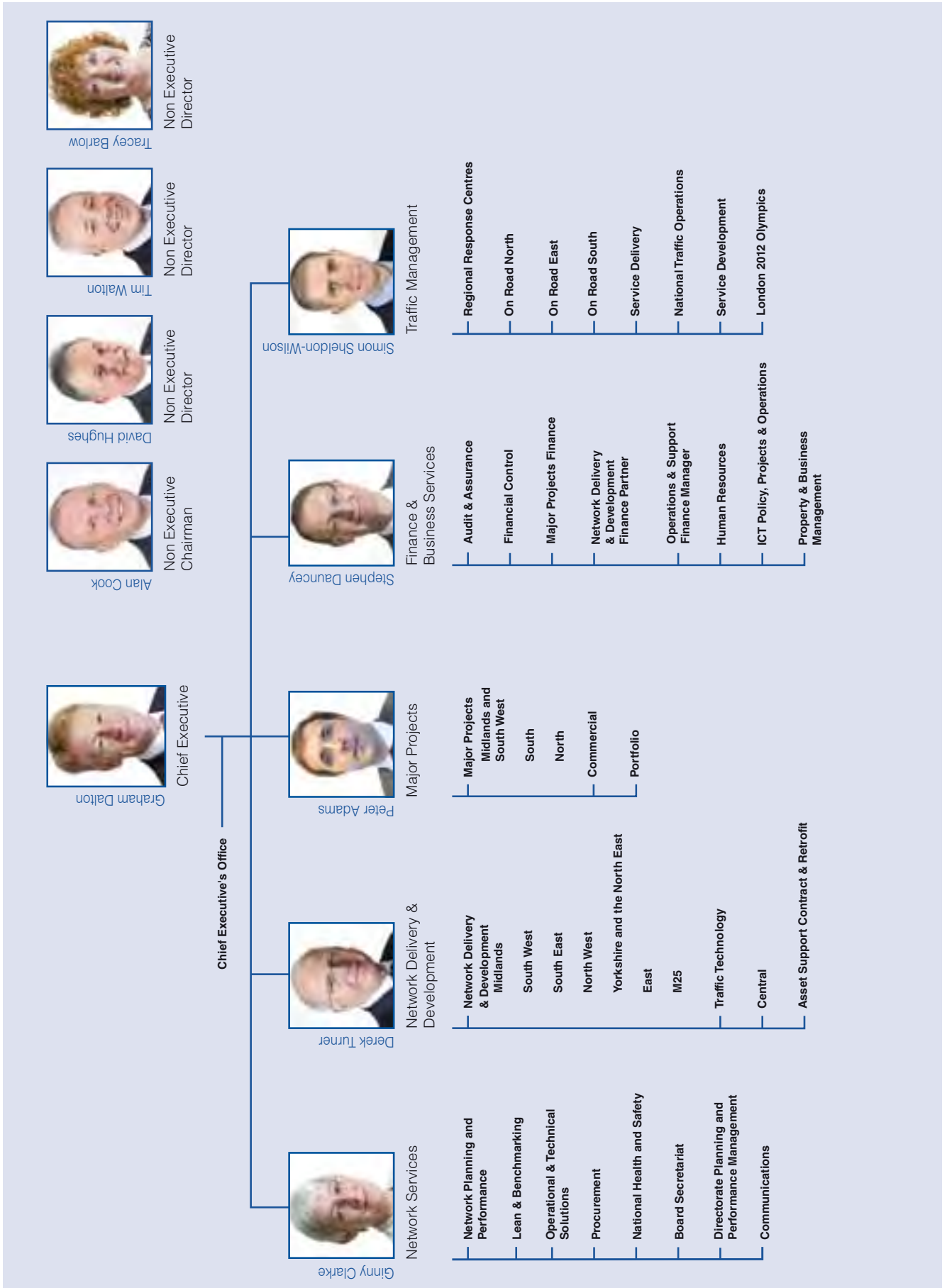
These are not Agency assets and therefore are not included in the accounts.

	<b>31 Mar 2012</b>	<b>31 Mar 2011</b>
	<b>£000</b>	<b>£000</b>
Lloyds TSB Escrow Bank Accounts	2,035	2,944
Lloyds TSB Euro Bank Account	115	111
	<b>2,150</b>	<b>3,055</b>

**24 Events after the reporting period**

There have been no significant events between the financial reporting date and the date of these Financial Statements. These Financial Statements are laid before the Houses of Parliament by the Secretary of State of the Department for Transport. International Accounting Standard (IAS) 10 requires the Agency to disclose the date on which the accounts are authorised for issue. This is the date the certified accounts are despatched by the Agency's management to the Secretary of State of the Department for Transport. This authorised date of issue is 11 July 2012.

# ANNEX A: Highways Agency Board and organisational structure







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