HIGHWAYS AGENCY

Safe roads, reliable journeys, informed travellers

Highways Agency
Annual Report and Accounts
2013-14

HC 261

An executive agency of the Department for Transport

Highways Agency
Annual Report and Accounts 2013-2014

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Key achievements at a glance

Responding to flooding and severe weather

With many areas of the country so badly affected by flooding and severe weather, and with severe impact on the main rail routes, many communities were totally reliant on the strategic road network.

Our established crisis management system means we have an up to date and accurate picture of conditions on the network. It enables us to plan our response in a consistent and co-ordinated manner and it ensures we work well with the many police and local authority led responders.

Stimulating economic growth through our Pinch Point programme

The Pinch Point programme has been designed by the Highways Agency to deliver smaller scale improvements that will help to stimulate growth in the local economy and relieve congestion and improve safety.

The Pinch Point programme	No. of schemes
Schemes which have completed construction	26
Schemes which have started construction	17
Schemes at design phase	79
Schemes which have not started	1
Total number of schemes	**123**

The Pinch Point programme forms part of the UK Government's growth initiative. Total investment in the programme is £317 million across 123 schemes over a three-year period.

Delivering our capital investment programme

- 828 capital renewals projects were completed against the target of 834. The schemes were delivered at £37m below planned budget generating a cash saving, allowing for re-investment in additional schemes;
- 26 Pinch Point schemes have been completed; and
- Nine new major schemes have started on site during the year, with a further 11 under construction and two completed. The major projects programme continues to over-deliver against the 20 per cent efficiency target.

Enabling economic growth by engaging with the planning system

We engage with the planning system and development industry in a transparent and efficient way to deliver sustainable development and economic growth.

We seek to balance the wishes of local communities with the economic importance of the network.

The Highways Agency has responded to planning applications involving the creation of 62,000 jobs, over 100,000 new homes, reduced congestion, improved road safety and reduced road user CO2 emissions.

Chairman's Introduction

"A year of significant achievements on the Strategic Road Network and one which ends with us preparing for transformation into a new, more commercially focussed, public company that will put customers at the heart of everything we do."

Alan Cook,
Chairman

The Highways Agency achieved a significant amount during the last reporting year – from publishing plans for the £1.5 billion A14 Cambridge to Huntingdon improvement, to rolling out “all lane running” for the first time on a section of the M25. We have also taken forward a number of the recommendations I made in November 2011 during my strategic roads review, A fresh start for the Strategic Road Network.

In April 2013 DfT published a new performance specification for the Strategic Road Network (SRN). This sets out five high-level outcomes that the Government wants to secure for the SRN up to 2015. We recently published 18 evidence reports that support greater participation from local and regional stakeholders in the planning process.

The remainder of the recommendations, for certainty of funding and a roads investment strategy, were accepted by the Government's Action for Roads command paper in July 2013. This set out plans to change the way strategic roads are funded and managed, including transforming the Highways Agency into a government-owned public company by spring 2015.

The new company will have greater flexibility to act commercially, particularly with our supply chain partners and, as a result, deliver a better, value-for-money road-building programme and improved service to our customers, notably road users.

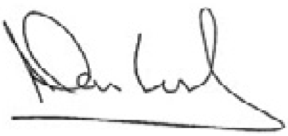
We will be managing a considerable increase in investment, with the Government committing more than £24 billion to upgrade England's SRN over the next 6 years, a three-fold increase compared with current annual investment levels. This is a very welcome increase which will enable us to dramatically improve the road user experience.

In anticipation of these changes, a new Board is also being created. After three years as a non-executive director, Tim Walton has stepped down, having provided particular support to the transition of our National Traffic Operations Centre from its former PFI contract.

Elaine Holt and Tom Smith, both of whom have significant experience of the transport sector, have joined the new Board, adding to its commercial capability. Elaine has experience of running a government company, having been chief executive of Directly Operated Railways, while Tom has a background in commercial leadership and worked in the team that successfully bid for and then constructed the M6 Toll Road. The reformed Board will be more strategically and commercially focused and will comprise five non–executive and three executive directors.

The position of non-executive Chair is also being re-recruited. Once appointed, from summer 2014, a shadow board will operate until the new company becomes operational in spring 2015.

We have much positive change ahead of us but I would like to close by thanking all Highways Agency staff and colleagues in the supply chain for, once again, doing such a professional job over the past year. Their skill and dedication will be crucial for us as we move towards a more commercially focused business that puts customers at the heart of everything it does.



Alan Cook
Chairman

Chief Executive's Review

"I would like to thank our people at the Highways Agency for all their hard work through a very busy year, operating, maintaining and improving this vital network."

Graham Dalton,
Chief Executive

England's motorway and trunk road network is a vitally important national asset. Four million people drive cars, vans or trucks on it every day. Thousands more use coaches and buses on it. Everyone depends on it – for distribution between factories, ports, warehouses and shops. For travel to work, and for travel on business. Our lives would be very different without this network of fast and reliable roads.

Over the last year my staff at the Highways Agency with our contractors and our suppliers have been working hard to keep traffic flowing and to improve the network for all. With strong support from Government and ministers, we have deployed innovative new technology on our smart motorways programme and we have ramped up the pace of getting capital projects through the design phase and onto site. This approach to accelerated delivery requires greater efficiencies in managing the risks associated with multi-million pound projects, but does deliver benefits of more traffic lanes more quickly – for the benefit of all our customers.

The storms, high winds, flooding and tidal surges of last winter were a severe test of the resilience of the network. Tireless efforts by our traffic officers and our maintenance crews kept the impact of flooding and fallen trees to a minimum, which in turn kept access routes open for the emergency services providing relief to the most seriously affected communities. Over the last few years we have worked hard with our contractors to reduce the cost of routine maintenance, spending on the work that is essential for the network to perform under all conditions. This last winter showed that we continue to make the right decisions when prioritising where to invest. Our challenge is to ensure that we secure the right budget to meet the right level of improvement and operating costs, and keep the network open through whatever the weather might bring in future.

We have continued to make strong progress in reducing the cost of maintaining and improving the network. We now have half our maintenance contracts on our new form of Asset Support contract. These have stripped more than 20% from the cost of routine maintenance, and in our programme of major projects we are on target to deliver over 30% below original cost estimates – a testimony to our work to strengthen our commercial capability over a number of years.

As Alan Cook has mentioned in his introduction, Government has committed to a programme of major investment to improve the capacity and performance of the SRN. I and my team are absolutely committed to making the changes necessary in the business to deliver that investment, supporting a growing economy and improving our service to those four million customers every day.

I would like to thank our people at the Highways Agency for all their hard work through a very busy year, operating, maintaining and improving this vital network. Some colleagues have left us in the course of the year, to retire or to seek new professional opportunities. I thank every one of them for their contribution. I would like to welcome the 369 people who joined the Agency during the year, bringing an injection of new perspectives and different experience. You have arrived at a very exciting time.

Despite all our hard work, every one of us at the Highways Agency knows that our growing number of customers deserve better journeys on a better performing network. The Government's proposals to transform the Agency into a public company will help us achieve just that. In the meantime, we will continue to deliver a good service today, and plan for a better one for more of you tomorrow.

Graham Dalton
Chief Executive

1. Shaping the present, looking to our future

"Through commercial flexibility and long-term funding, the new government-owned company will deliver investment more quickly and provide a service that our customers appreciate."

Angela Koenig,
Transformation,
Dorking

As an executive agency of the Department for Transport (DfT), we operate, maintain and improve England's SRN. Spanning 4,300 miles of motorways and all-purpose trunk roads, the SRN carries one-third of all traffic and four million vehicles per day. Two-thirds of all heavy goods vehicle mileage in England is also undertaken on the SRN, making our roads the economic backbone of the country. We are proud of our role and believe that the SRN is not only nationally significant, but also that it is key to promoting growth in the UK economy.

The role of the Agency

Our vision and goals

We are driven by the goal of becoming 'The world's leading road operator' – and we have created five visionary statements to help guide us:

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.

Our new values statement –'Delivering a professional and affordable service through innovation and partnership working' – highlights the behaviours required of staff and contractors to ensure the delivery of our goals and the fulfilment of our organisational objectives.

Our core activities

We focus on three key areas of activities: operating, maintaining and improving.

Operating

We pride ourselves on delivering a reliable service to our customers. With access to the latest information, our National Traffic Operations Centre and Regional Control Centres are on hand to help customers both before and during their journeys, whilst also managing any problems. Ultimately, our capability for clearing traffic management incidents means our roads are safe, delays are minimised and journeys are reliable.

A few facts at a glance…

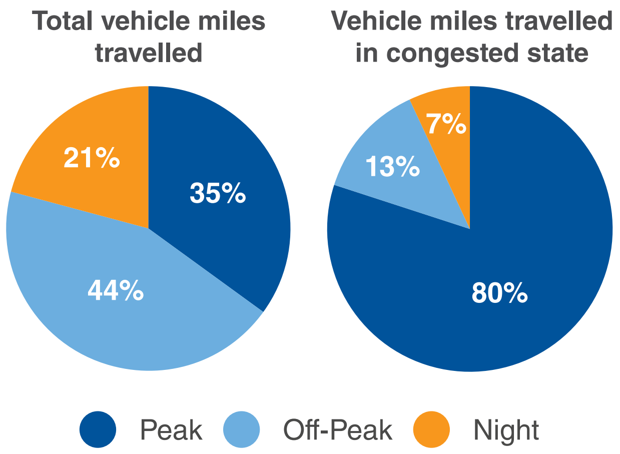
- Our Traffic Officer Service responds to around 20,000 incidents on average per month
- Our Information Line handles 548 calls and emails on average every week
- We have a high network availability (the proportion of the SRN not occupied by roadworks or incidents), exceeding 98 per cent
- We manage 3,698 electronic signs to provide information to road users, with availability exceeding 97 per cent.

Maintaining

We seek to keep the network safe, serviceable and reliable for today, tomorrow and the future. We carry out routine maintenance on roads, structures and technology, and we hold our contractors to account to ensure that we receive the expected high level of service.

A few facts at a glance…

- We completed over 950 separate maintenance interventions during the year, valued at over £300m, including over 1,000 miles of resurfacing
- We awarded four new Asset Support Contracts, valued at £2.2bn, covering 31 per cent of the SRN for up to the next eight years
- We try to keep disruption to a minimum, with over 80 per cent of lane closures taking place at night.



Improving

Finally, we look to improve. Our programme of major schemes is focused on large scale improvements to the network. Our smart motorways programme is focused on increasing capacity while delivering substantial cost savings compared to conventional road widening. Our Pinch Point programme seeks to improve congestion and safety at bottlenecks.

A few facts at a glance…

- Nine major road investment schemes were started during the year, with two having been completed – a further 11 are under development
- We have completed 26 Pinch Point improvement schemes, investing £66m
- A further 17 Pinch Point improvement schemes were under construction on 31 March 2014.

Our aims and commitments

Meeting the DFT's performance specification

The DfT performance specification, published in 2013 outlines the high level outcomes, outputs and specific requirements that the Government wants to secure from the SRN and from our organisation as a network operator.

The specification has been developed around the vital role that we play in meeting key government priorities, including facilitating and promoting economic growth and competitiveness, driving efficiency and best value for the taxpayer, and enhancing the road user experience, whilst minimising impact on local communities and the environment.

Over 40 individual measures and targets are specified, gathered under 12 outputs which include network availability and resilience, safety, information provision, customer satisfaction and efficiency.

A few facts at a glance…

- We receive and respond to an average of 270 planning applications every month
- The major schemes' programme continues to over-deliver against the 20 per cent efficiency target set in the 2010 Spending Review
- The national reliability measure continues to be maintained, despite adverse weather over the winter months.

Supporting economic development

We believe that one of our most significant contributions comes through facilitating economic growth to support the Government. Insufficient capacity, connectivity issues, recurrent congestion and unreliable journey times can all act to constrain economic growth. As a result, our careful management of transport is fundamental to the Government's plans to boost growth and drive the UK's economic recovery.

A few facts at a glance…

- Our investment in the SRN directly supports jobs in the construction industry
- In addition to the direct economic injection produced by development works, the Agency responded to planning applications involving the creation of 62,000 new jobs and over 100,000 new homes during 2013-14
- Around 24 per cent of the Agency's £2.2bn procurement expenditure ends up with small and medium sized companies, with over 90 per cent of invoices paid within 5 days.

More details about our commitment to economic growth can be found in Section 2, 'Providing a public service, enabling economic growth'.

Safeguarding the wider community

We seek to balance our responsibility to operate, maintain and improve the SRN with our responsibility to safeguard the wider community and environment.

We work with developers, local enterprise partnerships and communities to support timely delivery of local and national growth objectives. We recently, for example, completed a consultation about how we engage with communities and developers to deliver sustainable development.

We also continue to deliver our improvement plan, which sets out a series of actions to improve our interaction with the planning system and to promote growth and sustainable development.

A few facts at a glance…

- We have achieved a reduction in carbon emissions of over 4 per cent compared to 2012-13 and 25 per cent compared to 2009-10
- We have met our waste reduction targets and we are on track to meet our Greening Government Commitment water consumption reduction target in 2015
- For capital investment projects completed between 2002 and 2012, 90 per cent of environmental impacts were in line with, or better than our original projections.

More details about our support for sustainability can be found in Section 5, 'Managing our impact, adding value to our surroundings'.

	Actual £m	Budget £m	Variance £m
Resource DEL (excluding depreciation)	996	1,012	16
Resource DEL depreciation	882	929	47
Resource AME	622	972	350
Total net operating cost [1]	**2,500**	**2,913**	**413**
Capital DEL	1,342	1,425	83
Capital AME	-46	0	46
Total capital [2]	**1,296**	**1,425**	**129**
Total budget	**3,796**	**4,337**	**542**

[1] Net operating costs exclude £10 million of income for capital projects and a write-back of £5 million relating to the M25 gain-share receivable (see below). These items are treated differently in the accounts and are excluded from the statement of comprehensive net expenditure which therefore shows lower net operating costs.

[2] Net capital expenditure in the accounts is £1,302 million, £5 million more than the capital outturn shown above. This £5 million partly relates to a gain-share receivable by the Highways Agency following the completion of the M25 widening project. For budgeting purposes, £5 million is treated as a consolidated fund extra receipt. This is offset by the treatment of the £10m capital income which is recognised in net operating costs in the accounts.

Our financial performance

Our budget for 2013-14 was £4,337m, and was split between resource and capital expenditure, and DEL and AME expenditure classifications:

- Departmental Expenditure Limit (DEL) – these are firm budgets set by DfT
- Annually Managed Expenditure (AME) – this budget applies to volatile items which the Highways Agency could not be expected to absorb.

Resource DEL

The Agency has delivered efficiencies across the resource budget which has reduced by approximately one third over the last four years. The outturn of £995m was some £17m (1.7 per cent) below budget. This further saving reflects lower service payments for some road PFI contracts (due to inflation lower than forecast) and fewer technical projects progressing through approval stages.

Resource DEL Depreciation

The Agency has a large depreciation budget which reflects the valuation of the SRN – one of the highest value assets in the United Kingdom. The full year depreciation charge was £47m (5 per cent) below the £929m budget. The depreciation charge is impacted by many factors, including inflation (since the value of the network is indexed each year) and the condition of road surfaces. The outturn below budget is partly a reflection of the network condition being slightly better than was forecast at the start of the year.

Capital DEL

The capital DEL outturn is £1,342m, £83m (6.2 per cent) below budget. This includes a contingency of £43m that has not been required.

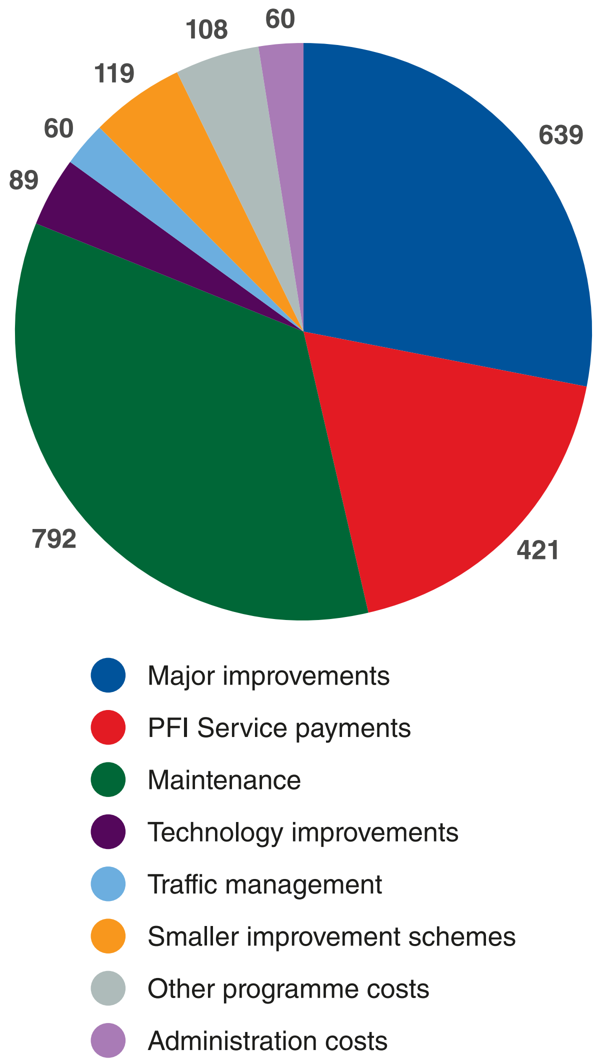
Excluding the contingency, over 97 per cent of the budget has been invested with the delivery commitments listed in page 5 completed during the year.

Whilst much of the under spend reflects the delivery of additional efficiencies across the investment programme (£66m of which was reinvested in the year), we deferred some work in the south-west in the final quarter to keep vital connections clear following the storm damage to the rail network. In addition the late mobilisation of two of our new maintenance contracts resulted in some slippage in these areas.

Resource AME

This budget covers the 'non-cash' write down of the infrastructure asset to reflect the difference between the actual cost of construction and the depreciated replacement cost used to value the network (see Note 1.4 in the accounts for more detail). The outturn of £622m results in a variance of £350m (36 per cent) below the £972m budget. A significant variance had been projected all year.

Net expenditure £m

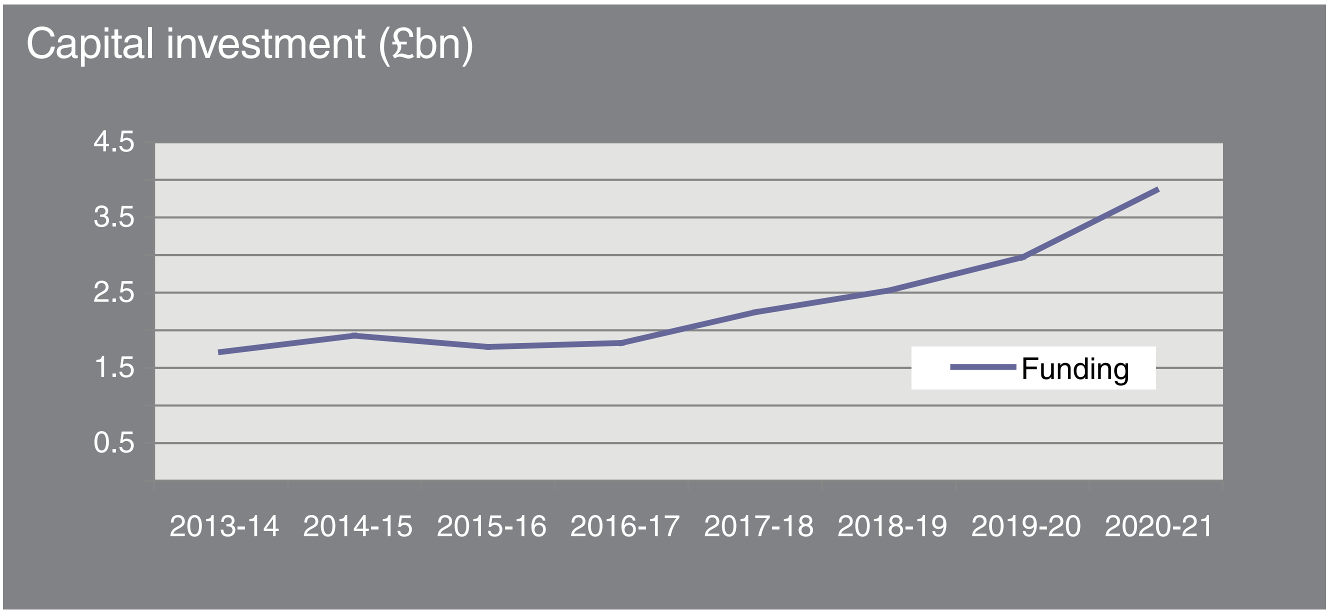


Our future

Transition to a government-owned company

In summer 2013, the Government published Investing in Britain's Future and Action for Roads – two documents that, together, set out a new vision for the SRN and a series of proposed reforms.

In addition to unveiling the biggest-ever upgrade of the existing road network, it was also announced that the Agency will become a government-owned company in 2015. The principal benefits deriving from the move will include much greater certainty over funding levels and an agreed long term Roads Investment Strategy. As part of this transformation, we will improve the day-to-day operation of the network, the quality of service that is delivered to road users, and the long-term condition of the SRN and its environmental impact.



Following the Government's consultation on these reforms at the end of 2013, we have been working closely together to plan our transition to a government-owned company, including establishing new governance and legal frameworks and determining how the new company will operate. We are working to address the people aspects of our transition to ensure a seamless move to the new organisation in a way that:

- Improves or maintains our people management services, including those that need to be sought outside the Civil Service
- Ensures the appropriate and effective transfer of our staff to the new organisation.

We have also established our 'Transformation Programme'. This will establish how the organisation will look and feel, ensuring that we are a fully capable, corporate business with the right cultural fit when the new company is launched.

2. Providing a public service, enabling economic growth

"Our all lane running sections of the M25 have converted the hard shoulder into a permanent traffic lane, providing much needed additional capacity for road users reducing congestion for our customers."

Andrew Page-Dove,
Smart Motorways,
Bristol

Delivering our major projects programme

Messages for Parliament in April 2013

The following announcements were made to Parliament in April 2013:

- Planned investment totalled £3.3bn, of which £1bn represented a 43 per cent increase from SR10 investment, arising from the growth announcements in 2011 and 2012
- Some £1.7bn (over 50 per cent) had been invested to date, with 10 major improvement schemes completed since 2010, and 11 schemes under construction - a further 12 schemes were due to start construction
- We are committed to deliver 20% savings against the current roads programme which equates to £644 million across the schemes scheduled to start by 2015. To date we have agreed, within the construction contracts of 16 of those schemes, savings of £857 million
- On average, for every £1m invested, economic benefits of around £5m have been delivered to the taxpayer.

Messages for the next Parliament

- Future plans are for £11bn of investment across six years (2015-16 to 2020-21), supporting and promoting economic growth within the UK, reducing congestion and improving reliability for road users
- There is a step change in planned activity, with investment in the SRN tripling from £1bn to £3bn per year by 2020-21
- £480 million investment has already been announced across four schemes planned to start between 2015-16 and 2016-17, while approximately £1.5bn of investment is planned for the A14 between Cambridge and Huntingdon, with delivery accelerated to bring forward the start of work by two years to 2016-17.

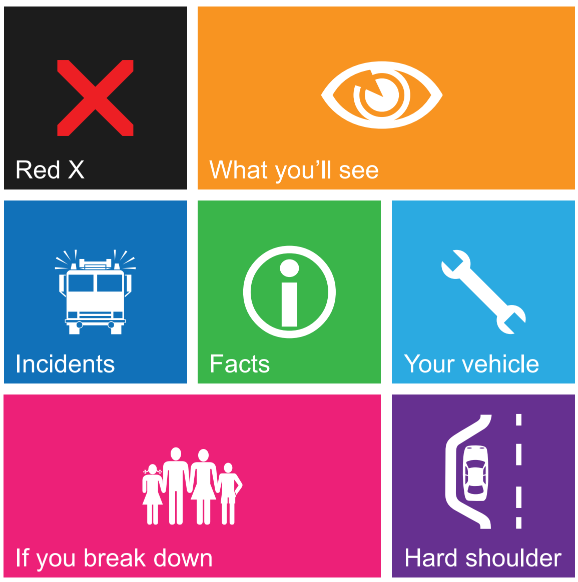
Smart motorways

Smart motorways use a range of innovative technology to actively control the flow and speed of traffic and provide driver information on overhead signs. This is to help get the best out of some of the most congested sections of our motorway network.

Smart motorways vary speed limits in response to conditions on the road, as well as using the hard shoulder as an extra lane to make journey times more reliable, improve traffic flow and reduce congestion.

The delivery of the programme of smart motorway enhancements is planned through a new £5bn collaborative delivery framework. The programme constitutes a £3-4bn investment across 15 locations, which will achieve further savings of 3.5 per cent per year across six years. Our desire to support the UK economy is at the heart of this programme, which will enable:

- Work to get on the ground faster, having a stimulating effect on employment and the economy
- Earlier completion of schemes and earlier delivery of benefits, including congestion relief
- Cost-efficient delivery, allowing more to be delivered for the same level of funding, which in turn will deliver an overall higher level of lane mile improvements.



Achievements

We are proud to have had many successes with our major projects programme in 2013-14, including:

- M62 junctions 25 to 30 – fully opened in September 2013
- M4/M5 – M4 section opened in November 2013 and fully opened in January 2014
- M25 junctions 5 to 7 – construction commenced May 2013
- M1 junctions 39 to 42 – construction commenced November 2013
- A14 Kettering Bypass – construction commenced November 2013.

Our Commercial and Procurement Directorate has supported these major projects achievements through awarding for example:

- Contracts, worth £784m, using the National Major Projects Framework and discrete procurements
- Package orders to the value of £52m, using the Project Support Framework
- Contracts for four 'Scenario' schemes, at short notice (contingency schemes should our existing programme become affected by air quality issues)
- The contract for the A160/A180 Immingham scheme (accelerated delivery) in seven months from publication of notice in the Official Journal of the European Union
- Three Pinch Point Schemes contracts within tight deadlines
- First use of the Environment Agency's National Site Investigation Framework.

Stimulating growth in the East Midlands

Our £150m scheme to widen a seven mile section of the A453, between M1 junction 24 in Leicestershire and the A52 in Nottinghamshire, is set to unlock growth and boost the economy, as well as reduce congestion and improve safety.

Construction started in January 2013 and when Transport Secretary Patrick McLoughlin visited our project in January 2014, he commented:

> *"The A453 is an important catalyst in boosting the economy. Once complete it will stimulate growth in and around the area and help existing businesses to move their goods and staff around the country more efficiently. It is great news that the local area is benefiting from the scheme so early into construction. The fact that 409 people have already been employed through the scheme's construction, with £21.5m spent so far with local businesses on materials and their services, is a great asset to the region."*

So far £36.3m worth of orders have been placed, with approximately 60 per cent of this total (£21.5m) being placed with sub-contractors based within 50 miles of the project. The project has also recruited local employees to work on the scheme, with more than 60 per cent of staff coming from Nottinghamshire, Leicestershire, Derbyshire or South Yorkshire.

Identifying future investment needs

Progressing with route-based strategies

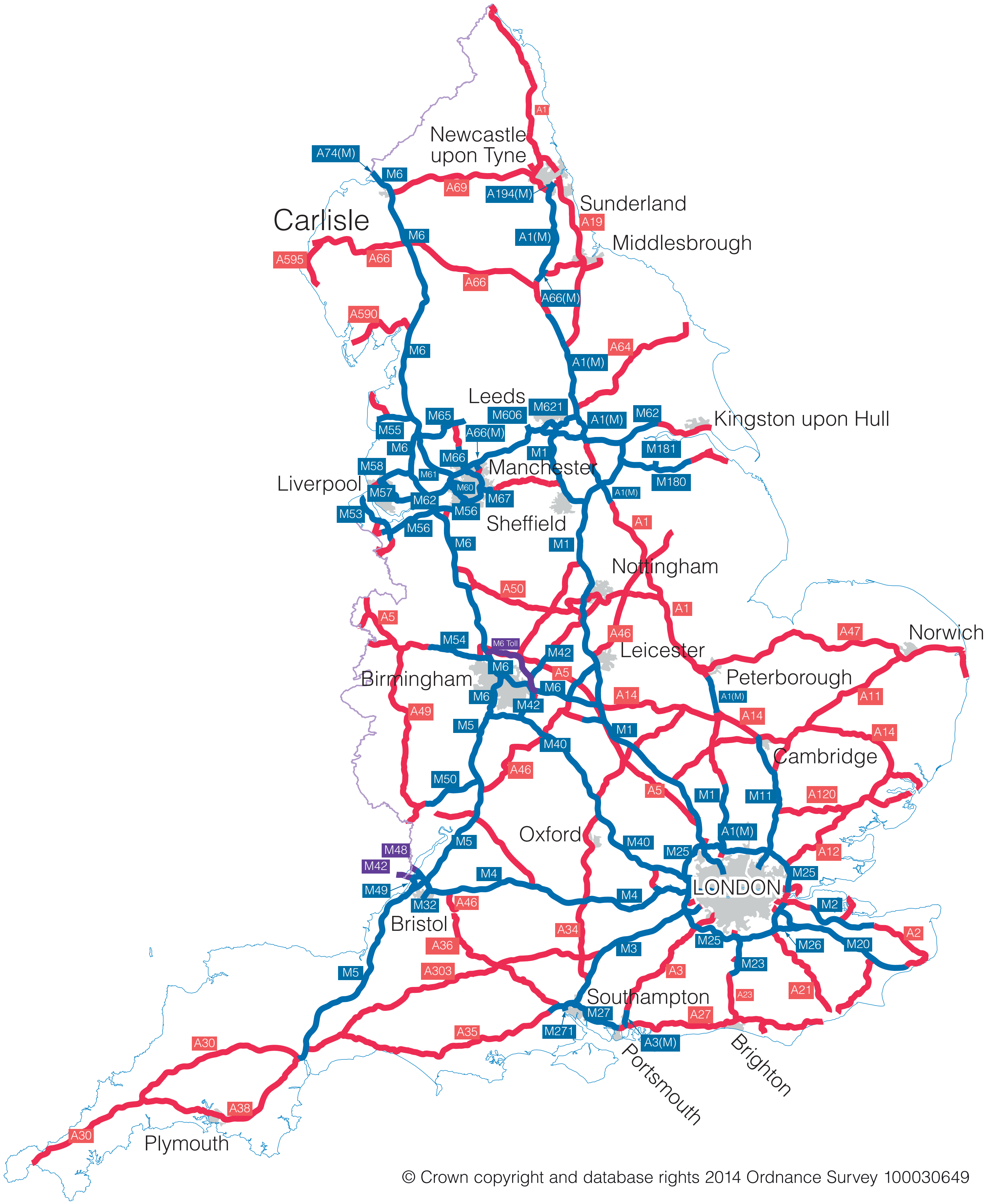
We are responsible for developing the network and planning for its future. We have therefore placed great importance on developing route-based strategies to identify the future investment needs of the SRN. These route strategies will in turn define the investment strategy for sections of our network, including operation, maintenance and, where appropriate, improvements to facilitate economic growth.

Working in consultation with local authorities and local enterprise partnerships, route-based strategies identify national and local priorities to gain a better understanding of potential opportunities for future growth and identify how the network can support economic development. Along with the feasibility studies announced by the Government, these strategies are key to identifying the investment plans for the step change in funding for the SRN, announced in Investing in Britain's Future.

We are pleased to note that we have progressed well with developing such strategies. Indeed, in May 2013, we published the first strategies for three locations, testing the concept against different route types with valuable input from local stakeholders.

The first three route-based strategies cover:

- A1 West of Newcastle
- A12 from the M25 to Harwich (including the A120 to Harwich)
- M62 between Leeds and Manchester.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Middlesbrough
Carlisle
Leeds
Kingston upon Hull
Manchester
Liverpool
Sheffield
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Peterborough
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Beginning a network-wide programme

Having successfully tested the route-based approach in the initial locations, we have begun a network-wide programme across 18 routes. This has been separated into two stages:

Stage 1

Completed in 2013-2014, stage 1 established the necessary evidence base to identify performance issues on routes and anticipate future challenges. The work took asset condition and operational requirements into account, whilst gaining a better understanding of the local growth priorities. Under stage 1, we therefore:

- Defined and mobilised the programme
- Undertook stakeholder engagement to develop the evidence base
- Produced the stage 1 evidence reports.

During September and October 2013, we held around 40 events which encouraged over 700 regional and national stakeholders to provide their views and shape the development of our new investment planning approach. Working closely with our stakeholders, we identified performance issues and future challenges on each route and examined local growth challenges and priorities.

In February 2014, we produced 18 draft evidence reports and invited further comments from our stakeholders, leading to the publication of the final evidence reports just before Easter 2014.

Stage 2

In stage 2, we will use the evidence reports to identify possible solutions for a prioritised set of challenges and opportunities. On the strength of this work, we will prepare and publish a strategy for each of the 18 routes in spring 2015. This strategy will:

- Shape our future investment plans
- Underpin the first Roads Investment Strategy
- Provide an indication of priorities up to 2020 and beyond.

Developing the Dartford Crossing Remote Payment Scheme

Our progress

Approximately 16 miles east of London, the Dartford-Thurrock River Crossing spans the Thames and forms a trunk road link (A282) in the M25. With over 50 million vehicle crossings each year, it is a vital part of our network which often exceeds its design capacity, causing congestion.

Good progress has been made during the year on the major scheme to introduce remote charging. Work began in early 2014 to install new overhead gantries, followed by testing and validation of the equipment and systems to ensure they are operating effectively and safely, ready for the new charging arrangements to go live. This was accompanied by a significant public information campaign.

"Ringmaster" approach in Darlington enables investment in network

We offered Bellway, the developers of over 650 homes at Great Burdon in Darlington, the opportunity to join the Darlington Eastern Transport Corridor Sustainable Transport Strategy. This is a collaborative (Ringmaster) approach, where developers pay a calculated sum to mitigate their impact on the Section 106 agreement, allocated towards improvements on the SRN and local transport networks.

Encouraging such an approach allowed us and the local authority to reduce the travel impact across the area's transport network. Overall, the Ringmaster benefits are expected to be 6,200 jobs and 1,250 homes. To date, 250 houses have been built.

The future impact

When the new charging arrangements are introduced in October 2014, drivers will be able to use the crossing without having to stop to pay at a barrier. Through the introduction of newer technology and road layout changes, the scheme will improve traffic flow, reduce delays and make journey times more reliable.

Road users will have opportunity to pay the crossing charge through a variety of methods, such as online, by phone, and at a number of service areas, and will have the opportunity to set-up pre-paid accounts where a discount will apply. This will be the first time such charging technology has been used on our network. Users who do not pay will be liable to a penalty charge.

Although remote charging will have the above benefits, it is considered to be a medium-term measure. The longer term measure is the planned Lower Thames Crossing.

Investing in the Pinch Point programme to boost the economy

Our progress

In April 2013, we announced the third and final round of schemes for the Pinch Point programme: a further 58 schemes to boost the economy by accelerating growth, reducing congestion, improving safety and removing bottlenecks on the network.

These schemes represent an investment of £98m, bringing the total investment for the 123-scheme Pinch Point programme to £317m. This includes an extra £100m announced by the Chancellor in his 2012 autumn statement.

The programme as a whole is due to be delivered by March 2015. Construction has begun on the majority of schemes from the first two stages of the programme, with all but one of the remainder in the detailed design phase. This third stage includes 26 projects developed in conjunction with local enterprise partnerships and local authorities to promote local economic growth, and will bring an estimated £1.4 billion of economic benefit.

Updating planning guidance

Our progress

Within the planning system, we have an important role to make sure that any developments close to, or affecting, the SRN can be undertaken without impacting the safety and efficiency of the network.

In September 2013, we issued updated planning guidance to show how we will deliver sustainable development and economic growth, whilst safeguarding the primary function and purpose of the network. The policy is targeted at local authorities, developers, enterprise partnerships, community groups and others involved in any development proposal which may result in any traffic or other impact on the network.

A1033 Northern Gateway Pinch Point scheme

The Northern Gateway roundabout, located on the A1033 near Kingston-Upon-Hull in Humberside, is vital to the efficient movement of freight and passengers through the port of Hull but is in need of urgent improvement. Following studies carried out in the area, which looked at available data including traffic flow and accident details, we committed to:

- Improving the traffic signalling on the approach to the roundabout
- Widening the carriageway to create a third lane
- Resurfacing the carriageway and renewing road markings
- Replacing and improving signage.

The works were part of the first tranche of the national Pinch Point programme, which form part of the UK Government's growth initiative.

Construction commenced on site in September 2013 and works completed in November 2013, three weeks ahead of programme and approximately 9 per cent under budget.

Our approach

We have developed a protocol approach to provide clear information to local authorities and developers about how we will work with them in the planning process to support development and facilitate growth. Each protocol is intended to stand alone and can be read without any prior knowledge of the other protocols.

By applying the protocol approach across all areas of the planning and development process, we aim to ensure that we are efficient, consistent, and clear about our requirements and what can be expected of us. However, to engage effectively, we also rely on local planning authorities and developers understanding and using the published protocols.

We are collating information about our performance in relation to the protocols and we will use this, alongside feedback from developers and local authorities, to identify ways in which we can further improve.

Managing performance

The Highways Agency measures its performance on planning matters through a series of metrics, including the time taken to respond to planning applications, and the quantification of the expected housing and job benefits. We are also considering whether a target for customer satisfaction levels should be set from 2015-16.

Facilitating redevelopment in North Yorkshire

The redevelopment of the Huntington Stadium, York with the introduction of a flagship retail development, has come about through the collaborative working of the Highways Agency, North Yorkshire County Council and York City Council.

We have been instrumental in facilitating the development by engaging with key stakeholders about the adjacent strategic road and local highway networks. Construction of the site started in 2012 and the retail units were due to open in April 2014.

The new football stadium and the out-of-town retail development will bring an estimated 750 jobs to the area, and will help expand the already established retail stores.

3. Managing our assets, investing in safety

> Several new enhancements are helping us to clear incidents quicker, such as spill kits to treat small volumes of liquid and towing devices that allow our vehicles to move large vehicles off live carriageways.

Darrel Bryant
Traffic Officer,
Weatherhill, Surrey

Managing and preserving our assets

Rolling out our new contractual agreements

We were challenged in the 2010 spending review (SR10) to deliver the core services that motorists expect whilst also driving down costs on key programme areas, such as maintenance. This included maintaining the network over the SR10 period, with an annual average spend of £700m – compared to an average annual spend of £900m for the previous four year period.

To meet these challenges we have developed, negotiated and rolled out new 'Asset Support Contracts' as the existing Managing Agent Contracts expire. We extended this new form of contract to four of our 12 areas in 2013-14, and have let a new regional technology maintenance contract in the East, South East and M25 regions. We have also consolidated a number of regional works contracts into a single national works Asset Support Framework.

This suite of contracts now forms the basis of our service delivery for the majority of England's motorway and trunk road network. By encouraging collaborative and innovative working with the construction industry, these new contracts will continue to help us achieve savings through a range of measures, including certainty of forward work programmes, value engineering and efficient use of materials, labour and equipment

By 2014-15, our contracts will have been further negotiated to drive savings so that the maintenance programme is delivered for less money. This will help develop strong relationships with the supply chain as more efficient and innovative ways of delivering the maintenance programme are identified.

Partnering to deter metal theft

Metal theft is a problem affecting many service providers. Apart from the cost of replacement and repair, there is a wider consequential cost from the impact on our network and its users, as well as safety implications. The ongoing roll out of smart motorways makes it more important than ever that cabling and other infrastructure is protected.

Since 2012 we have partnered with local police units, British Transport Police, Central Motorway Police Group and our supply chain to implement new measures to deter metal theft. Whilst there is still work to do, we have made progress through trialling innovations such as SmartWater forensic marking to help police identify those suspected of handling stolen metal. As a result, overall reported metal theft crime has reduced in recent reporting years:

- In 2011-12, 153 crimes were reported
- In 2012-13, 80 crimes were reported
- In 2013-14, 49 crimes were reported.

Working collaboratively

Collaboration has been integral to our success in the past year. Alongside local partnerships, we have also worked with Rijkwaterstaat, our equivalent organisation in the Netherlands, and the Flemish Department of Mobility and Works to deliver a common solution to meet the future technology requirements of our traffic management centres. The procurement phase commenced in spring 2014.

Controlling traffic and handling incidents

Developing the Traffic Officer Service

In April 2014, our Traffic Officer Service celebrated its tenth anniversary. It is now a recognised and welcome sight across the motorway network, promptly responding to incidents and managing traffic flows. During the year, we have developed a range of improvements in our service to achieve faster and safer resolution of incidents, including:

- Equipping our vehicles with horns and flashing headlamps to help safe progress through slow or standing traffic to incident scenes
- Training our traffic officers to enable towing of large vehicles
- Re-letting our national vehicle recovery contract to reduce our costs and increase driver choice.

Adding load cell devices to traffic officers' vehicles

In June 2013, load cell devices were added to traffic officers' vehicles. These devices monitor the forces exerted through the vehicle and the equipment when towing a broken down vehicle, triggering a warning alarm if the pre-set maximum force is exceeded. The device helps to prevent any damage being caused to the vehicle.

With these new devices, we estimate that traffic officers can clear approximately 1,400 more broken down vehicle incidents per year – saving 13 minutes, on average, per incident.

European research and development collaboration

As part of the Conference of European Directors of Roads (CEDR), we actively collaborate with other national road administrations in Europe. In the past year, we contributed to two collaborative European research programmes which had a total value of nearly €8 million. By sharing the research costs, we expect a return worth approximately six times the original investment.

The results of these programmes have already been implemented by our operational directorates. A number of our area maintenance teams, for example, are now using a new approach to asset management optimisation, which was developed by the CEDR Asset Management programme. Our project managers are also developing implementation plans for the remaining CEDR outputs.

Reducing congestion through incident screens

We investigated the causes and consequences of 'rubbernecking' on traffic flow and driver behaviour, and discovered that the overall effect is a sharp decrease in the speed of traffic near an incident. This has a significant effect on vehicles attempting to pass the incident, as well as being a 'seed point' for congestion.

Incident screening at accidents removes the source of interest. An incident screen unit has enough panels to screen 75 metres, with the possibility of adding further units to screen larger scenes.

We estimate that incident screens will be useful at an average of 67 incidents per year. It is estimated that the average economic value of using the screens at each incident will be £194,000, giving a total economic benefit of £13 million per year.

Distributing enhanced spill kits

At the end of March 2014, traffic officers across all regions had access to an 'enhanced' spill kit. This allowed officers to treat small liquid spillages of up to 50 litres, including oil, diesel, petrol and other vehicle operating fluids. The early application of the kit helps to reduce the likelihood of permanent damage to the carriageway surface which would require expensive and disruptive resurfacing and speeds up the treatment process, allowing affected traffic lanes to re-open to traffic more quickly. We believe that, with this new equipment, traffic officers will be able to treat around 460 spillages per year and save 30 minutes per incident on average.

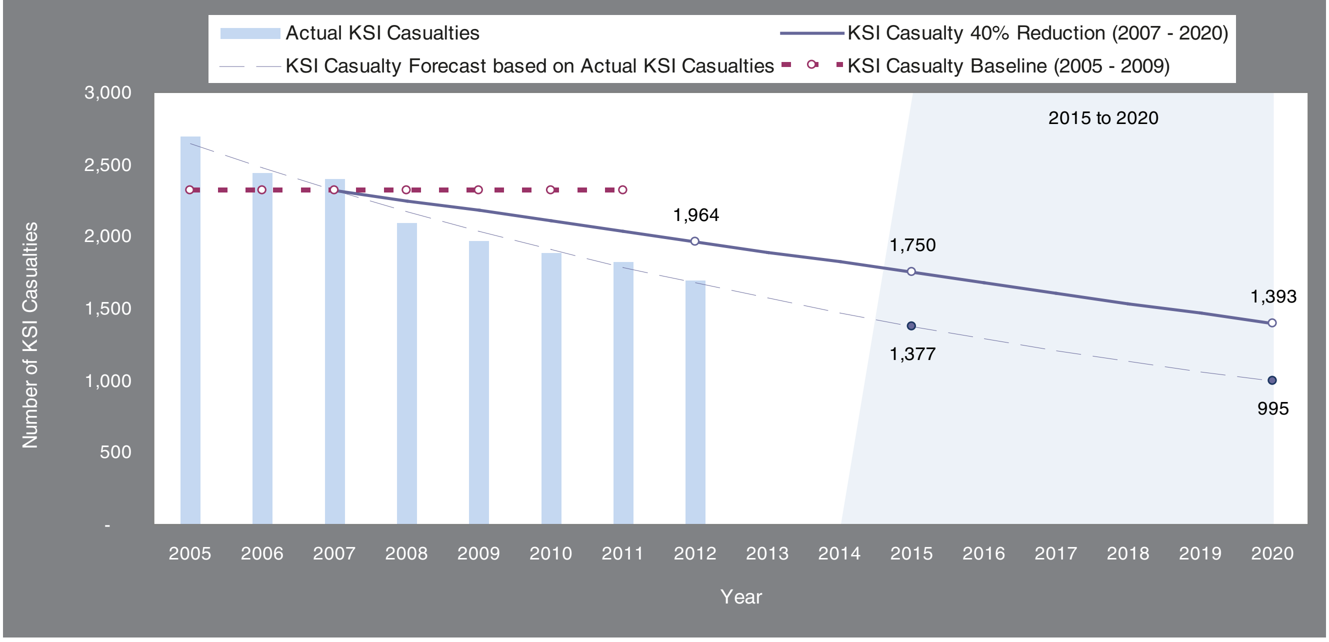
Focusing on safety, health and wellbeing

Increasing road user safety

We are committed to ensuring the safety of road users. We continue to deliver against this commitment through a co-ordinated programme which focuses on the road safety management system, roads, vehicles, people, and post-collision response.

Our goal is to reduce the number of people killed and seriously injured on our network by 40 per cent by 2020. Our progress against this goal is shown in the trajectory below:

People killed and seriously injured (KSI)



Incident screens in action

In October 2013, Ben Platt and Georgina Tolley, traffic officers from Coldharbor Outstation, were called to deal with an incident on the M26 which involved a horse that had injured itself in its horsebox. The traffic had been stopped by Kent police and the motorway was closed in case the horse escaped.

In just 10 minutes, incident screens were installed around the horsebox, allowing approximately 2 miles of trapped traffic to pass the scene. Without the screens, we would have had to close both sides of the carriageway, turn the traffic around and escort it down the motorway.

Quick to deploy and quick to remove, the screens were appreciated by both the Kent police and the vets on scene.

In 2012, there were 10,520 personal injury collisions on the SRN involving 22,437 vehicles, which resulted in 16,673 casualties (217 fatalities, 1,479 serious injuries and 14,977 slight injuries). Compared to 2011, the number of killed or seriously injured casualties decreased by 7.3 per cent (1,829 casualties in 2011).

Statistics for 2013 will be reported on the Agency's website as soon as they become available in July 2014.

Demonstrating our commitment to employee safety

We believe in setting unambiguous goals for improving the health, safety and wellbeing of our workforce. To this end, we have established the 'Aiming for Zero' strategy, which covers road workers, construction and maintenance workers, traffic officers and office-based staff.

The strategy sets out our goals, confirms our leadership role in the industry and brings together health and safety work from across the whole business.

In December 2013, the Road Worker Safety Forum (RoWSaF) – a cross-industry group, led by the Highways Agency and supported by Balfour Beatty and its joint ventures – won a prestigious award for sustained commitment and collaborative work to develop interventions that reduce risk to road workers. The judges of the Prince Michael of Kent International Road Safety Award commended RoWSaF as a highly innovative and effective forum which brings together knowledge and experience to ensure that the highest levels of duty of care are upheld.

Some key innovations which have been introduced through RoWSaF include:

- Simplified traffic management layouts, enabling the industry to reduce risk to road workers without increasing risk to the travelling public – across the industry, the layouts have reduced by 40 per cent the number of times that road workers have to cross live carriageways to set up and remove signs in the central reserve
- Introducing an alternative entry taper technique, which reduced the number of cones required and road worker exposure times by around 30 per cent.

Prince Michael with RoWSaF representatives receiving the award

National Roads Telecommunications Service achieves two million hours worked without serious incident

In June 2013, our National Roads Telecommunications Services (NRTS) provider, GeneSYS Telecommunications, achieved two million safe hours worked. This means that the NRTS project, with a workforce of around 300 people has remained free of incidents defined by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

Bob Castleman, Director for Traffic Technology, said:

> *"This is a tremendous achievement in supporting the Agency's Aiming for Zero health and safety initiative and GeneSYS are to be congratulated on this great result."*

Safety in action – reducing carriageway crossings

A-one+ has estimated a saving of 32 carriageway crossings and 21.8 minutes of road workers' exposure to the dangers of live lane traffic every time they set out and remove a set of roadworks. They have deployed the simplified signs layout more than 15,780 times, supported by briefings and training. In October 2013, they celebrated an impressive milestone, having saved half a million carriageway crossings - an estimated saving of some 5,734 hours when road workers would otherwise be exposed to the risk of working in live lanes.

Balfour Beatty reported a reduction of around one million carriageway crossings across its operations in the south east and north west. Connect Plus, a Balfour Beatty joint venture with Skanska, Atkins and Egis, reduced carriageway crossings by half a million, while the Balfour Beatty Mott MacDonald Joint Venture contributed nearly a quarter of a million crossing reductions.

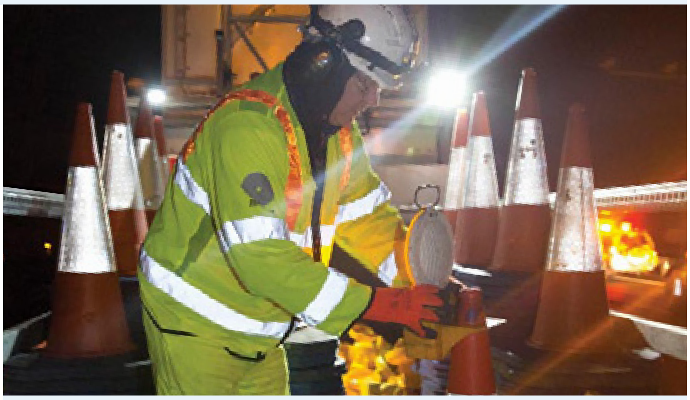
Reporting on health and safety

The Agency has been working with supply chain partners to encourage the sharing of good practice across the industry to drive improvements in workforce health and safety. Health and safety audits not only provide visibility about any potential issues, but also identify good practice and improvement measures, which are subsequently shared across the industry through monthly audit reports.

Improving health and safety for on-road staff

A national health and safety team Lean project was begun to improve the Traffic Management Directorate's incident reporting and investigation process. Early successes have led to better compliance with the reporting of injuries, diseases and dangerous occurrences regulations. This has allowed more accurate reflection of the accident frequency rate (which has been almost halved), and the inclusion of investigation acceptance and action planning fields in our incident recording information system.

With a pilot programme for variable crewing, a robust performance monitoring and measurement process has given us significant assurance on the implications for health and safety.



Collaboration and partnering in a new trial to improve safety

Our focus on stakeholder liaison and good business relationships has led to an innovative safety trial taking place in the south of England.

John Walford, traffic management incident prevention team leader, arranged for police forces to have access to a modified HGV tractor unit, free of charge, for three months. The tractor features an advanced telemetry system that records how a vehicle is being driven and activates a forward-facing camera when it detects sudden movement, allowing the police to carry out inconspicuous enforcement of HGVs on our network.

Initial results show the pilot has been highly successful, with 83 offences detected from the 74 vehicles stopped on the network. We will be looking at the potential to develop this pilot into a national initiative. John received support from key bodies, including the Association of Chief Police Officers.

Learning from incidents within our workforce

All employees are obliged to report all incidents which have, or may have, affected their safety, regardless of whether personal injury resulted.

Root cause analysis enables the lessons to be learned, given the complex nature of our operations, these can vary from work methods employed through to the unanticipated actions of third parties. Most importantly, incidents and their investigations lead to risk assessment review and the communication of any key findings.

While there were no fatalities in 2013-14, there were 23 major incidents, including eight slips, trips and falls and seven workers being hit by a moving vehicle. An incident on the M25 J23-27 widening scheme involved an articulated lorry which overturned, broke through the safety barrier in the central reserve and injured three members of our workforce. A further incident on the A46 involved an out of control vehicle which veered towards the verge, hitting a worker who was attending a call out to remove debris from the carriageway. A further 14 incidents resulted in employee absence of seven days or more.

There were also two significant dangerous occurrences, which had the potential for serious injury, but which did not result in any harm. These involved the failure of an arm on a mini excavator and the failure of a concrete loading structure, which collapsed into an excavation.

Promoting staff wellbeing

We believe in the importance of providing staff with ready access to all the support that they need. Our staff wellbeing events, for example, are designed to provide an informal environment where staff can consider their own wellbeing, and can access a range of services. At these events, employees can find information on a range of topics ranging from healthy eating and blood pressure, to money advice and mental health. Feedback from attendees of these events highlighted their effectiveness, with half stating that they were now looking to change an element of their lifestyle.

We have also increased the available support surrounding mental health and stress, as demonstrated by our 'Time to Change' pledge. This is not only focused on improving support, but also tackling mental health stigma and discrimination. Linked to this, World Mental Health Day was used to launch our 'reasonable adjustments agreement for mental health'. This initiative is designed to assist staff and managers to talk about the support that can be provided when they are suffering from a mental health-related illness.

time to change

let's end mental health discrimination

We have worked on some initial areas for action, focusing on a review of stress tools, mental wellbeing awareness for line managers, and individual support. The individual support group is exploring the concept of mental health first aiders.

4. Running our organisation, increasing efficiency

"We have 31 business administrator apprentices across the business, with plans to extend the scheme to include other disciplines. In addition we have 14 civil engineering graduates and four accountancy graduates helping us to improve our capability."

Lesley Twells Smith
Graduates and Apprenticeships, Birmingham

As an organisation, we not only have to develop our own capability but also ensure that we develop our supply chain, which delivers the majority of services to the network.

Developing our organisational and people capability

Our people

We have taken proactive steps over the course of the year to increase our organisational and people capability. Sickness absence levels have fallen by 1.5 days per person over the course of the year, a reduction of over 15 per cent, and we continue to introduce new initiatives.

Resourcing

We have increased employee numbers to meet the challenges of moving to government-owned company status, resulting in an increase of over 100 full time equivalent staff in the last year. We now directly employ over 3,400 people in seven offices, the National Control Centre, seven Regional Control Centres and 33 outstations.

As we develop, the Agency needs to revisit our resourcing strategy to ensure that we have the capacity and capability to deliver the requirements of the new organisation. We will be undertaking a new approach to workforce planning to identify capacity and capability gaps for the future, and we have an ongoing approach to growing capability through graduate recruitment programmes and technical and general apprentice schemes.

Apprenticeships

In early 2013, we began to recruit business administrator apprentices. Following campaigns over six locations, we now have 33 apprentices. All are studying to achieve an NVQ Level 3 (advanced) in Business Administration. Our first group will be graduating in summer 2014.

Following the success of the scheme, we intend to recruit an additional 14 technical apprentices across range of business areas, with the first cohort joining in summer 2014.

Technical training

An Institute of Leadership and Management accredited coaching programme is underway, with the aim of supporting development and the transfer of learning in commercial and programme project delivery, as well as general performance management. Our graduates and apprentices will be able to take advantage of the scheme.

The Roads Academy

The Roads Academy, founded in 2010, offers an innovative development programme which seeks to drive improvement in the roads industry in England. The academy brings together people working in the Agency and our supply chain to encourage a significant change in how the industry thinks, behaves and performs to help us meet the challenges that face us.

There are 18 places in the Academy shared between the Agency and our supply chain, five Highways Agency people were studying to gain a Postgraduate Certificate in Leadership and Management.

Leadership

We are using the ‘Future Engage Deliver’ leadership model to support our move to a high performing organisation. This is currently being delivered to our leadership team, with workshops covering each of the separate elements. A programme is being developed to roll out delivery across the whole organisation during 2014-15.

To further support managers, we are also intending to launch a pilot programme through the Chartered Management Institute, to become available for line managers during 2014-15.

Modernising the Employment Contract

In 2013, all government departments were asked to review their terms and conditions of employment to make sure that they:

- Provide an employment package that reflects what a good, modern employer would offer
- Recognise and reward the commitment of our people
- Play their part in ensuring that the Civil Service as a whole can work more collaboratively, by making it easier for people to move between departments.

We are pleased to have implemented all the agreed changes to contracts by April 2014.

Functioning as an intelligent client

Our business model is based on our supply chain which delivers the majority of services to the network. Our Commercial and Procurement Directorate (CPD), created in April 2013, is responsible for developing the processes, systems, intelligence and staff capability. Ultimately this enables us to function as an intelligent client across our contracted relationships, in particular through contractors, managing agents, consultants and other service providers.

The new CPD combines the expertise from the previously separate commercial teams with the procurement function, to provide an enhanced service to support our overall business objectives. Developing and aligning this commercial edge has led to:

- Supplier incentivisation arrangements for the A14 projects
- Reviews of the commercial drivers for maintenance contracting and retendering of the National Road Telecommunications System (NRTS) contract
- Inputs to inform strategic changes to the M25 Design Build Finance and Operate contract, Dartford Remote Charging and the change sums that will result from the smart motorway improvement scheme.

Other work linked to and supporting procurement activities, has covered:

- Cost intelligence to aid value for money comparisons and data to judge contract sustainability
- Cost planning to eliminate costs, agree prices and achieve commercial outcomes
- Project bank account arrangements to ensure prompt payments throughout the supply chain
- Supplier performance reporting and work to resolve any resulting disputes.

In addition to the above, CPD has supported other Agency requirements including:

- The award of a ‘next generation’ vehicle recovery contract in October 2013, following open competition under European Procurement Directives
- Flexible support for Future Information and Communications Technology programme at the leading edge of implementation of Government Cloud First policy/strategy
- Implementing continuous process improvements through application of Lean techniques to drive efficiencies in purchasing relatively low value (but at substantial cost in aggregate), commonly used goods and services.

Establishing the strategic supplier development group

We have set up a Strategic Supplier Development Group to:

- Provide the supplier development strategy to improve supplier performance
- Provide the commercial lead on emerging supply chain strategies and best practice

- Maximise the value from our commercial investment.

The group had many successes throughout the year, with achievements including:

- Saving £33m from a total spend of £148m through further extending category management across pavements, temporary traffic management, gantries and traffic technology spend – further categories are now being considered; the future pipeline of opportunity stands at £229m
- Refreshing and rolling out the Agency's Strategic Alignment Review Tool which is used to assess and support development and alignment of our supply chain
- Progressing work to develop requirement and assessment options to support a supply chain equality framework, including establishing a supply chain equality forum to tackle key challenges facing the highways sector.

Ensuring supplier recognition

We are proud to have delivered the third year of the supplier recognition scheme. This year, the BAM and Morgan Sindall joint venture M62 project won an award for their work, which represents the first time a major project has been delivered without the need for road workers to cross the live carriageway. This was achieved through a five-point plan that eliminated the need for more than 80,000 live carriageway crossings over 40 miles of a heavily congested part of the network.

We in turn have been recognised by one of our suppliers, Amey. We not only supported them to achieve BS 11000 accreditation for 'collaborative business relationships', but Amey have also highlighted our commitment to innovation. In the Midlands commission, this has included the partnership between Amey and the supply chain to develop a new sustainable polypropylene bolt which secures drainage to 1,300 concrete structures on the Midlands motorway network. This replaced the traditional steel bolt, delivering savings of £90,000, and was recognised by the Institution of Civil Engineers after winning the West Midlands Innovation Award 2012. Also in the Midlands, we supported a new approach to concrete barrier installation on the M5, which allowed work to progress three times faster and saved £500,000 in construction costs.

Recognition for collaborative working in the Midlands

In June 2013, we were named 'Client of the Year' at the West Midlands Celebrating Construction Awards (CCA) 2013. The award recognised Network Delivery and Development Midlands' partnership with the managing agent, Amey.

The awards events are organised throughout the UK by the ten regional Centres for Constructing Excellence. In the West Midlands, the awards are highly regarded and attract entries from many of the region's leading organisations.

This year we were nominated by Amey in recognition of our drive towards more collaborative working and our commitment to encouraging innovation, lean processes and best practice across the supply chain.

Ensuring efficiency in delivery and operations

Delivering efficiency across the major schemes programme

Across the major schemes programme, the schemes that were due to start works in the SR10 period were estimated to cost over £3bn. The subsequent funding awarded to deliver these schemes was 20 per cent below the estimated cost. A 20 per cent reduction was therefore built in to the funding envelope for the 14 schemes announced in SR10, and this was replicated when a further six schemes were announced in the Chancellor's Autumn Statement in 2011.

This funding challenge has been in place for several years with a view that all 20 schemes will have started works by 2014-15 and achieved cost savings of at least 20 per cent. It has helped us to forge better relationships with our supply chain and has allowed examples of best practice to be applied to new contracts.

Such examples encourage collaborative and innovative working with the construction industry, enabling our suppliers to work with us to achieve savings through a range of measures including the certainty of forward work programmes, value engineering and efficiencies in the use of materials, labour and equipment.

Completing the Future Operating Model programme of change

In 2011 we embarked on an ambitious programme of change – the Future Operating Model (FOM) - which was a collection of projects brought together with the aim of making improvements to the efficiency and effectiveness of our traffic management activities.

The FOM programme closed as planned in spring 2013 and has produced a responsive, flexible, efficient and high performing directorate which costs approximately a third less than in 2009-10. This was achieved by rationalising the leadership structure, reviewing our on-road service, trialling and rolling out single crewing during 2013-14, and trialling a new national roster pattern that more efficiently links our resources to demand.

Some of the more significant changes introduced include: launching Strategic Traffic Operations; establishing the customer contact centre; and aligning regional control rooms.

Launching Strategic Traffic Operations

Having gone live in May 2013, the Strategic Traffic Operations (STO) now has complete oversight of the network. It can view traffic flows, anticipated traffic flows, planned events and ongoing incidents. This puts STO in a unique position to help us continuously improve the management of our network.

A few facts at a glance…

- supports front-line colleagues in tactical decision making - training on new procedures has been given
- informs and advises senior managers about real-time incidents
- uses variable message signs and other information channels to aid customers in making informed decisions about their journeys
- plans and co-ordinates our responses to planned and forecast events.

Establishing the Customer Contact Centre

We are pleased to share that the foundations of the customer contact centre (CCC) are now in place. We set out to ensure our customers receive a consistently positive experience when calling us, whether from their home or from an emergency roadside telephone (ERT) – and the CCC is the cornerstone of delivering that experience. We also set out to remove the burden of ERT and other general calls from our control centres, ensuring our control room officers are best placed to deal promptly with incidents impacting the live lanes.

Aligning regional control rooms

We have aligned all of our regional control rooms into one functional area, giving us the opportunity to shape, develop and embed a regional operational function that provides a tactical traffic and incident management capability. Regional traffic operations, working closely with control room operators and managers, have made improvements and efficiencies to the way our control rooms work.

New processes and procedures have been developed, and resource levels in all of our control rooms have been reviewed. Alongside a recruitment campaign to bring new people into our control rooms, we have also worked to develop foundation training for new members of staff.

5. Managing our impact, adding value to our surroundings

"Our replacement lighting is achieving a 30 per cent energy saving compared with the old installations, and we are in the process of realising a further 30 per cent saving by being smarter about when and how brightly we operate it."

Stuart Beale
Lighting Technology Innovation, Bristol

Sustainability is at the heart of our programmes and projects. It is a key part of our decision making and delivery.

Focusing on sustainability

Embedding sustainable development

We can be rightly proud of the steps the Agency has taken over the year to ensure that sustainability continues to be an important consideration across our activities. We understand that we play an important part in supporting economic progress and that the network also interacts with the environment and wider society. It is part of our ambition to make of all these interactions positive or at least balanced. This is what drives our approach to sustainable development.

Our Sustainable Development Plan seeks to build on our past achievements and puts the emphasis on embedding sustainability into all of our decision making and working practices, whilst also ensuring that our staff and supply chain have a consistent understanding of sustainable development. We believe that this means we can move away from primarily managing impacts to making sustainability central to the future direction and decision making of the Agency.

Over the first years of our Sustainable Development Plan, we have made progress towards embedding sustainability into our day-to-day operations – even against a backdrop of tight budgets. However, we have decided to position ourselves to respond to changes in the future, by instigating our transformation journey (described above, see page 15). It will be important that, whilst developing an improved sense of direction and collective spirit, we maintain sight of our wider responsibilities to support a prosperous society and a resilient natural environment.

As our Chairman, Alan Cook, commented:

> *“As an organisation the Highways Agency is going to change in the months and years ahead. Whatever shape or form our organisation is in the future, equality and diversity should be at the top of our agenda. What I am looking for is an organisation that is thoughtful, caring, and considerate and thinks through the results of its actions on staff, the supply chain and road users across the country.”*

The Agency recognises the importance of having a diverse senior management group and efforts are made to attract diverse candidates when positions are advertised.

Of the 37 Senior Civil Servants employed by the Highways Agency on 31 March 2014, five were female. Overall 31 per cent of all employees are female. Of new starters and promotions in 2013-14, 45 per cent were female.

Taking greater ownership

We want to be recognised as a leading organisation for our sustainable approach. Our approach has been assessed this year by Forum for the Future, a not-for-profit organisation that works with business, government and other organisations to address complex sustainability challenges. Its assessment looked at our current performance on sustainability and the next steps towards becoming a public sector leader.

On our overall performance, Forum for the Future reported:

> *"The Agency has made good progress towards delivering many early wins, core environmental commitments and safety priorities, despite difficult external circumstances. The priorities of value for money and efficiency dictate performance and culture within the Agency. These short-term realities drive the agenda, so overall commitment, capacity and performance against sustainability goals waiver between compliant and incremental."*

Managing our emissions

Reducing carbon emissions and our carbon footprint

Through heating, lighting and electrical equipment on our network, we have emitted just under 100,000 tonnes of carbon dioxide (tCO2e) this financial year. This is 4,500 fewer tonnes of CO2 equivalents compared with 2012-13, equating to a 4.4 per cent reduction. We have also reduced our carbon footprint by 25 per cent, compared with 2009-10, which is the baseline for our current government targets (the Greening Government Commitments).

Our traffic officer service has been particularly successful in reducing carbon emissions from its on-road activities, while maintaining the expected level of service. Greenhouse gas emissions from traffic officer vehicles have reduced by 31 per cent since 2010-11, saving around 2,000 tonnes per year. In 2013-14, we also purchased 700,000 fewer litres of diesel fuel than we did in 2010-11, saving more than £1m this year in fuel costs alone.

In the traffic officer service, the reduction in emissions and costs was achieved by:

- Modifying our patrolling strategy to reduce the amount of general patrolling
- Specifying and leasing lower-emission vehicles
- Increasing manager accountability for the amount of fuel purchased.

Reptiles re-located following discovery on site

Nearly 40 slow worms were successfully re-located after they were discovered on the site of a new roundabout on the A590 at Greenodd in Cumbria, part of the £317m Pinch Point programme.

Work to move the reptiles was carried out as part of preparation work for the roundabout. The slow worms, which are similar in appearance to snakes, are a protected species under UK law and were moved to safety in a wooded area nearby, where we provided a purpose-built hibernaculum, made up of moist stones, logs and soil.

The roundabout opened in February 2014, and has received widespread support from residents and businesses.

As well as carbon and cost reduction, there have been additional benefits from this new approach, including less wear and tear on our vehicles and having strategically located park up points which ensured our teams are in the right place to respond quickly.

The tables below give further details about the carbon footprint across our offices and control centres, as well as our footprint from operating the network and from our supply chain:

Highways Agency Carbon Footprint from operating the Network				
GREENHOUSE GAS (GHG) EMISSIONS		2011-12	2012-13	2013-14
Gross Emissions (tonne CO_2e)	Scope 1: Traffic officer fuel	5,327	4,664	4,416
	Scope 2 & 3: Indirect emissions from electricity consumption	91,647	89,946	86,069
	Scope 3 : Suppliers' emissions	411,124	203,648	303,620
	Total	**508,098**	**298,258**	**394,214**
Related Consumption	Traffic officer vehicle diesel fuel (litres)	2,070,660	1,805,494	1,656,314
	Network Electricity (kWh)	185,833,676	181,229,661	178,006,121
Financial Indicators	Traffic officer vehicle diesel fuel	£2,934,000	£2,752,000	£2,294,213
	Network Energy Expenditure (roadside lighting and equipment, depots and outstations)	£22,121,000	£24,015,000	£25,401,311
	Spend on SRN construction and maintenance (£m)	2,263.055	1,735.574	2,147.000
Normalised emissions	Emissions per £m construction spend	224.519	171.850	183.612

Please note:

1. This table has been prepared in accordance with HM Treasury guidance.
2. Emissions figures for 2011-12 and 2012-13 have been restated following change in DECC guidance and revised emissions factors.
3. Carbon emission intensity factors from Defra, Bath Inventory, Capita Symonds.

Highways Agency Carbon Footprint of our offices and Control Centres				
GREENHOUSE GAS (GHG) EMISSIONS		2011-12	2012-13	2013-14
Gross Emissions (tonne CO_2e)	Scope 1: Direct emissions from gas consumption	396	867	750
	Scope 2 & 3: Indirect emissions from electricity consumption	5,471	6,097	5,876
	Scope 3: Highways Agency Business Travel	1,202	1,288	1,365
	Scope 3: Suppliers' emissions (caterers and couriers, etc)	279	136	168
	Total	**7,348**	**8,388**	**8,158**
Related Consumption	Estates (HA Offices) Electricity (kWh)	11,149,157	12,284,500	12,088,465
	Estates (HA Offices) Gas (kWh)	2,157,832	4,679,812	3,994,495
	Private Car Mileage (Million road miles)	1.226	1.253	1.240
	Hire Car Mileage (Million road miles)	1.402	1.620	2.800
Financial Indicators	CRC Related Expenditure (Admin fee and provision for allowances)	£1,024,290	£1,157,290	£251,200
	Expenditure on business travel	£3,136,000	£3,483,000	£4,618,000
Normalised emissions	kWh per Full Time Employee	1,714	1,779	1,758
	tCO2e per Full Time Employee	2.161	2.542	2.184

Please note:

1. This table has been prepared in accordance with HM Treasury guidance
2. Emissions figures for 2011-12 and 2012-13 have been restated following change in DECC guidance and revised emissions factors
3. Carbon emission intensity factors from Defra.
4. Hire care emissions are advised by supplier based on vehicles provided, but have been uplifted by 15% for normal driving.

Achieving energy savings through our network lighting

Network lighting contributes 84 per cent of our carbon footprint. We have trialled and piloted various energy saving interventions over the years, such as part-night lighting (midnight switch off) and successfully reducing motorway lighting to the level used throughout Western Europe.

The challenge has been improving the design of new lighting schemes, and providing the technology needed to operate equipment. We are installing replacement lighting which is achieving a 30 per cent energy saving compared with the old installations and we are in the process of realising a further 30 per cent saving by being smarter about when and how brightly we light our network.

We have also reached the halfway point in our programme of switching all our traffic light signals to light-emitting diodes (LED), which achieves an 80 per cent energy saving. Both replacement lighting and LED traffic lights are significantly safer for our work force to maintain.

Working to reduce supply chain emissions

Our supply chain, which works on our behalf on maintenance and construction operations, emits up to five times more CO2 than the Agency emits through our direct operations.

As investment in the SRN increases, emissions from our supply chain will naturally increase too, so we are dedicated to working closely with our suppliers to reduce emissions-related activity. We have been heavily involved in the Infrastructure Carbon Review, led by HM Treasury and Department for Business Innovation and Skills, which recognised us as a 'low carbon leader' and at the forefront of achieving cost savings. The report added:

> *"The Highways Agency is systematically chasing down costs by embracing innovations proposed by its supply chain."*

Recognising sustainable value in our supply chain

Members of our supply chain came together in Birmingham in January 2014 to recognise and celebrate the industry leading work of our wider supply chain.

The recognition scheme helps to improve performance, share best practice and create healthy competition. It highlights the important contribution made by our suppliers to drive down costs and deliver even more efficient and effective customer services.

The winners for the 'delivering sustainable value and solutions' category were:

- **EM Highway Services** – for their work in, Devon and Cornwall, where they used seeds from local meadows to create similar habitats on the Agency's roadside verges
- **The Skanska Balfour Beatty joint venture** – for significantly reducing the energy used and carbon footprint of the M25 widening schemes.

Reducing waste and using less water

Waste

We have reduced the amount of office waste we throw away by 46 tonnes, compared to 2012-13, although the proportion of office waste that is recycled or re-used remains low. We continue to work with our facility management partners to decrease the proportion and amount of our waste that is sent to landfill.

Around 59% of all major projects construction waste was re-used and 38% recycled.

Water Consumption

We have reduced our water consumption by 7 per cent, compared to 2012-13 through a range of water saving measures.

Paper consumption

Our efforts to limit paper consumption have resulted in an overall reduction of 9 per cent. Our paper for office copier/ scanner/ fax devices is now acquired via the government closed-loop recycling scheme, which has also reduced the embedded carbon in our paper consumption.

Waste and Water - Offices		2011-12	2012-13	2013-14
Office Waste	**Total Admin waste (tonnes)**	252	266	220
	Recycled waste (tonnes)	168	162	137
	Kg per FTE	100	90	64
	Percentage recycled	67%	60%	62%
Office Water Consumption	Estates Water m^3	18,468	17,670	14,763
	Estates water greenhouse gas emissions (tonne CO_2e)	6.1	6.0	4.5
	m^3 per FTE	5.3	5.3	5.1
Paper use	**Reams used**	15,601	14,047	13,335

Please note:

Figures in the above table are for our whole office and control centre estate, but exclude our outstations.

Waste - Network		2011-12	2012-13	2013-14
Construction Waste	**Construction Waste (tonnes)**	355,716	297,888	413,916
	Percentage waste to landfill	0.9%	0.1%	0.5%
	Non-hazardous waste (tonnes)	354,725	296,700	394,356
	Percentage recovered (reused or recycled)	99%	99%	99%

Please note:

Figures in the above table are based on Site Waste Management Plans for major projects in their construction phase in 2013-14, where complete and disaggregated data is available.

Managing our impact on air quality

Clean air is important for both human health and the health of the environment. Poor air quality is still of concern for the UK, despite air being cleaner now than at any time since the industrial revolution.

We are committed to delivering the most effective solutions to minimise the air quality impacts resulting from traffic using our network. We will operate and develop our network in a way that is compatible with working toward compliance with statutory air quality limits as part of our broader Environmental Strategy. We aim to deliver our commitment on air quality through a range of activities including:

- Understanding exposure to air pollution along our network
- Working with our partners including local authorities, DfT and Defra to protect air quality
- Active participation in air quality discussions in the UK and internationally
- Research into viable and effective mitigation solutions
- Regularly updating the air quality assessment method to reflect the latest technical knowledge.

Understanding our impact on air quality

When we are planning works to improve our network, we assess the environmental effects of our schemes, including air quality. In operating and developing our network we look for opportunities to improve air quality. In many cases, our road schemes are designed to relieve congestion on the roads enabling traffic to flow much more smoothly. As a result engines are used more efficiently and this ultimately reduces the amount of emissions released from each vehicle.

Where our road schemes are aimed at enabling our roads to carry greater volumes of traffic, we recognise that this can worsen air quality. When a scheme may worsen air quality, we work to reduce or eliminate these adverse effects.

Managing air quality along our network

The EU Directive on ambient air quality and cleaner air sets limit values for certain pollutants which must not be exceeded. In the UK Defra monitors and models air quality across 43 zones to assess compliance with the Directive. The UK's record of compliance is available in the 'Air Pollution in the UK' reports. The Highways Agency has worked with the DfT and Defra to develop action plans to deliver compliance with the EU Directive. As part of this effort, we operate and develop our network in a way that is compatible with working toward compliance with statutory air quality limits.

The UK Air Quality Strategy provides the policy context for Local Air Quality Management (LAQM) and assessment. This strategy establishes a range of air quality "standards", and "objectives" for delivering the strategy. These air quality objectives are either identical to the EU limit values, or more stringent. The LAQM process requires local authorities to regularly review air quality in their areas against the air quality objectives. Where the objectives are not achieved, the local authority is required to declare an Air Quality Management Area (AQMA) and prepare an Air Quality Action Plan (AQAP) to improve air quality. We have a role as a statutory consultee in the LAQM process and if an AQMA is near one of our roads, we work with the local authority to support the delivery of the Air Quality Strategy objectives.

Maintaining governance around sustainability

Performance monitoring

All aspects of our sustainability performance, including diversity, health and safety and wellbeing, are monitored as part of our performance management process. Performance is regularly reported to the Executive Committee and the Board.

Key risks, such as risks on our preparedness for climate change and on our ability to manage greenhouse gas emissions, are escalated to our corporate risk register. This ensures that the risk, the proposed remedial activities and their effectiveness are monitored by the Executive Committee and the Board.

Reporting

As part of our participation in the CRC energy efficiency scheme, Internal audit regularly reviews sustainability reporting, including validation of the measurement of our carbon footprint and our external reports.

In 2013, we commissioned Arup to conduct an external review of our footprint reporting. The report concluded that the Agency's carbon framework and strategy are comparable to those of similar organisations and in many aspects go beyond them. There are, however, opportunities to learn from other organisations, perhaps most prominently in the strategic consideration of asset use based emissions, as opposed to project level assessment (as already undertaken). Work will be taken forward to capitalise on these opportunities.

Preparing for future challenges

Adapting for change

We need to maintain awareness of potential changes/ challenges in society which could impact our network in the future and ensure that our measures are appropriate.

One of our priorities last year was to build our climate change risk assessment, identifying priorities for action and appropriate adaptation measures that will be required to lower risks to the economy, environment and society. We undertook research to look at the cost of climate change on our strategic road network (capital, maintenance and delays experienced by network users), focusing on the risks of hotter, drier summers affecting the construction and maintenance of our roads.

We discovered that…

- Carefully targeted investment is more likely to bring net benefits in locations where the impacts of summer temperatures are at their most significant and where maintenance activities would cause delays in areas of higher traffic
- Costs and impacts of surfacing are considerably greater than those associated with structures.

Resource pressures are also a potential threat to our operations and we have work ongoing to understand the true nature of the challenges we face. We are focusing on water stress and how we may avoid this becoming a threat to our ability to deliver our services. Other work is ongoing to gain a better understanding of material criticality issues and how these may shape the way we approach design, construction and maintenance in a future world of constrained resources.

Aiming for continuous improvement

We seek to continuously improve the economic, environmental and social outcomes of our services. Between 2002 and 2012, more than £3.5 billion was invested on capital investment projects to improve the SRN. Post Opening Project Evaluation (POPE) studies are undertaken at one and five years after schemes open to traffic, and are carried out for every major project. The key objective of POPE is to identify the extent to which the expected impacts of highway schemes have materialised, whether value for money has been obtained and to inform thinking on current and future national scheme appraisal methods.

The POPE report, published in 2013, represents the most comprehensive evaluation programme of the impacts of transport infrastructure within the UK, and has highlighted some interesting findings and trends.

A few facts at a glance…

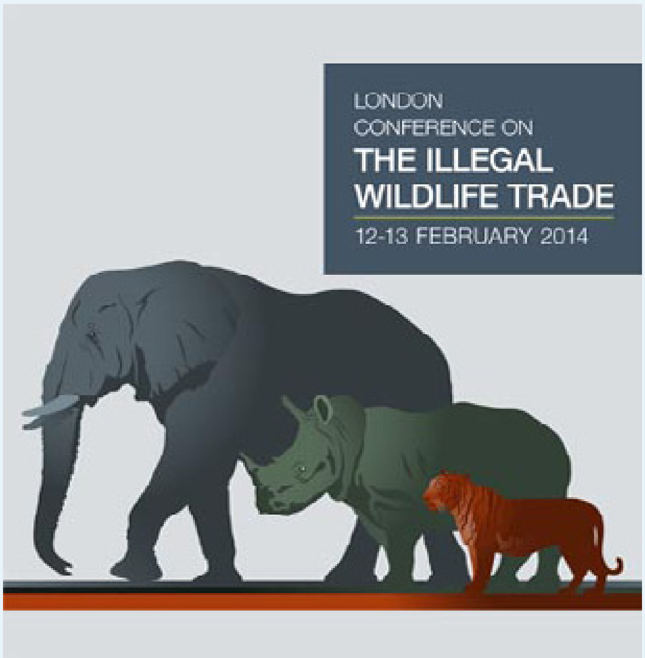
- Post-opening, 94 per cent of scheme objectives were met (with it being “too early to tell” for a further 4 per cent)
- On average, for every £1m spent on a major scheme, the return will be up to £5m in long-term benefits
- The majority of forecasts for traffic flows are accurate, and evidence suggests that the accuracy of traffic forecasts is improving over time
- Estimating costs in the scheme appraisal have been consistently improving
- In total, 75 per cent of environmental impacts are in line with our predictions, while 15 per cent are “better than expected”
- The DfT can have confidence in its appraisal guidance and the methodology it sets out for appraising schemes during all phases.

Sharing expertise to support a global conference on the illegal wildlife trade

As part of a government initiative to reduce costs and use expertise across departments, our media services team was asked to provide high-quality graphics to support a global conference on the illegal wildlife trade. The conference was organised by the Department for Environment, Food and Rural Affairs (Defra), in conjunction with the Foreign and Commonwealth Office (FCO) and the Department for International Development (DFID).

An external communications manager at Defra praised our media services team, stating:

> *“The logo and branding designed by the Agency was used on the campaign website and the infographic was shared, viewed and tweeted hundreds of times, helping to generate interest in the event. The logo was used on the prominent backdrop at both the Natural History Museum reception and at the conference itself. It looked outstanding, both on and offline.”*



Fostering innovation

In the search for sustainable solutions, innovation is essential and we should act as a catalyst for innovation across our sector. As mentioned in previous sections, we have focused on partnering with our suppliers to encourage innovative solutions, with notably positive results:

M62 J25-30 Managed Motorway Project

- This scheme represents the first time a major project has been delivered without the need for road workers to cross the live carriageway
- In total, 80,000 live carriageway crossings were eliminated

Yorkshire and north Lincolnshire (Area 9)

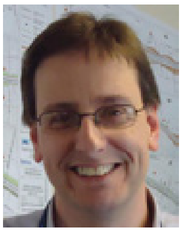
- Collaborative planning and visual management techniques were used to improve scheme delivery of complex projects
- In total, design costs were reduced by 37 per cent and 64 per cent of schemes reduced their duration by at least 20 per cent

M5 Quinton Interchange

- Early involvement of specialist suppliers during the design and construction planning led to the development of a carbon fibre solution for some complex structural repairs
- Suppler engagement ensured ‘buildability’ and health and safety issues were addressed while minimising disruption to the busy motorway

Birmingham Box Phase 3

- Early collaborative working between the delivery team and the specialist supplier enabled safe and speedy solutions to be developed for some highly complex design challenges.



6. Informing our customers, listening to feedback

"In May 2013, we hosted the Highways Agency's first public web chat to talk about our M62 smart motorway scheme in Yorkshire. The discussion was supported by an online leaflet, mobile public exhibitions, and a film clip on YouTube."

David Pilsworth
Project Manager,
Leeds

We cannot overestimate the importance of two-way dialogue, which allows us to communicate to our customers whilst also gaining an understanding of their needs.

Informing our customers

Digital channels

We believe in using the full range of digital channels to communicate and engage our diverse customer base, including:

- **Blogs** – For Highways Agency blogs and web chats
- **RSS feeds** – For traffic information and press RSS feeds
- **YouTube** – For scheme updates and safety campaign video clips
- **Twitter** – For live updates from our National Traffic Operations Centre
- **Flickr** – For Highways Agency-specific photography
- **Email** – For personalised alerts on important information.

Evaluating new media

It is important our communications are focussed and targeted and that we measure outputs across the various channels and the impact on our customers, for example:

- Using website analytics to monitor website traffic including from partner websites visiting Highways Agency related channels looking for more information
- The levels of moderation and engagement (e.g. comments – tone and feedback both positive and negative) and subsequent follow-on actions such as 'likes' tweets and re-tweets as well as the tracking of discussion activity and advocacy
- End-user responses recorded via specific social media channels (e.g. Facebook, YouTube, blogs).

Listening to our customers

Road users' satisfaction surveys

Feedback, including complaints and compliments, comes to us through many channels, including through two different road user satisfaction surveys.

National Road Users' Satisfaction Survey

The National Road Users' Satisfaction Survey (NRUSS) is an 'at home' survey of around 2,000 people and is undertaken on a rolling programme throughout the year. Respondents are asked a number of questions about their last journey on our network, covering safety, journey reliability, the environment, delays encountered, the electronic message signs, the Agency's traffic officers and

Our first 'Web Chat'

In May 2013, we successfully hosted the first Highways Agency web chat - an online conversation with the public.

With the first section of the M62 managed motorway scheme in Yorkshire opening on Monday 20 May, we used this as an opportunity to talk to the public. David Pilsworth, project manager for the £133m scheme from junction 25 to junction 30, was available for a 90-minute session to take questions on hard shoulder running, mandatory speed limits, red-X compliance and dealing with breakdowns on the new section.

The web chat formed part of a driver education campaign to help motorists use managed motorways, which has also included an online interactive leaflet, mobile public exhibitions, posters and leaflet drop and a film clip published on YouTube. The web chat was also live-Tweeted and appeared on our Facebook page.

Using communication to minimise impact of major works

During the summer of 2013, A-one+ undertook essential repairs to Allerdene Bridge, which carries the A1 over the East Coast railway main line near Gateshead. One of the most heavily trafficked sections of our network, its two lane dual carriageway supports nearly 100,000 vehicles per day.

The nature of the works required traffic management to be in place 24 hours a day. Despite the severe impact on a highway already operating above its designed capacity, there were only 23 enquiries throughout the project – and only three of those relating to delays.

Key elements of the strategy that contributed to the success were:

Carefully constructed publicity strategy

- Promotion of Highways Agency press releases, TV and radio interviews
- Targeted mail distribution
- Consultation and liaison with key stakeholders, e.g. Metro Centre
- Positively received Twitter account in the scheme's name, providing information, traffic management updates, key incident updates and tweets at busy periods
- Thirty local and area wide mobile Variable Message Signs

Provision of additional local transport

- Extra morning and evening trains between Durham and Newcastle
- Extra buses on key local bus routes, paid for by the Agency

Installation of temporary cameras

- Establishing a local control centre to monitor traffic conditions via temporary 3G cameras
- Swift incident response.

The project was successful in carrying out this work whilst providing the right support to stakeholders to minimise the inevitable impact on them. It is very rare to carry out major works without receiving widespread criticism, so to only receive 23 enquiries is a real success.

their awareness of the Agency. Our current satisfaction level from this survey is around 90 per cent, although satisfaction fell slightly in 2013-14 to 89.6 per cent (compared to 90.7 per cent in 2012-13).

Customers like…

- Motorways being clear of litter and debris
- Local exhibitions to explain proposals
- Comprehensive and appropriate responses to complaints and enquiries
- Sensitive management of roadside verges
- The fact the Agency work with stakeholders and residents to minimise disruption during road schemes.

But dislike …

- Missing connections for holidays due to unexpected delays on the network
- Overgrown verges restricting visibility at junctions and obstructing signs
- Litter on the network and debris left on verges
- Potholes and poor road surfaces

- Trees being removed in association with improvement works
- Incorrect or out of date information on Variable Message Signs (VMS).

Area Road Users' Satisfaction Survey

The Area Road Users' Satisfaction Survey (ARUSS) is also a continuous rolling programme of 'at home' surveys of road users, but focuses on those who live close to our network. We seek to achieve 33 interviews per month in each area, obtaining around 200 interviews over six months in each of our 13 management areas. The survey includes questions on safety, conditions of the road (for example road noise), litter, signage, congestion and roadworks. Ultimately, the survey measures road users' attitudes and perceptions of our services at a local level, identifying what the area team needs to do to improve its services to customers.

From the results of these surveys, we know that:

- Warnings of accidents, queues and delays are the most important types of messages for VMS
- Four out of ten respondents experienced poor driving by others during their last journey on the network
- The best drivers are in the North West, where just three out of ten people experienced poor driving on their last journey
- Speeding, poor overtaking and poor road etiquette are the most commonly mentioned examples of poor driving behaviour
- Eight out of ten people are aware of the Agency, usually through seeing our vehicles
- Seven out of ten respondents are aware of the Traffic Officer Service.

Customer Beacons

We have a well-established network of customer beacons, who are based in teams throughout the Agency. Customer beacons seek feedback from all road users, including freight, motorists, passengers, cyclists, road neighbours and local communities, through:

- Correspondence
- Telephone calls to the Highways Agency Information Line (HAIL)
- The Highways Agency's regular customer survey, the results of which are published quarterly on our website in Customer Feedback Reports.

Customer beacons in turn provide feedback about customers' requirements to colleagues who plan services and deliver improvements. From customer beacon reports, for example, we know that customers want more information about closures (advance warnings are required, along with signs during the closure) and that diversion routes can cause concern with drivers, who find it difficult to understand the symbols or believe the routes are not being sufficiently signed.

Partnerships with caravan and camping clubs

Our partnerships with the Caravan Club and Camping and Caravanning Club (from the past year, include:

- Working with the clubs to develop and promote the summer getaway campaign
- Securing support for our 'Make Time for Winter' campaign, with articles published in both clubs' magazines and links provided on their websites – feedback was also given by their members
- Developing journey planning leaflets with input from both clubs - 10,000 of these have been printed and circulated, as well as being made available online
- Promoting our journey planning information services, such as Traffic England and Twitter feeds, on the clubs' websites, and receiving useful feedback from users
- Creating production guides to help ensure that caravans are correctly and safely loaded, avoiding accidents caused by incorrect loading and the resulting congestion.

Financial Statements

The financial statements cover the period 1 April 2013 to 31 March 2014 and have been prepared in accordance with a direction issued by Her Majesty's Treasury under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at www.hm-treasury.gov.uk. The financial statements of the Highways Agency are audited by the Comptroller and Auditor General (C&AG), head of the National Audit Office. The financial statements have been prepared in accordance with the 2013-14 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 11.

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 (2012-13 £275,000). In addition, £14,000 (2011-12 £16,500) was paid to the NAO in respect of the audit of the 2012-13 Dartford-Thurrock Road User Charging Scheme account, and a charge of £14,000 (2011-12 £14,000) was made for the audit of the 2012-13 Severn Bridges account. No amounts were paid to the NAO for non-audit work.

Graham Dalton
Accounting Officer
18 June 2014


PEGASUS

7. Governance Statement

Introduction

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

HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011. The new code builds on the principles of the original code published in July 2005, focusing on the role of boards, since these provide leadership. I have provided details below of how the Agency's system of corporate governance has operated during 2013-14, 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 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 HM Treasury's 'Managing Public Money'.

Governance

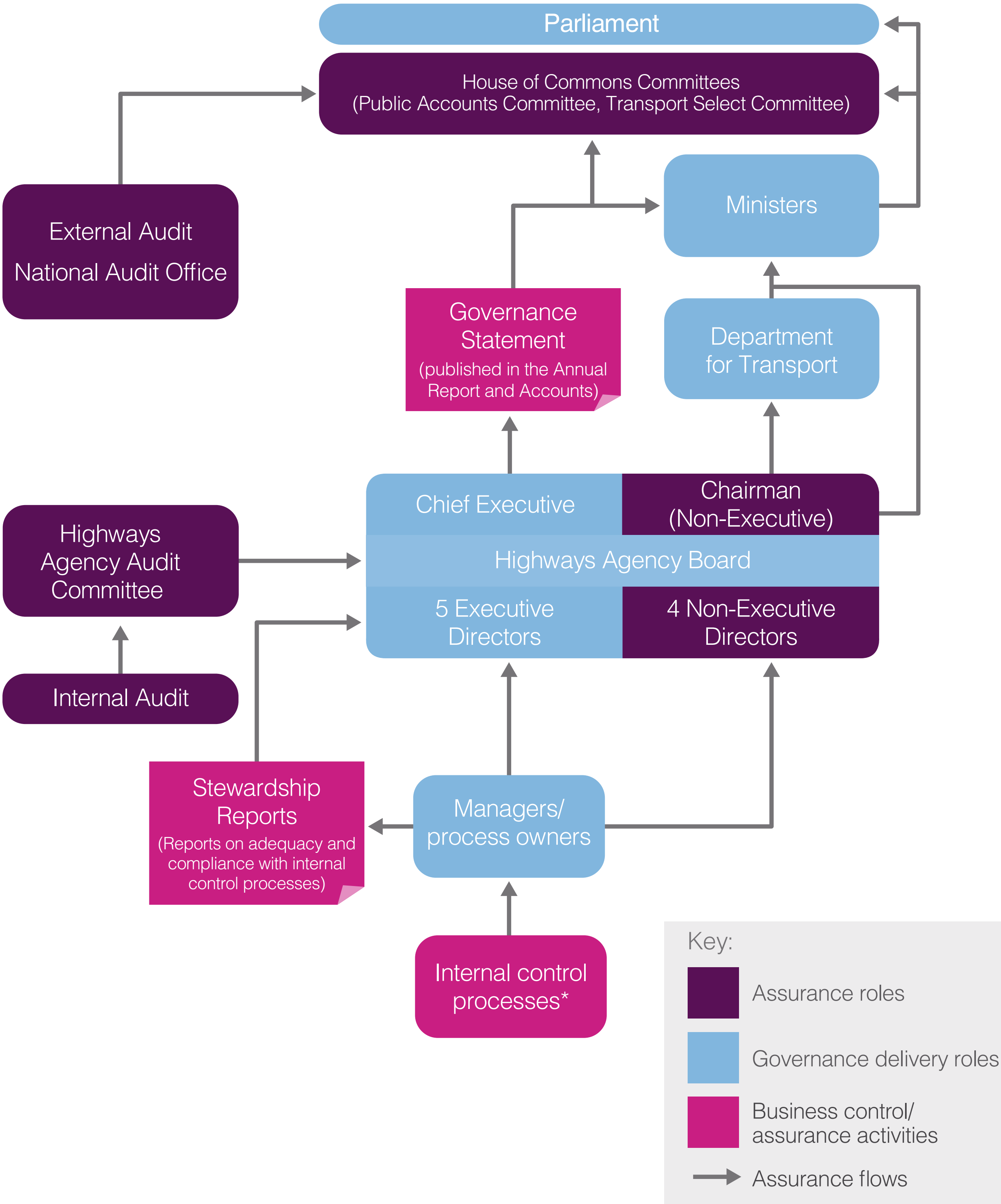
'Corporate Governance' is deemed to be the system by which an organisation is directed and controlled. I have ensured that the Agency's corporate governance arrangements are designed to comply with the Code of Good Practice on Corporate Governance in central government departments.

The key elements of the Agency's system are:

- the Agency Board, Executive Committee and Sub-Committees;
- the Agency Audit Committee and its Counter-Fraud Sub-Committee;
- a good governance culture;
- a sound system of internal control, including;
- audit and assurance activity.

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

Highways Agency Governance Framework



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

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

Board, executive committee and sub-committees

The Agency is managed by a formal Board and an Executive Committee, supported by an Audit Committee, a Senior Appointments Committee (SAC), and two sub-groups of the Executive Committee. The Boards and Committees review their own effectiveness annually and identify and take action to improve performance where appropriate.

Board

The Agency Board considers 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 objective of the 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.

The composition and attendance at these during 2013-14 was as follows:

Member	Board	Audit Committee
Alan Cook (Non Executive Chairman)	10(10)	-
Graham Dalton (Chief Executive)	10(10)	4(4) (in attendance)
Peter Adams (Major Projects)	9(10)	-
David Poole (Commercial and Procurement) From July 2013	7(7)	-
Ginny Clarke (Strategy and Planning)	10(10)	-
Stephen Dauncey (Finance and Business Services)	10(10)	4(4) (in attendance)
Simon Sheldon-Wilson (Traffic Management)	10(10)	-
Derek Turner (Network Development & Delivery) - Until June 2013	3(3)	-
David Brewer (Network Development & Delivery) - From July 2013	7(7)	1(1) (in attendance)
David Hughes (Non Executive Board Member)	10(10)	4(4)
Simon Murray (Non Executive Board Member)	10(10)	4(4)
Tim Walton (Non Executive Board Member) - Until December 2013	7(7)	3(3)
Elaine Holt (Non Executive Board Member) - From January 2014	2(3)	-
Tom Smith (Non Executive Board Member) - From January 2014	3(3)	-

Note: figure in the table denote the number of meetings attended (meetings available for member to attend) e.g. 9(10).

Mike Wilson attended 6 (of 6 available) Board meetings acting as Network Services Director

Changes to the Board in 2014-15

From 1 April 2014, the Agency's board has changed to become smaller, comprising the Chairman, Chief Executive, the four non-executive directors, and executive directors for Finance and for Strategy and Planning. The Board's focus is on governance and on strategic oversight of the process to transition to a government-owned company. The Executive Committee focuses on the running of the business on a day to day basis and driving the Agency's change programme.

These changes makes the best use of the directors' and executives' time, establishing a smaller and more focused board, and starting the move towards operating on more conventional corporate lines in advance of the formal change in 2015. The new structure complies with the Agency Framework, with HM Treasury Guidance, and with the Chief Executive's obligations as an accounting officer.

Audit Committee

The Audit Committee is a sub-committee of the Board and is responsible for providing assurance, to the 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. The Audit Committee is chaired by David Hughes.

In addition, it considers reports from the Counter Fraud Sub-Committee and monitors progress with the internal audit programme, health and safety audits and other assurance processes operating across the Agency.

During 2013-14 the Audit Committee specifically reviewed or considered various topics including the:

- 2012-13 annual report and accounts;
- external audit – audit completion report and management letter;
- 2012-13 internal audit annual report and opinion;
- year-end 2012-13 and mid-year 2013-14 Stewardship (Management Assurance) reports;
- the 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; and
- Dartford River Crossing and Severn Bridge Accounts 2012-13.

Counter-Fraud Sub-Committee

The sub-committee meets approximately every quarter to review 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. The counter fraud sub-committee is chaired by Stephen Dauncey and attended by the chair of the Audit Committee.

During 2013-14 the counter fraud sub-committee undertook a review of the current case load that has been identified through the counter fraud and whistleblowing facility, and a fraud horizon scan.

Senior Appointments Committee

The purpose of the Senior Appointments Committee (SAC) is to ensure that succession planning and progression and 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 chaired by Alan Cook.

Executive Committee

The Executive Committee meets monthly to consider the day-to-day administration of the Agency. The Committee 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. The Committee has three sub-committees:

- Future Investment Programme Executive Sub-Group - responsible for monitoring the in-year and future capital investment programme and tracking the delivery of efficiencies.
- Supply Chain Executive Sub-Group - responsible for monitoring supply chain performance, developing supply chain relationships to meet the Agency's future business and ensuring a strategic approach to supply chain and commercial activities.
- Network Performance Group (NPG) - responsible for driving improvements in the performance of the strategic road network. NPG is key in creating 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 particularly on: safety, traffic performance, network availability (including winter service), customer service (information and feedback), and network development.

The governance culture

The Agency recognises that the culture of the organisation can impact substantially on successful delivery.

Our values statement

> *"Delivering a professional and affordable service through innovation and partnership working"*

was introduced in 2011 and shows the things we value as an organisation. These are in addition to the civil service values (integrity, honesty, impartiality, objectivity) and tie into our aims and strategic objectives.

A key element of culture is the engagement of staff. In 2013 the Civil Service Staff Engagement Survey results showed that the Agency's engagement index increased by 1 per cent to 53 per cent compared with the previous year. The results against the majority of engagement questions are more positive than last year, but remain less positive than the Civil Service overall. We are focusing on several areas [See Section 5 under Developing our organisational and people capability] 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.

System of internal control

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

All Agency processes have an assigned owner and are documented on the Agency's intranet through the '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 processes of internal control, which provide the basis of delivering all of the Agency's objectives, include:

Risk management

The Agency's Executive Directors and other senior managers are responsible for risk management within their commands. The Agency has a published risk management policy which is available to all staff via the intranet. Senior managers have received training in risk management tailored to their responsibilities and concerns.

During 2013-14 the Board undertook an in-depth risk review every four months, considering changes to the operating environment as part of this review. From April 2014 the Executive Committee assumes responsibility for the detailed review of risks, with the Board taking a more strategic overview. 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.

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; and
- where appropriate, action is escalated via a formal process through the line management chain, to the Agency's Board, to DfT and to Ministers.

During 2013-14 the most significant risks included on the corporate risk register included

- air quality issues cause delay and add cost to the major projects programme
- a terrorist incident on the network resulting in damage to assets and long term disruption to drivers
- the Agency being unable to maintain the network in a serviceable condition.

There are regular meetings with DfT 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.

Identification and mitigation of conflicts of interest

The Agency delivers the significant part of its responsibilities through the procurement of goods and services. As a result, clear, robust and documented processes for identifying, declaring and mitigating potential or real conflicts of interest have been established. This includes the declaration of hospitality and gifts received, with register entries for board members published on our website.

During 2013-14, a non-executive board member self-reported an approach which represented a potential conflict of interest. This was considered by the Chief Executive and Chairman who ruled that the approach should be declined. This was reported to DfT, and our review of the circumstances supports the decision made. There were no cases of conflict of interest where management action was taken to remove the individual from the decision making process. A review by Audit & Assurance (A&A) concluded that the Agency's business has been conducted on an arm length's basis, in line with the requirements of International Accounting Standards.

Performance management regime

It is vital that the Agency has a clear strategic direction, objectives, responsibilities and key targets in support of government policies through business and strategic planning. I work closely with the DfT to achieve this.

The DfT's strategic road network performance specification 2013-15 was published in April 2013. This sets out the high level performance outcomes, outputs and specific requirements that the Government wants to secure for the SRN and the Agency, as network operator, by March 2015.

This performance specification has been built around the vital role that the SRN and the network operator play in delivering key government priorities on:

- facilitating and promoting economic growth and competitiveness;
- driving efficiency and best value for the taxpayer; and
- enhancing the road user experience, whilst minimising the impacts of the SRN on local communities and the environment.

The Board and Executive Committee commission and consider performance reports covering its progress towards delivery of the performance specification, as well as other corporate targets and measures. Formal reporting takes place monthly to ensure that any areas of concern are identified for management action as soon as possible. Performance reports are designed to integrate non-financial and financial reporting with risk management procedures.

Financial management

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

- a mandatory Investment Control Framework which tests whether a proposed project or expenditure offers value for money and considers affordability, prioritisation, risk and strategy. These arrangements dovetail with those for larger investments that require approval from DfT or Ministers;
- financial propriety and other requirements from HM Treasury's Managing Public Money;
- an Oracle financial accounting system with embedded controls;
- asset management procedures to record and account for all assets;
- a counter-fraud sub-committee which meets regularly to oversee the handling of any significant issues or allegations; and
- Investors in People accreditation; a proven business improvement framework that significantly improves financial performance.

CIPFA financial management model review

The CIPFA Financial Management Model is recognised by HM Treasury as setting out the fundamentals of best practice financial management within public sector organisations. It has been chosen by the central Government Finance Leadership Group as the framework to be used for financial management self-assessments. The model uses a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement.

Between October 2013 and February 2014 the Agency, with the support of CIPFA Business Limited, used the model to undertake a self-assessment of financial management. The Agency scored well against the best practice statements in the Model. While comparisons are difficult because of differing, sizes, complexities and cultures between organisations, the overall scoring for the Agency is just in the upper quartile of central government organisations where the model has been applied.

The review found that the Agency has

- robust governance arrangements;
- a strong relationship with the DfT;
- a robust accounting environment; and
- strong project/contract management and long term financial planning.

There is always room for improvement and the review identified some areas which could benefit from further development: financial systems, the consistency of finance business partnering and financial management competence levels for all staff. The Agency is actively developing these areas as part of its Transformation Programme.

Project and contract management

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

- a Project Control Framework which specifies the detailed governance processes and procedures that major projects must follow;
- use of the Gateway Review method of providing project assurance;
- a centralised procurement function for high value or single tender contracts;
- use of Earned Value Management on all key investments to inform and enable meaningful challenge; and
- compliance checking of service providers to their contracts through the Service Quality Review process undertaken within regional teams.

Compliance with standards and 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 which ensures compliance with the statutory processes for the acquisition, management and disposal of land;
- compliance with the statutory requirements concerning road building, and the management and maintenance of the strategic road network;
- technical governance to ensure that the Agency complies with appropriate technical standards, and includes measures to govern any necessary departure from engineering standards; and
- 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 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 am advised on the implications of the effectiveness of the system of internal control by the Board and the Audit Committee.

Internal Audit

My Head of Audit and Assurance (A&A) provides regular reports on key risk and control issues, and expresses an annual independent opinion on the adequacy and effectiveness of the Agency's system of internal control, with recommendations for improvement. This is in line with the Public Sector Internal Audit Standards. The implementation of recommendations is included in performance reports and is monitored closely by the Board.

The Head of A&A's opinion for the year 2013-14 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, i.e. that they are generally established and effective, with some minor weaknesses or gaps identified. In her opinion there are no significant weaknesses that fall within the scope of issues that should be reported in the Governance Statement.

Contract Assurance

Contract assurance over our supply chain community continues to be provided by A&A. The Contract Assurance Regime has now been established for two years and combines technical specialists with experienced auditors to assess the service provider's ability to manage core risks within the contract. Results from this year's activity have resulted in the award of a reasonable assurance rating, and although issues have been identified at a regional level, there are no areas of significance that should be reported within this Governance Statement.

Project Management Assurance

We have maintained a close working relationship with the Major Projects Authority (MPA). Confidence in our approach to Gateway Reviews and Government Major Projects Portfolio (GMPP) scrutiny has resulted in the delegation of increased levels of responsibility to our Centre of Excellence. We have the authority to manage high risk Gateway Reviews, in addition to the medium and low risk that we were already delegated.

Counter fraud arrangements

During the course of 2013-14 the Highways Agency recorded 102 whistleblowing allegations from both internal and external sources. The majority of these were either related to another body (such as a local authority), were mailshots or were low level issues resolved by the relevant operational area. However, 33 cases were deemed worthy of investigation by the Agency's internal audit function, 8 of which resulted in improper activity being identified and 3 investigations are ongoing.

Stewardship Reporting

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

- compliance within their divisions;
- the adequacy of the arrangements within their divisions; and
- the remedial action is being taken where assurance cannot be provided.

These reports are reviewed by the relevant internal process owners who then develop action plans to address deficiencies in compliance.

Senior Information Risk Officer's (SIRO) Assessment

During this year the Agency continued to comply with the Cabinet Office guidance on information risk management. My 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 that appropriate and proportionate risk controls are in place.

Quality Assurance Framework for Business-Critical Models

The Agency maintains an appropriate quality assurance framework for its business critical models. An up-to-date list of business critical models is publicly available on our website: www.highways.gov.uk.

Controls around the Highways Agency's Shared Services Arrangement

The Agency is party to the DfT group's shared services, for the provision of payroll and human resource services; this is governed by a service level agreement and managed through the single client function within DfT.

In February 2013, the DfT successfully divested the shared services operation to the private sector. The contract was awarded to arvato, part of the Bertelsmann group, who took over ownership of, and responsibility for, provision of service from 3 June 2013.

The Agency is working with Cabinet Office, the DfT shared service futures team and arvato to support the design of the post-divestment services. This will ensure that appropriate governance, control and assurance processes are established for the migration of the Agency's finance and human resources systems to the new shared services platform being implemented by arvato.

Graham Dalton
Accounting Officer
18 June 2014

8. Remuneration Report

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

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

Pay and Performance Committee

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

Remuneration Policy for Senior Civil Servants within the Highways Agency

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

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

Pay System and Performance Management

The Senior Civil Service pay system is based on simple broad bands, underpinned by a tailored job evaluation scheme (JESP - Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay. HA 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) £60,000 - £117,800
- Pay Band 2 (Director) £84,000 - £162,500
- Pay Band 3 (Chief Executive) £103,000 - £208,100.

SCS in the Highways 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

- 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 a performance group, to which non-consolidated variable pay is linked. There are three performance groups:

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

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

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

A performance group is the starting point for non-consolidated performance pay determination. For 2013-14, only the top 25% of performers, those in the top performance group, will receive an award.

Base pay increases are determined by the Pay and Performance Committee and will be considered in line with the government's response to the recommendations of the Review Body on senior salaries. Staff in the bottom 10% of performers will not be eligible for a base pay increase.

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 the rates since then. Following a Treasury led review, in line with the requirements set out by the DfT Permanent Secretary in July 2012, all payments for new or renewed contracts will be processed through the payroll system rather than payables.

Service Contracts

The Constitutional Reform and Governance Act 2010 requires civil service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.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 terms (months remaining at 31/03/14)
Executive Directors serving at 31/03/14		
Peter Adams	09/01/2012	Open - ended
David Brewer	15/07/2013	Open - ended
Ginny Clarke	02/07/2001	Open - ended
Graham Dalton	30/06/2008	Open - ended
Stephen Dauncey	02/02/2009	Open - ended
Simon Sheldon - Wilson	01/02/2010	Open - ended
David Poole	29/04/2013	Open - ended
Executive Directors leaving before 31/03/14		
Derek Turner [1]		
Non-Executive Directors serving at 31/03/14		
Alan Cook [2]	01/01/2011	3
Elaine Holt	01/01/2014	21
David Hughes [3]	15/07/2009	17
Simon Murray	05/11/2012	19
Tom Smith	01/01/2014	21
Non-Executive Directors leaving before 31/03/14		
Tim Walton [4]		

Notes

[1] Derek Turner left the Highways Agency on 6 June 2013.

[2] Alan Cook, a Non-Executive director of the DfT, joined the Agency on 1 January 2011 on a 12 month contract which has been extended until 30 June 2014. The contract has an option to extend.

[3] David Hughes contract was extended until 31 August 2015.

[4] Tim Walton left the Highways Agency on 31 December 2013.

Mike Wilson attended Board meetings from September 2013 but was not formally an Executive Director. Mike was appointed to the Executive as Chief Highways Engineer in April 2014.

Salary and pension entitlements (audited)

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

Single total figure of remuneration	Salary £000		Bonus payments £000		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000) [2]		Total £000	
	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13	2013-14	2012-13
Officials										
Peter Adams	115-120	115-120	10-15	-	-	-	46,000	44,000	175-180	160-165
David Brewer	90-95	-	-	-	-	-	36,000	-	125-130	-
	FYE [1] 125-130	-	-	-	-	-	-	-	-	-
Ginny Clarke	105-110	105-110	10-15	5-10	-	-	-1,000	2,000	115-120	115-120
Graham Dalton	145-150	145-150	10-15	-	-	-	35,000	18,000	195-200	165-170
Stephen Dauncey	115-120	115-120	-	-	-	-	21,000	29,000	135-140	140-145
David Poole	105-110	-	-	-	-	-	41,000	-	145-150	-
Simon Sheldon-Wilson	95-100	90-95	5-10	-	-	-	-	-	95-100	95-100
Derek Turner	40-45	140-145	-	-	-	-	6,000	26,000	45-50	165-170
	FYE [1] 140-145	-	-	-	-	-	-	-	-	-

Notes

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

[2] The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases exclude increases due to inflation or any increase or decreases due to a transfer of pension rights.

Salary

Salary includes gross salary, overtime, reserved rights to 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. It does not include amounts which are a reimbursement of expenses directly incurred in the performance of an individual's duties. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

Bonus Payments

Bonuses are based on performance levels attained and are made as part of the appraisal process. Bonuses relate to the performance in the year in which they become payable to the individual. The bonuses reported in 2013-14 relate to performance in 2013-14 and the comparative bonuses reported for 2012-13 relate to the performance in 2012-13.

Benefits in kind

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

Median remuneration of staff (audited)

Financial Year	2013-14	2012-13
Midpoint of salary range and bonus of highest paid Director (£)	160,000	147,500
No of staff	3,475	3,400
Median point	1,737	1,700
Median remuneration (£)	26,410	25,687
Ratio	**6.06**	**5.74**

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

The median remuneration of the Highways Agency's staff in 2013-14, based on full time equivalents, is £26,410, which has increased from the previous year due to natural pay progression.

The ratio between the median remuneration and the midpoint of the banded remuneration (including bonuses) of the highest paid Director is 6.06, which has increased. This is due to a bonus awarded to the highest paid Director during 2013-14. There was no bonus in the previous year. If a bonus had not been awarded, the ratio would have decreased.

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.

Pension Benefits	Accrued pension at pension age as at 31/3/14 and related lump sum £000	Real increase in pension and related lump sum at pension age £000	CETV at 31/3/14 £000	CETV at 31/3/13 £000
Peter Adams	10-15 no lump sum	2.5-5.0 no lump sum	117	85
David Brewer	0-5 no lump sum	0-2.5 no lump sum	22	0
Ginny Clarke	45-50 plus 145-150 lump sum	0-2.5 plus 0-2.5 lump sum	1108	1042
Graham Dalton	30-35 no lump sum	0-2.5 no lump sum	487	425
Stephen Dauncey	15-20 no lump sum	0-2.5 no lump sum	304	261
David Poole	10-15 no lump sum	2.5-5 no lump sum	122	-
Simon Sheldon-Wilson	-	-	-	-
Derek Turner	15-20 no lump sum	0-2.5 no lump sum	383	354

	Real increase in CETV as funded by employer £'000	Employer contribution to partnership pension account Nearest £100
Peter Adams	18	-
David Brewer	14	-
Ginny Clarke	-1	-
Graham Dalton	26	-
Stephen Dauncey	18	-
David Poole	-	-
Simon Sheldon-Wilson	-	12,200
Derek Turner	14	-

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 worked out in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 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 2014:

	2013-14 £000s	2012-13 £000s
Tracey Barlow	0	0-5
Alan Cook [1]	35-40	35-40
Elaine Holt	0-5 FYE 15-20	-
David Hughes [2]	25-30	25-30
Simon Murray	15-20	5-10
Tom Smith	0-5 FYE 15-20	-
Tim Walton	10-15	10-15

Notes

[1] Alan Cook is also a Non-Executive Director at the DfT. His remuneration for that role is disclosed separately in the DfT Accounts.

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

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

Graham Dalton
Accounting Officer
18 June 2014

9. Statement of Accounting Officer's Responsibilities

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

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

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

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

The Permanent Secretary for the Department for Transport has appointed the Highways Agency Chief Executive as an additional Accounting Officer of the central 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 Highways Agency's assets, are set out in the Accounting Officers' Memorandum, issued by HM Treasury and published in Managing Public Money. Details can be accessed online at www.hm-treasury.gov.uk.

10. Certificate and Report of Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of the Highways Agency for the year ended 31 March 2014 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Chief Executive and auditors

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

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on the financial statements

In my opinion:

the financial statements give a true and fair view of the state of the Highways Agency's affairs as at 31 March 2014 and of the net operating cost for the year then ended; and

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

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000
- the information given in Sections 1 to 6 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
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns
- I have not received all of the information and explanations I require for my audit
- 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
20 June 2014

11. Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Administration costs			
Staff costs	*3*	23,191	21,821
Other administration costs	*4*	40,966	42,588
Operating income	*6*	(2,722)	(2,166)
Programme costs			
Staff costs	*3*	94,567	95,556
Programme costs	*5*	2,400,899	2,071,001
Income	*6*	(71,118)	(66,343)
EU income		(1,322)	(23,971)
Net operating cost		**2,484,461**	**2,138,486**

Other Comprehensive Expenditure

	Note	2013-14 Total £000	2012-13 Total £000
Net (gain)/loss on revaluation of property, plant and equipment	*7 & 9*	(2,605,785)	(2,101,414)
Total comprehensive (income)/expenditure for year ended 31 March 2014		**(121,324)**	**37,072**

All income and expenditure is derived from continuing activities.

The Notes on pages 81 to 118 form part of these accounts.

Statement of Financial Position as at 31 March 2014

	Note	31 Mar 2014 £000	Restated 31 Mar 2013 £000
Non-current assets			
Property, plant and equipment	*7*	111,767,409	109,592,218
Intangible assets	*8*	432	902
Trade and other receivables	*12*	357,802	365,753
Total non-current assets		**112,125,643**	**109,958,873**
Current assets			
Assets classified as held for sale	*9*	10,143	12,314
Inventories	*11*	38,954	45,202
Trade and other receivables	*12*	145,339	206,653
Cash and cash equivalents	*13*	3,165	31,467
Total current assets		**197,601**	**295,636**
Total assets		**112,323,244**	**110,254,509**
Current liabilities			
Trade and other payables	*14*	713,950	689,347
Provisions	*15*	57,618	52,761
Total current liabilities		**771,568**	**742,108**
Non-current assets less net current liabilities		**111,551,676**	**109,512,401**
Non-current liabilities			
Provisions	*15*	78,854	139,820
Other payables	*14*	1,969,319	2,056,855
Total non-current liabilities		**2,048,173**	**2,196,675**
Assets less liabilities		**109,503,502**	**107,315,726**
Taxpayers' equity			
General fund		42,628,516	42,769,932
Revaluation reserve		66,874,986	64,545,794
Total taxpayers' equity		**109,503,502**	**107,315,726**

The Notes on pages 81 to 118 form part of these accounts.

Graham Dalton
Accounting Officer
18 June 2014

Statement of Cash Flows for the year ended 31 March 2014

	Note	2013-14 £000	2012-13 £000
Cash Flows from operating activities			
Net operating cost		(2,484,461)	(2,138,486)
Adjustment for non-cash transactions	*4, 5*	1,497,926	1,170,618
(Increase)/Decrease in inventories		6,248	11,047
(Increase)/Decrease in trade and other receivables		69,265	(107,147)
less movement in receivables relating to items not passing through the SCNE		(81,280)	(3,325)
(Decrease)/Increase in trade and other payables		52,651	53,746
less movement in payables relating to items not passing through the SCNE		109,689	(97,050)
Use of provisions		(63,308)	(94,005)
Non-cash movement in classification of provision	*15*	1,919	(953)
Adjustment for capital and interest element of PFI payments		61,891	58,215
Net cash outflow from operating activities		**(829,460)**	**(1,147,340)**
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	(1,315,177)	(855,085)
Purchase of intangible assets - cash additions	*8*	-	-
Proceeds of disposal of assets held for sale		13,528	11,878
Capital element of movement in provisions	*15*	12,281	29,477
Net cash outflow from investing activities		**(1,289,368)**	**(813,730)**
Cash flows from financing activities			
From consolidated fund (supply): Current year		2,188,865	1,968,094
From consolidated fund (supply): Prior year		79,135	65,282
Capital element of payments in respect of on balance sheet PFI contracts		(61,891)	(58,215)
Net financing		**2,206,109**	**1,975,161**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the consolidated fund		87,281	14,091
Payments of amounts due to consolidated fund		(115,584)	-
Net increase/(decrease) in cash and cash equivalents in the period		**(28,303)**	**14,091**
Cash and cash equivalents at the beginning of the period	*13*	**31,467**	**17,377**
Cash and cash equivalents at the end of the period	*13*	**3,165**	**31,467**

The Notes on pages 81 to 118 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2014

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance at 31 March 2012		**43,321,466**	**62,774,401**	**106,095,867**
Changes in taxpayers' equity for 2012-13				
Net gain on revaluation of property, plant & equipment		-	2,101,414	2,101,414
Adjustments to non-current assets		(483,972)	(201,432)	(685,404)
Reversionary interest on M6 toll road		13,952	-	13,952
Non-cash charges - auditors' remuneration	*4*	275	-	275
Transfers between reserves		125,600	(125,600)	-
Net comprehensive expenditure for the year		(2,138,486)	-	(2,138,486)
Total recognised income and expenses for 2012-13		**(2,482,631)**	**1,774,382**	**(708,249)**
Funding from the Department for Transport		2,033,376	-	2,033,376
Supply payable		(13,853)	-	(13,853)
CFERs payable to the consolidated fund		(83,197)	-	(83,197)
Balance at 31 March 2013		**42,775,161**	**64,548,783**	**107,323,944**
Detrunking	*7*	(5,229)	(2,989)	(8,218)
Restated Balance at 31 March 2013		**42,769,932**	**64,545,794**	**107,315,726**
Changes in taxpayers' equity for 2013-14				
Net gain on revaluation of property, plant & equipment		-	2 ,605,785	2,605,785
BRBR transfer	*24*	1,061	-	1,061
Adjustments to non-current assets		(98,958)	(137,689)	(236,647)
Reversionary interest on M6 toll road		10,980	-	10,980
Non-cash charges - auditors' remuneration	*4*	275	-	275
Transfers between reserves		138,904	(138,904)	-
Net comprehensive expenditure for the year		(2,484,461)	-	(2,484,461)
Other movements		(5,444)	-	(5,444)
Total recognised income and expenses for 2013-14		**(2,437,643)**	**2,329,192**	**(108,451)**
Funding from the Department for Transport		2,268,000	-	2,268,000
Supply payable		28,227	-	28,227
Balance at 31 March 2014		**42,628,516**	**66,874,986**	**109,503,502**

The Notes on pages 81 to 118 form part of these accounts

Notes to the Highways Agency's Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2013-14 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.

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 Recent Accounting Developments

The Agency has reviewed all new accounting standards, amendments and interpretations of standards that are effective in 2013-14 to determine the impact on the Agency's financial position. None of these have an impact on the Agency's financial position.

1.3 Prior Period Adjustments

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

	Note	As previously stated £000	Adjustment £000	As Restated £000
Infrastructure assets: cost	*7*	127,190,001	(8,442)	127,181,559
Infrastructure assets: depreciation	*7*	(18,271,958)	224	(18,271,734)
		108,918,043	**(8,218)**	**108,909,825**
General Fund	*SOCE*	42,775,161	(5,229)	42,769,932
Revaluation Reserve	*SOCE*	64,548,783	(2,989)	64,545,794
		107,323,944	**(8,218)**	**107,315,726**

(SOCE is Statement of Changes in Taxpayers' Equity)

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	No minimum value
Road and structures renewals	No minimum value

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

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

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

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

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

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

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

Valuation

Network Infrastructure Assets

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

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

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

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

Unit Cost	Unit cost determination
Road	The standard costing for roads has a series of road types created to identify all roads and determine the unit costs. Each road type will have a width for the carriageway, hard-strip or hard-shoulder, central reservations, etc.
Structures	*Non-Special structures* - Unit rates for bridges, tunnels, gantries and retaining walls are based on a number of standard road types and standard structure types, which are extrapolated where necessary. *Special structures* – These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, e.g. the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.
Land	Land is an integral part of the road network and forms an important part of the valuation. Although some of the land occupied by the network may not actually be owned by the 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 costs rates for land is determined by a series of rates calculations based on external sources including the Royal Institute of Chartered Surveyors (RICS) market surveys.
Technology	Technology equipment unit costs are developed using rates from technology frameworks currently in place between the 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.

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

Indexation

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

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

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

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

Assets Under Construction (AUC)

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

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

Write-downs

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

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

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

The Agency uses standard write-down percentages for different types of projects. These percentages are based on projects constructed over the previous 5 years. The write down percentages are applied to construction projects lasting more than one year. This ensures the Agency writes down the asset on an on-going basis rather than when the project is opened for traffic. 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 December 2010	VOA
Regional Control Centres	31 March 2011	VOA
National Traffic Operations Centre	31 March 2011	VOA

Plant and Equipment

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

Information Technology

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

1.5 Depreciation

Network Infrastructure Assets

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

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

All parts of the network infrastructure, apart from land which has an unlimited useful life, are depreciated.

Road Depreciation

The road surface asset comprises:

i. Surface layer of flexible pavements

ii. Sub pavement layer of determinate life pavements

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

Structures

Depreciation for structures is determined in two parts as follows:

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

Structure	Life in years
Road bridges, tunnels and underpasses	20 to 120
Road culverts	20 to 120
Retaining walls	20 to 120
Gantries	20 to 120

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

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

Technology

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

Impairment

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

Non-Network Assets

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

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

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

1.6 Non-current assets: Assets held for sale

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

Non-Current Assets: Intangible Assets

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

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

i. the software can be run on different hardware platforms;

ii. there is an identifiable asset that will produce future benefits; 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.

1.8 Research and Development

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

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

1.9 Operating Income

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

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

1.10 Administration and Programme Expenditure

The SoCNE is analysed between administration and programme income and expenditure. The classification of expenditure and income as administration or as programme follows the definition of administration costs set by HM Treasury. In line with other Arms Length Bodies, the classification applied by the 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 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. It does this 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 pension's payable up to the normal retirement age and lump sums) as an expense and liability when it becomes demonstrably committed to providing those benefits.

1.12 Leases

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

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

Rentals under operating leases are charged to the SoCNE on a straight-line basis over the term of the lease. Where the arrangement includes incentives, such as rent-free periods, the value is recognised on a straight-line basis over the lease term. Where the 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 (PFI contracts)

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

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

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 other financial assets to a third party. Management determines the classification of financial assets and liabilities at initial recognition.

1.16.2 Loans and receivables

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

1.16.3 Available for sale Financial Asset

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

1.16.4 Financial liabilities

The 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 2014, 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 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 with attached conditions are credited to deferred income on the SoFP and then credited to the SoCNE over the asset's construction period. Grants for revenue expenditure are credited to the SoCNE.

1.20 Segmental Reporting

IFRS 8 requires the 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

	2013-14					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Major Improvements	440,861	(20,249)	420,612	662,525	(23,745)	638,780
Maintaining the Network	289,944	(14,866)	275,078	517,062	-	517,062
Technology Improvements	64,061	(1,322)	62,739	26,295	-	26,295
Traffic Management	52,089	(3,630)	48,459	11,582	-	11,582
Smaller schemes and R&D	47,025	(695)	46,330	72,860	-	72,860
Running costs - Programme	99,424	-	99,424	-	-	-
Running costs - Admin	63,171	(2,723)	60,448	30,146	-	30,146
Other	289	(21,460)	(21,171)	-	-	-
	1,056,864	**(64,945)**	**991,919**	**1,320,470**	**(23,745)**	**1,296,725**
Unallocated costs						
Depreciation & write downs	1,516,554	-	1,516,554	-	-	-
Other	(8,554)	-	(8,554)	(52)	-	(52)
	2,564,864	**(64,945)**	**2,499,919**	**1,320,418**	**(23,745)**	**1,296,673**
Budget to accounts reconciliation						
Capital income in resource accounts	-	(10,217)	(10,217)	-	10,217	10,217
M25 Gain share not in budgets	(5,241)	-	(5,241)	(5,241)	-	(5,241)
Segmental total per accounts	**2,559,623**	**(75,162)**	**2,484,461**	**1,315,177**	**(13,528)**	**1,301,649**

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

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

Segmental income

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

3. Staff numbers and related costs

a) Staff costs

Staff costs comprise:	2013-14			2012-13
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	111,798	5,834	117,632	109,237
Social security costs	8,523	-	8,523	8,266
Other pension costs	19,759	-	19,759	18,967
Total gross costs	**140,080**	**5,834**	**145,914**	**136,470**
Capitalised staff costs	(27,993)	-	(27,993)	(18,980)
Less recoveries in respect of outward secondments	(163)	-	(163)	(113)
Total net costs	**111,924**	**5,834**	**117,758**	**117,377**

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.

Staff costs for 2013-14 include backdated salaries as well as lump sum payments. This is part of the Modernising the Employment Contract (MEC) which covered changes to terms and conditions.

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).

For 2013-14, employers' contributions of £19,616,838 were payable to the PCSPS (2012-13 £18,952,470) 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 2013-14 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 £146,639 (2012-13 £102,726) were paid to one or more of the panel of five appointed stakeholder pension providers. The Employer contributions of £146,639 now include payments of £22,861 made to BRASS and Railway Pension schemes as a result of staff that transferred to the Highways Agency in October 2013.

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 £8,901 (2012-13 £6,820) 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 £22,721. Contributions prepaid at that date were NIL.

b) Average number of persons employed

	2013-14			2012-13
	Permanent staff	Other	Total	Total
Staff funded from administration budgets	478	9	487	484
Staff funded from programme budgets				
Traffic officer staff	1,468	7	1,475	1,536
Direct support to front line projects and service delivery	805	14	819	907
Staff engaged on capital projects	559	10	569	403
Average FTE persons employed	**3,310**	**40**	**3,350**	**3,330**

Over the course of the financial year, the actual full time equivalents (FTE) increased from 3,250 to 3,380.

c) Civil Service and Other Compensation Schemes – Exit Packages

During the year there were 6 staff exits. There was one payment which was not covered by the Civil Service Compensation Scheme in the range of £0-25k (2012-13: no payments made).

4. Other administration costs

	Note	2013-14 £000	2012-13 £000
Communication		1,064	1,077
Consultancy		217	150
Information technology		17,857	18,211
Maintenance		751	766
Professional services		510	210
Recruitment and training		2,120	1,485
Rent, rates and building costs		4,758	5,487
Stationery, postage and printing		498	389
Travel and subsistence		1,153	947
Other administration costs		5,102	4,923
		34,030	**33,645**
Rentals under operating leases:			
Hire of plant and machinery		139	70
Other operating leases		5,537	6,511
		5,676	**6,581**
Non-cash items:			
Depreciation:			
Property, plant and equipment	*7*	1,531	1,571
Impairment of non-current assets	*10*	32	34
Amortisation:			
Intangible fixed assets	*8*	-	13
Notional costs:			
Auditors' remuneration and expenses:		275	275
Provision for doubtful debt		-	(6)
Provisions provided for in year	*15*	(578)	475
		1,260	**2,362**
Total: Other administration costs		**40,966**	**42,588**

5. Programme costs

	Note	2013-14 £000	2012-13 £000
Research and development expenditure		5,420	4,623
Maintenance and similar activities		380,324	382,601
Interest on PFI finance leases		135,699	139,375
PFI service charges		343,018	350,812
Information technology		7,781	4,902
Traffic Management vehicle costs		9,620	7,413
Carbon emissions licence		1,404	966
Other programme costs		20,967	12,052
		904,233	**902,744**
Non-cash items:			
Depreciation:			
Property, plant and equipment	*7*	773,357	719,007
Property, plant and equipment held under PFI finance leases	*7*	97,788	112,390
Impairment of non-current assets	*10*	12,551	17,888
Amortisation:			
Intangible assets	*8*	470	4,391
Write down of network assets	*7*	625,583	309,930
Notional costs:			
Loss on disposal of property, plant and equipment		293	636
Provision for doubtful debt		1,865	1,078
Provision for slow moving stock		(8,817)	2,253
Provisions provided for in year	*15*	(6,424)	683
		1,496,666	**1,168,256**
Total: Programme costs		**2,400,899**	**2,071,000**

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.

Operating income analysed by classification and activity is as follows (all Appropriated in Aid):	2013-14 Total £000	2012-13 Total £000
Administration income		
Cost recoveries/rental income	1,320	1,281
Other income	1,402	885
	2,722	**2,166**
Programme Income		
Fees and charges to external customers	20,506	17,849
Rental income from properties	3,727	4,166
Claims for damage to network	13,635	10,415
Interest receivable	21,322	20,601
Recovery of costs incurred on M6 toll scheme	5,739	5,083
Vehicle recovery	3,469	2,994
Sales of strategic salt stock	-	236
Other income	2,720	4,999
	71,118	**66,343**

Under the Department'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 the Department's consolidation boundary.

Disclosure under HM Treasury Managing Public Money

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

	2013-14			2012-13		
	Income £000	Full cost £000	Surplus/ (deficit) £000	Income £000	Full cost £000	Surplus/ (deficit) £000
Fees and charges to external customers	20,506	20,506	-	17,849	17,849	-
Cost recoveries/rental income administration	144	144	-	189	189	-
Rental income from programme properties	3,727	5,635	(1,908)	4,166	4,194	(28)
Claims for damage to network	13,635	15,063	(1,428)	10,415	11,380	(965)
National vehicle recovery	3,469	4,768	(1,299)	2,994	6,375	(3,381)
Recovery of other costs from MEL	178	178	-	282	270	12
Recovery of costs incurred from schemes	151	151	-	1,300	1,300	-
Sales of strategic salt stock	-	-	-	236	236	-
Other income	1,861	1,861	-	4,447	4,447	-
	43,671	**48,306**	**(4,635)**	**41,878**	**46,240**	**(4,362)**

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury Managing Public Money. Please note timing differences occur.

7. (a) Property, Plant and Equipment 2013-14

	Infrastructure assets £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information technology £000	Total £000
Cost or valuation								
At 1 April 2013	127,190,001	354,114	144,622	159,987	60,715	111,294	164	128,020,897
Detrunking	(8,442)	-	-	-	-	-	-	(8,442)
Restated Sub-total	**127,181,559**	**354,114**	**144,622**	**159,987**	**60,715**	**111,294**	**164**	**128,012,455**
Adjustment to opening position	(256,026)	10,980	-	-	302	89	-	(244,655)
Capital additions	491,430	823,457	-	-	-	290	-	1,315,177
Write down	(491,430)	(625,583)	-	-	-	-	-	(1,117,013)
Disposals	-	-	(1,464)	(725)	(5,495)	(551)	-	(8,235)
Revaluation	2,734,464	-	5,526	4,323	7,563	(2,207)	-	2,749,669
Impairments	(20,629)	-	(836)	(582)	(547)	(40)	-	(22,634)
Transfers	81,673	(84,632)	4,517	-	730	684	(69)	2,903
Reclassifications to Assets Held for Sale	-	-	2,559	(1,502)	(2,105)	-	-	(1,048)
At 31 March 2014	**129,721,041**	**478,336**	**154,924**	**161,501**	**61,163**	**109,559**	**95**	**130,686,619**
Depreciation								
At 1 April 2013	18,271,958	-	-	84,345	-	64,033	125	18,420,461
Detrunking	(224)	-	-	-	-	-	-	(224)
Restated Sub-total	**18,271,734**	**-**	**-**	**84,345**	**-**	**64,033**	**125**	**18,420,237**
Adjustment to opening position	(19,291)	-	-	-	-	-	-	(19,291)
Valuation adjustments	(491,430)	-	-	-	-	-	-	(491,430)
Impairments	(10,696)	-	-	(7)	-	97	-	(10,606)
Charged in year	861,967	-	-	3,898	-	6,793	18	872,676
Disposals	-	-	-	-	-	(479)	-	(479)
Revaluation	146,241	-	-	2,453	-	(1,105)	-	147,589
Transfers	-	-	-	-	-	582	(68)	514
At 31 March 2014	**18,758,525**	**-**	**-**	**90,689**	**-**	**69,921**	**75**	**18,919,210**
Net book value at 31 March 2014	**110,962,516**	**478,336**	**154,924**	**70,812**	**61,163**	**39,638**	**20**	**111,767,409**
Net book value at 31 March 2013	**108,909,825**	**354,114**	**144,622**	**75,642**	**60,715**	**47,261**	**39**	**109,592,218**
Asset financing								
Owned	108,596,212	265,288	154,924	68,115	61,163	39,638	20	109,185,360
On-balance sheet PFI contracts	2,366,304	-	-	2,697	-	-	-	2,369,001
M6 reversionary interest	-	213,048	-	-	-	-	-	213,048
Net book value at 31 March 2014	**110,962,516**	**478,336**	**154,924**	**70,812**	**61,163**	**39,638**	**20**	**111,767,409**

7. (b) Property, Plant and Equipment 2012-13

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

7. (c) Transfer of function

	Local authority	Date of transfer	Asset value £000
Detrunked section of the road:			
Programme of major schemes:			
A1 Leeming to Barton (short access road from south of Low Street to north of Sowber Hill Farm)	*North Yorkshire*	28-Nov-13	8,218
Total			**8,218**

The detrunked section above is part of the routine detrunking that occurs as a result of the construction of a bypass.

Network Assets

Adjustment to opening position

The asset valuation as at 1 April 2013 was restated to include the following adjustments:

- A decrease in the valuation of the asset by £229,362,000 for dimensional variance. This variance results from improved information on dimensions for road pavement, land area and individual structures
- There was a decrease of £7,373,000 in the infrastructure valuation due to re-referencing. This is the outcome from improvement in reference data for individual elements of the infrastructure asset including roadside technology and structures.

Assets under Construction

The 1 April 2013 opening position was adjusted to include an additional £10,980,000 of reversionary interest for the M6 toll road. The agreement for the construction of the toll road includes the provision that the asset will revert to public ownership in the future.

Valuation adjustments

This consists of the following:

- **Capital Renewal** – the Agency has a yearly programme of renewal of the network to ensure the infrastructure continues to deliver according to the service potential. This yearly renewal expenditure is classified as Capital and the Agency spent £491,430,000 during the year. This 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. This expenditure will provide significant benefits for the network in future years
- **Write-down** – The infrastructure valuation is based on standard cost and indexation, as required by Government accounting. There is always a difference between standard cost and the actual cost of construction for a particular scheme. Standard cost is based on a number of assumptions and is an accounting estimate of the cost of replacing the network. The write-down is calculated by comparing the actual cost of constructing a scheme with the standard cost valuation, the difference being the write-down. During the year the write-down was £625,583,000. The level of write-down is determined by the type of schemes under construction or opened to traffic during the year.

Revaluation

Each year, to comply with Financial Reporting Standards, the Agency applies an indexation factor to the current replacement cost – valuation - of the network to reflect current construction prices. The Agency uses the Road Construction Resource Cost Indices produced by the Royal Institute of Chartered Surveyors for this purpose. This resulted in an increase of £2,588,223,000 in the valuation of the network.

Depreciation

The network depreciation charge for the year was £861,967,000. This included a credit of £14,239,000 for improvement in the road condition. Road condition is measured using rutting data collected from road surface condition surveys. Rutting is used as a good proxy for the overall condition of the road surface and is a measurement of the wearable elements of the pavement.

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

	2013-14 £000	2012-13 £000
Freehold buildings (96%)	217,123	211,560
Long leasehold buildings (50+ years)	-	-
Short leasehold buildings (less than 50 years)	8,613	8,701
Total	**225,736**	**220,261**

8. Intangible assets

	Software licences £000	Developed costs £000	Total £000
Cost or valuation			
Balance at 1 April 2013	6,417	76,088	82,505
Amortisation			
Balance at 1 April 2012	6,404	70,795	77,199
Charged in year	13	4,391	4,404
Disposals	-	-	-
Balance at 1 April 2013	**6,417**	**75,186**	**81,603**
Charged in year	-	470	470
Disposals	-	-	-
Balance at 31 March 2014	**6,417**	**75,656**	**82,073**
Net book value at 31 March 2014	**-**	**432**	**432**
Net book value at 31 March 2013	**-**	**902**	**902**

9. Assets classified as held for sale

	Land and buildings £000	Dwellings £000	Total £000
Balance at 1 April 2012	9,306	8,314	17,620
Disposals	(7,418)	(2,838)	(10,256)
Revaluation	(288)	(196)	(484)
Impairments	(372)	(345)	(717)
Reclassifications to/from property plant and equipment	4,045	2,106	6,151
Balance at 1 April 2013	**5,273**	**7,041**	**12,314**
Adjustment to opening position	-	(302)	(302)
Disposals	(1,946)	(4,119)	(6,065)
Revaluation	3,570	134	3,704
Impairments	(258)	(297)	(555)
Reclassifications to Assets Held for Sale	(1,058)	2,105	1,047
Balance at 31 March 2014	**5,581**	**4,562**	**10,143**

10. Impairments

	2013-14 £000	2012-13 £000
Total Impairment charge through Statement of Comprehensive Net Expenditure	12,583	17,922

The impairment charge for 2013-14 mainly comprises of:

- £5,130,000 of communication and electrical equipment impairment (2012-13: £2,207,000), removed from the network as damaged or obsolete.
- £4,802,000 the Agency demolished and scrapped a number of bridges and gantries as part of the ongoing renewal of the network infrastructure (2012-13: £14,071,000).

11. Inventories

	31 Mar 2014 £000	31 March 2013 £000
Communication/electrical equipment for strategic road network	26,601	31,712
Highway damage repair items - barriers and parts for the repair of bridges, tunnels and special structures	149	987
Salt	11,818	12,092
Uniforms for traffic officers working on the strategic road network	386	411
	38,954	**45,202**

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

12. Trade and other receivables

a) Analysis by type

	31 Mar 2014 £000	31 March 2013 £000
Amounts falling due within one year		
Trade receivables	6,355	89,049
Deposits and advances	6,715	7,652
VAT	107,870	89,113
Midland Expressway Limited M6 concession	11,919	11,509
Prepayments and accrued income	12,250	8,739
Finance leases	68	68
Other receivables	162	523
	145,339	**206,653**

	31 Mar 2014 £000	31 March 2013 £000
Amounts falling due after more than one year		
Severn River Crossing Plc subordinated loan	84,722	108,322
Severn River Crossing Plc deferred interest	84,931	74,721
Midland Expressway Limited M6 concession	173,058	167,664
Deposits and advances	8,536	8,417
Finance leases	6,545	6,614
Staff relocation housing loans	10	15
	357,802	**365,753**
Total	**503,141**	**572,406**

A £60 million subordinated loan was granted to Severn River Crossing Plc (SRC) on 26 April 1992 as part of the consideration for a concession agreement granted by the Secretary of State for the operation and maintenance of the existing Severn River crossing and the design, construction, operation and maintenance of a second crossing. The loan is indexed by reference to the Retail Price Index and carries an interest rate of 6% per annum. It is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. It is currently predicted the concession period will end in May 2018. Under a re-financing agreement in 2002-03 interest on the subordinated loan is deferred and is repayable at the end of the concession period. SRC has started repaying this debt from December 2013 whilst repayment is not contractually due until the end of the concession.

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.

b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2014 £000	31 Mar 2013 £000	31 Mar 2014 £000	31 Mar 2013 £000
Balances with:				
Other central government bodies	108,290	89,854	-	-
Local authorities	4,056	2,178	6,545	6,614
Public corporations and trading funds	25	2	-	-
Total intra-government balances	**112,371**	**92,034**	**6 ,545**	**6,614**
Balances with bodies external to government	32,968	114,619	351,257	359,139
Total Debtors	**145,339**	**206,653**	**357,802**	**365,753**

13. Cash and cash equivalents

	31 Mar 2014 £000	31 Mar 2013 £000
Balance at 1 April 2013	31,467	17,377
Net change in cash and cash equivalent balances	(28,302)	14,090
Balance at 31 March 2014	**3,165**	**31,467**
The following balances at 31 March 2014 were held at:		
Commercial banks	1,055	1,122
Government Banking Service	2,110	30,345
Balance at 31 March 2014	**3,165**	**31,467**

14. Trade and other payables

a) Analysis by type

	31 Mar 2014 £000	31 Mar 2013 £000
Amounts falling due within one year:		
Other taxation and social security	5,977	4,594
Trade payables	81,563	28,562
Accruals and deferred income	498,597	423,043
Current part of imputed finance lease element of on balance sheet PFI contracts	65,804	61,891
Consolidated fund extra receipts due to be paid to the Consolidated Fund:		
Received	-	-
Receivable	6	83,204
Amounts due to DfT in respect of Dartford River Crossing road user charges	8,445	8,109
Amounts due to the Consolidated Fund in respect of supply	50,907	79,135
Other payables	2,651	809
	713,950	**689,347**

	31 Mar 2014 £000	31 Mar 2013 £000
Amounts falling after more than one year:		
Imputed finance lease element of on balance sheet PFI contracts	1,741,016	1,806,820
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:		
Severn River Crossing Plc subordinated loan	84,723	108,322
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	12,492	11,235
Other	14,776	14,165
	1,969,319	**2,056,854**
Total	**2,683,269**	**2,746,201**

Accruals and deferred income comprise:

	31 Mar 2014 £000	31 Mar 2013 £000
Amounts payable relating to road schemes	417,139	342,252
PFI related accruals	48,133	48,133
Third party funded projects (s278)	17,079	13,685
Administration accruals	13,356	10,596
Other	2,890	8,377
Total	**498,597**	**423,043**

b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling after more than one year	
	31 Mar 2014 £000	31 Mar 2013 £000	31 Mar 2014 £000	31 Mar 2013 £000
Balances with:				
Other central government bodies	62,907	170,724	201,042	224,635
Local authorities	9,292	4,888	-	-
NHS Trusts	10	-	-	-
Public corporations and trading funds	52	47	-	-
Total Intra-Government balances	**72,261**	**175,659**	**201,042**	**224,635**
Balances with bodies external to government	641,689	513,688	1,768,277	1,832,219
Total	**713,950**	**689,347**	**1,969,319**	**2,056,854**

15. Provisions

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Pension and other liabilities £000	Total £000
Balance at 1 April 2012	113,113	83,837	26,976	23,015	2,861	7,103	256,905
Provided in the year	37,766	30,039	2,450	-	-	1,603	71,858
Provisions not required written back	(23,281)	(12,890)	(4,510)	-	-	(542)	(41,224)
Provisions utilised in the year	(28,041)	(51,090)	(5,354)	(7,330)	(819)	(1,371)	(94,005)
Reclassification incl. accruals	-	-	-	-	-	(953)	(953)
Balance at 1 April 2013	**99,557**	**49,896**	**19,562**	**15,685**	**2,042**	**5,840**	**192,582**
Provided in the year	55,804	13,732	(450)	-	-	1,286	70,372
Provisions not required written back	(26,754)	(37,710)	(51)	-	-	(578)	(65,093)
Provisions utilised in the year	(22,736)	(28,477)	(50)	(9,566)	(555)	(1,924)	(63,308)
Reclassification incl. accruals	-	2,559	-	-	-	(640)	1,919
Balance at 31 March 2014	**105,871**	**-**	**19,011**	**6,119**	**1,487**	**3,984**	**136,472**

Analysis of expected timing of discounted flows:

	Land and property acquisition £000	Engineering and construction services £000	Bridge strengthening £000	Tunnels £000	Early retirement £000	Migration Pension & Other Liabilities £000	Total £000
Within one year	39,122	-	9,192	6,119	376	2,809	57,618
Between 2015 and 2019	66,749	-	9,819	-	1,048	1,175	78,791
Between 2020 and 2024	-	-	-	-	63	-	63
Thereafter	-	-	-	-	-	-	-
	105,871	**-**	**19,011**	**6,119**	**1,487**	**3,984**	**136,472**

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 (E&C) was previously required to meet the estimated cost of work to meet generally accepted highways standards, after a road has been opened for traffic (OFT), and disputed contractual claims. However, the changing nature of scheme delivery is aimed at reducing the time taken to complete; including condensing the time between OFT and scheme completion. This means that E&C provisions no longer remain appropriate.

Bridge Strengthening

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

Tunnels

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

Migration, Pensions and Other Liabilities

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to the Agency for compensation. A provision has been made which estimates the number and value of the claims received as at 31 March 2014 that will require settlement by the Agency.

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

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 £9,018,000 during year (2012-13; £29,476,000). The following provisions were charged/ credited to the Statement of Comprehensive Net Expenditure:

	2013-14 £000	2012-13 £000
Programme:		
Land and property acquisition	95	97
Engineering and construction services	(7,805)	-
Pensions and other liabilities	1,286	586
	(6,424)	**683**
Administration:		
Early retirement	-	-
Other	(578)	475
	(7,002)	**1,158**

16. Capital commitments

	31 Mar 2014 £000	31 Mar 2013 £000
Contracted capital commitments not otherwise included in these accounts:		
Property, plant and equipment	552,636	455,482

17. Commitments under leases

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

	31 Mar 2014		31 Mar 2013	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Obligations under operating leases comprise:				
Not later than one year	7,215	-	7,672	2
Later than one year and no later than five years	28,584	-	29,287	-
Later than five years	32,905	-	40,493	-
	68,684	**-**	**77,452**	**2**

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 capital payments.

	31 Mar 2014 £000	31 Mar 2013 £000
Not later than one year	197,590	197,590
Later than one year and not later than five years	770,552	780,456
Later than five years	2,801,549	2,989,235
	3,769,691	**3,967,281**
Less interest element	(1,962,871)	(2,098,570)
	1,806,820	**1,868,711**

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. The amount expected to be paid has fallen due to payment made and changes to inflation and traffic forecasts.

	31 Mar 2014 £000	31 Mar 2013 £000
Not later than one year	528,471	537,607
Later than one year and not later than five years	2,089,997	2,076,424
Later than five years	11,335,749	12,416,123
	13,954,217	**15,030,154**

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 period end 31 March was £343,018,000 (2012-13: £350,812,000).

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

a) Contingent liabilities

	31 Mar 2014 £000	31 Mar 2013 £000
Land and property acquisition	128,761	168,049
Engineering and construction services	6,157	7,500
Other	11,708	9,684
	146,626	**185,233**

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.

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. To date in 2013-14, nothing has been received under these arrangements (2012-13: £7,000).

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

21. Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £300,000 in total and those that, individually, exceed £300,000. 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.

	2013-14 £000	2012-13 £000
Losses:		
Bookkeeping/cash losses: 10 cases (2012-13: 19 cases)	348	85
Fruitless payments: 3 cases (2012-13: no cases)	2,224	-
Claims abandoned/store losses: 1966 cases (2012-13: 2,123 cases)	7 ,802	11,690
Special payments:		
Ex-gratia compensation: 7 cases (2012-13: 5 cases)	113	13

The claims abandoned/store losses disclosed above include 1695 cases valued at £5,693,000 (2012-13:1,978 cases valued at £5,725,000) for damage to the road network where the culprit could not be identified or otherwise pursued for costs.

During 2013-14 there have been two reportable losses greater than £300,000. The first case relates to an abandoned claim for diesel spillage (£636,000) where the culprit responsible for the spillage is unknown and there is no insurance policy against which the Agency could claim. The second case relates to a theft of cable and other equipment from the strategic road network (£334,000).

During 2013-14 there have been three cases of fruitless payment. The most significant was a payment of £2,223,000 compensation for the early termination of a contract with our IT provider to develop an asset management information system. This was judged to be the optimal solution for the successful delivery of the system.

The 2012-13 losses include several instances of theft of metal (mainly cable) and associated equipment from the strategic road network totalling (£5,845,000).

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, Valuation Office Agency, Planning Inspectorate 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.

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

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 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 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.

	31 Mar 2014 £000	31 Mar 2013 £000
Lloyds Escrow Bank Accounts	3,079	3,675
Lloyds Euro Bank Account	157	135
	3,236	**3,810**

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

24. BRBR

The British Railways Board (Residuary) Ltd (BRBR) was wound-up on 30 September 2013. The ongoing functions of BRBR were subsequently dispersed to a number of successor bodies, including the Agency. From 1 October 2013, the Agency is discharging the Secretary of State's responsibility for the maintenance and management of the BRBR Historic Estate which consists of over 3,400 tunnels, bridges, viaducts, culverts and other structures; plus around 230 public road supporting structures and 85 parcels of land associated with access to these structures.

The Historic Estate assets were transferred to the Secretary of State at nil value. These assets, together with any related contingent liabilities, are included in the Department for Transport's accounts.

25. Events after the Reporting Period

HM Treasury are currently considering a write-off of £1,088,000. This relates to unrecovered payments from road users where their vehicles have been removed, stored or disposed under the National Vehicle Recovery Manager contract. FMG, the contractor, have taken all reasonable attempts to recover the debt.

International Accounting Standards require the Highways Agency to disclose the date on which the accounts are authorised for issue. This is the date that the certified accounts are dispatched by the Highway Agency's management to the Secretary of State of the Department for Transport. The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

Annex A – The Highways Agency Board and organisational structure


Graham Dalton
Chief Executive

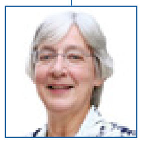

Alan Cook
Non Executive Chairman


David Hughes
Non Executive Director


Elaine Holt
Non Executive Director


Simon Murray
Non Executive Director


Tom Smith
Non Executive Director


Ginny Clarke
Strategy and Planning
- Corporate – Angela Koenig
- Change Programme – Mike Fargher
- Strategy and Economic Development – Martin Fellows
- Roads Reform Programme – Paresh Tailor


Stephen Dauncey
Finance and Business Services
- Audit and Assurance – Sharon McCarthy
- Financial Control – Nick Sharman
- Major Projects Finance – Christine Leung
- Network Delivery and Development Finance – Paul Williamson
- Human Resources – Les Brewster
- Operations and Support – Richard Willson


David Brewer
Network Delivery and Development
- Network Delivery and Development
  - Midlands – Tim Harbot
  - South West – Andrew Page-Dove
  - South East – Simon Jones
  - North West – Alan Sheperd
  - Yorkshire and the North East – Vanessa Gilbert
  - East – Catherine Brookes
  - M25 – Simon Jones
- Traffic Technology – Robert Castleman
- Central – Matt Sweeting
- Contract Strategy – David Grunwell


Peter Adams
Major Projects
- Major Projects
  - Midlands and South West – David Grant
  - South – Chris Taylor
  - North – Jeremy Bloom
- Portfolio Office – Doug Sinclair
- Accelerated Delivery – Andrew Watson
- Approach to Delivery – Russel Wallis


Mike Wilson
Network Services
- Network Performance – David Stones
- Operational and Technical Solutions – Andrew Jones


Simon Sheldon-Wilson
Traffic Management
- On Road – John McTaggart
- Service Delivery – James Lowth
- Regional Control Centres – Mel Clarke
- National Traffic Operations – Steve Crosthwaite
- Service Innovation Group – Diane Gibson
- Customer Review – Pete Martin


David Poole
Commercial and Procurement
- Commercial – Mark Ollerton
- Procurement – Sharon Cuff
- Strategic Supplier Development – David O' Neil
- Strategy, Governance and Resource Management – Paul Mackintosh

Information correct at February 2014
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Annex B – Performance against indicators from our business plan

Highways Agency Business Plan Measure	2013-14	2012-13
Cost of operating the Highways Agency motorway and A road network per vehicle mile	0.3 pence	0.3 pence
Cost of maintaining the Highways Agency motorway and A road network per lane mile	£44,000	£40,000
Percentage of Highways Agency's appraised project spending that is assessed as good or very good value for money	100%	100%
Reliability of journeys on the Highways Agency motorway and A road network	78.1% 'on time'	77.6% 'on time'
Annual road fatalities on the Highway Agency motorway and trunk road network	Available July 2014	219
The mean and median average incident duration times on motorways	Mean 29 minutes Median 18 minutes (these are figures for the month of March 2014)	Mean 29 minutes Median 16 minutes (these are figures for the month of March 2013)
Contribute to national and international goals for a reduction in carbon dioxide emissions by lowering the Highway Agency's emissions	4,441 tonnes CO_2e reduction	7,984 tonnes CO_2e reduction
The proportion of the strategic road network that is in a condition that does not require further investigation for possible maintenance	95.2%	96.4%
For the programme of schemes in the construction phase, maintain a programme level of at least 1.0 against the cost performance index (CPI) and the schedule performance index (SPI)	CPI: 1.02 SPI: 1.05	CPI 1.11 SPI 1.02
The accident frequency rate of the Highways Agency supply chain	0.14	0.12
The severity weighted accident frequency rate of the Highways Agency's supply chain	2.19	2.47
Customer satisfaction on the Highways Agency's motorway and A road network	89.63%	90.73%

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