HIGHWAYS AGENCY

Safe roads, reliable journeys, informed travellers

Highways Agency Annual Report and Accounts 2014-15

HC 112

An executive agency of the Department for Transport

Highways Agency
Annual Report and Accounts
2014-15

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Any enquiries regarding this publication should be sent to us at **Corporate Governance Team, Highways England, Bridge House, 1 Walnut Tree Close, Guildford GU1 4LZ**

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Contents

Key achievements

The Highways Agency is responsible for operating, maintaining and improving over 7,000 kilometres of motorway and trunk roads used by 4 million drivers every day. In 2014 some 141 billion vehicle kilometres were clocked up by road users, an increase of 2.4% on 2013.

This strategic road network, which amounts to 2.4% of the roads in England, carries a third of all road traffic and two thirds of all road freight traffic. It is a key part of our national infrastructure, supporting the economy and the wider transport network, including local roads, providing smooth access to ports, railways and airports.

The Highways Agency had a successful year delivering an increased and accelerated level of capital investment to time and within budget.

During 2014-15 the Agency has worked with developers and communities to create the potential for almost 46,000 jobs and planning consent for over 110,000 new homes, managing congestion across the network and improving road safety.

Network strategy and planning

The first all-lane running scheme was successfully implemented in April 2014. This new smart motorways concept brings into use the hard shoulder as a permanent running lane, and combines this with active traffic management to improve journey times for customers and increase overall capacity by a third.

Taking on a strategic role, the Agency published 21 route strategies, covering the whole of the network. These establish operational and investment priorities, and underpin the Roads Investment Strategy being taken forward by Highways England.

The Agency responded to all planning applications received within the target 21 days. The average time taken to respond to planning applications has reduced to an average of 13 days.

Capital investment programme

During the year we invested £1.9bn in the network including:

- completion of the A11 Fiveways to Thetford improvement, bringing improved connectivity to Norfolk;
- widening of the A23 bringing improved access to Gatwick airport;
- 2,900 lane kilometres of resurfacing, 400 kilometres new drainage, 76 kilometres of new barriers, 36,000m^2 of waterproofing, all delivering a more comfortable, safe, resilient and longer lasting network; and
- completion of 74 small improvements bringing significant benefits to local communities through reduced congestion.

Over **96%** of the network is classified as being in a 'good' or 'very good' condition.

Operational performance

Use of the network has increased, as has the number of lane-impact incidents (an average of 223 per day on motorways). Our traffic officers responded to 15,000 incidents per month, ensuring a safe environment for road users. The Agency has taken the lead in joint initiatives aimed at reducing incident duration time.

The rolling annual average incident duration has remained at **31** minutes.

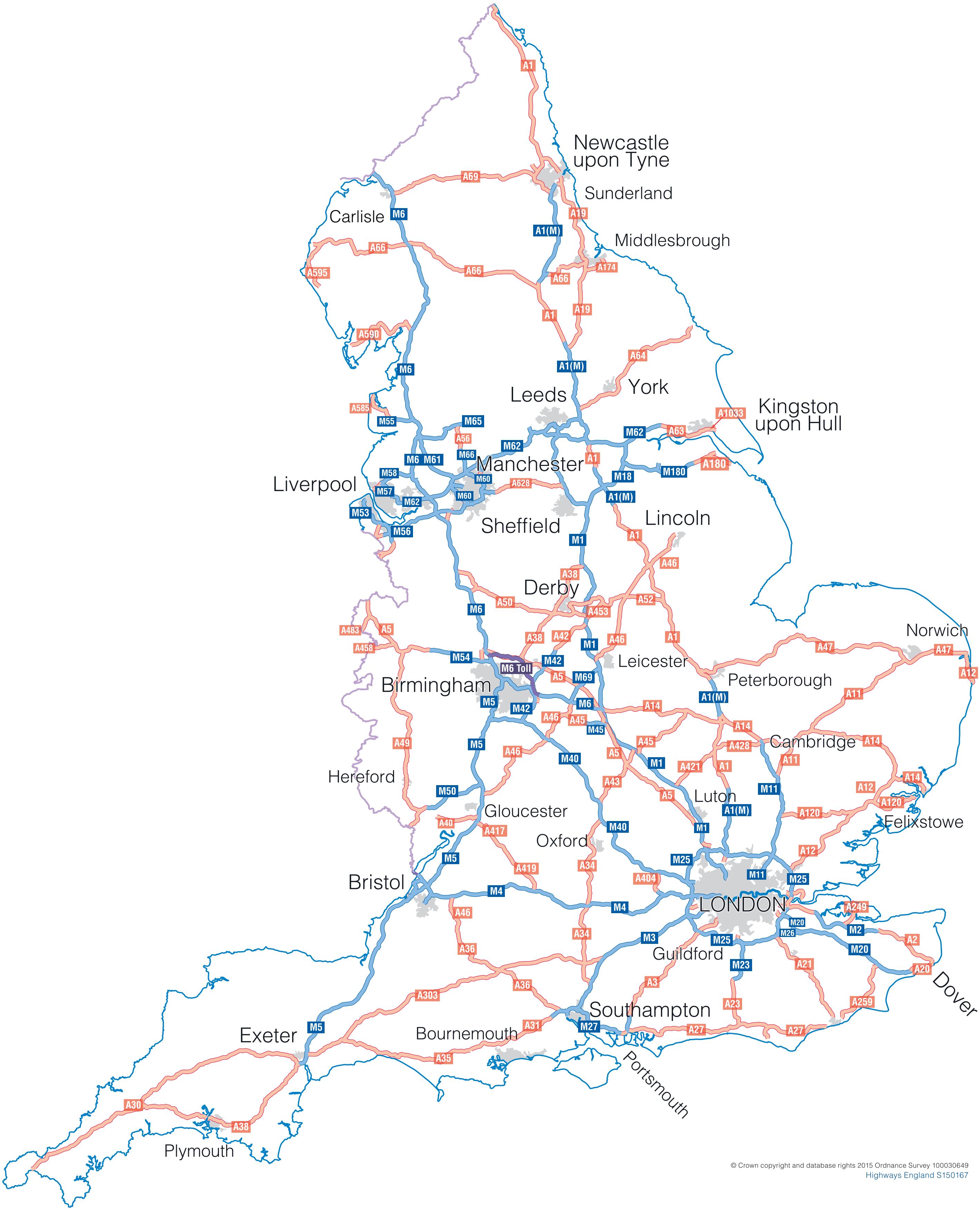
During the year, on average **98.5%** of the network was open and available to road users.

Overall customer satisfaction has fallen over the last 2 years from 90.7% to 88.5%. The highest level of negative feedback from customers was about lanes being coned off with no apparent work taking place. There is more that we can do to improve the road user experience and this will be a focus for Highways England.

Despite increasing demand and incidents, the on time reliability of the network improved to 78.7% (78.1% last year). Many interventions have contributed to this, including the Dart Flow implementation in November 2014 which has significantly reduced congestion between junctions 31 and 1a on the M25.

In addition to these operational achievements the organisation successfully completed the transitional steps required to establish its successor, Highways England, on 1 April 2015.

Strategic Road Network



Chairman's report

In September 2014 I was proud to be appointed chairman of the Highways Agency, an organisation in the midst of a major transition driven by 3 positive and challenging government decisions:

- a threefold increase in the rate of investment in the roads we manage;
- a 5 year investment plan; and
- a move to being a government owned company.

The Agency's leaders worked hard through the year to prepare our response to the first *5 year Road Investment Strategy* and to support the Department for Transport in taking the Infrastructure Bill successfully through Parliament.

We now have to deliver the 5 year plan, working constructively with our new Monitor, the Office of Rail and Road, with our watchdog, Transport Focus, and with local authorities and communities across the country. My fellow directors of Highways England and I welcome this opportunity to improve the service to everyone who relies on the motorway and main A roads of England.

In recent years the Highways Agency built its reputation on delivering capital investment on time and to budget, developing the new smart motorways and supporting wider government objectives. Based on these successes, Government has now put its confidence in us to deliver more for the country. The legal transition from Highways Agency to Highways England completed smoothly. We must now press on with the broader transformation of the organisation, strengthening it to deliver safer and better roads, more investment, and the best possible value for taxpayers. Success will require the skill and hard work of all our colleagues and suppliers. We will need to recruit more skilled people to deliver the increased investment in roads and quality service.

I thank everyone in the Highways Agency warmly for their dedication in all that they have achieved over the last year. I also thank my predecessor Alan Cook for setting out the path to a better business in his 2011 report *'A fresh start for the strategic road network'*, and for his leadership as chairman of the Highways Agency from 2011 to 2014.

In particular, the board and I wish to thank Graham Dalton, who steps down as chief executive in summer 2015, for his successful stewardship of the Highways Agency over the past 7 years.

Colin Matthews CBE
Chairman

Chief executive's report

The last year was one of big changes for the Highways Agency – the last year as an executive agency of the Department for Transport.

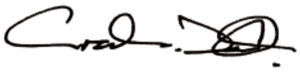
Through the early part of this decade, the Agency's focus was on reducing the cost of operating and maintaining the network and of new construction. The National Audit Office undertook a value for money report (*Maintaining strategic infrastructure; roads; HC169, published June 2014*), which the Public Accounts Committee reviewed in September 2014. The NAO report noted that we had reduced the cost of maintaining the network and, as yet, there has been no visible deterioration in the condition of our asset base as a result. Our focus in 2014-15 was in delivering an increased capital programme at these lower unit costs.

The strategic road network is a fundamental part of the national transport system, and enables economic activity across the country. Having successfully reduced our cost base, we increased our focus during the year to improving the customer experience on the network. Investment such as the new free flow charging system at the Dartford crossing has transformed one of the most unpredictable sections of the network into one that works reliably. This focus on the road user and on the need of the communities that our network serves is the start of a genuine transformation of how we run our business.

However, the biggest change of the last year is the move to proper long term plans for the network. The publication by Government of a *5 year Road Investment Strategy* and commitment of the associated funding means that we and our suppliers can commit people and resources to an ambitious investment programme. The Infrastructure Act 2015 established Highways England as a Government-owned company responsible for meeting the performance and investment objectives set out in that Road Investment Strategy. This certainty that incorporation brings puts the strategic road network on a similar footing to other large infrastructure entities, and will see the business really focus on our core purpose – providing better journeys on better roads.

As well as building a new corporate capability in readiness for the launch of Highways England, we have had to do some remedial work on our safety management systems. In January 2015 the Health and Safety Executive (HSE) imposed a Crown Censure on the Highways Agency for failing to meet our obligations under the Health and Safety at Work Act to adequately supervise our employees – specifically the traffic officers at our Dartford outstation. I and my senior team take this censure very seriously. We acted quickly to address the specific shortcomings identified by the HSE, and more importantly we have, with our new board, renewed our resolve to see further real improvements in the safety of the people who work for us and of our customers – the road users.

We ended the year with the successful launch of Highways England, and transferred our people, assets and responsibilities to that new company. Having overseen that big transition and set the new company up in good shape I will now step down as chief executive. As I do so, I would like to record my thanks for the help and support of so many Highways Agency staff and suppliers over my 7 years leading the business, and the contribution of many more through the 21 years of the Highways Agency. We have handed to Highways England a network in good shape and a business that is doing a lot of things well. I look forward to watching Highways England succeed from a customer's perspective.



Graham Dalton
Chief executive

1. Strategic report

The role of the Agency

On 1 April 2015 the functions, roles and responsibilities of the Highways Agency transferred to a new Government-owned company, Highways England. This document comprises the final annual report on the activities of the Highways Agency.

Established in 1994 as an executive agency of the Department for Transport (DfT), the Highways Agency's function was to operate, maintain and improve the strategic road network (SRN) in England.

The SRN represents 2.4% of all roads in England by length, yet carries a third of all traffic by mileage – and two thirds of all heavy road freight traffic, making it the economic backbone of the country.

Responsibilities of the Agency

Operating the SRN

- monitoring traffic flows on the network and publicising traffic information in real time to help users plan and complete their journeys; and

- managing and clearing incidents as quickly as possible.

The Agency's Traffic Officer Service helped to prevent and cleared incidents on England's motorways. The National Traffic Information Services supported this function by providing information directly to road users, to the Agency's National Traffic Operations Centre and seven regional control centres.

Maintaining the SRN

- carrying out routine maintenance of roads, structures and technology to make the network safe, serviceable and reliable.

Improving the SRN

- undertaking large-scale improvements through a programme of major capital investment schemes;

- setting and maintaining technical standards for roads; and

- designing and delivering small scale improvements at key locations to improve safety and reduce congestion.

Composition of the Agency

The Highways Agency employed around **3,600** staff.

Approximately half of these are traffic officers, patrolling the motorway network and providing front-line support to road users. The remainder of the staff are based in 7 offices around the country (Guildford, Bedford, Leeds, Manchester, Birmingham, Bristol and Exeter).

Department for Transport's performance specification 2013-2015

The DfT-led *performance specification*, published in 2013, outlined the high-level outcomes, outputs and specific requirements that the Government wanted to secure from the SRN and from the Agency. The performance specification covered the 2 year period April 2013 to March 2015.

The specification was developed around the Agency's vital role 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 adverse impact on local communities and the environment.

46 individual measures and targets were specified, gathered under 12 outputs which included network availability and resilience, safety, information provision, customer satisfaction and efficiency.

Some of the targets were delivered in the first year of the specification, but the majority had delivery dates in 2014-15. Performance in delivering the specified outcomes and meeting the detailed measures and targets is discussed in section 1 of this annual report, and in Annex B.

Highways England

In April 2014 the government confirmed its plans to transfer the functions of the Agency to a new government-owned company with responsibility for England's SRN. This was in response to the public consultation in autumn 2013.

The announcement also confirmed plans for a Road Investment Strategy (RIS) to set performance standards for the new company and its 5 year investment programme. The new company, Highways England, became operational on 1 April 2015.

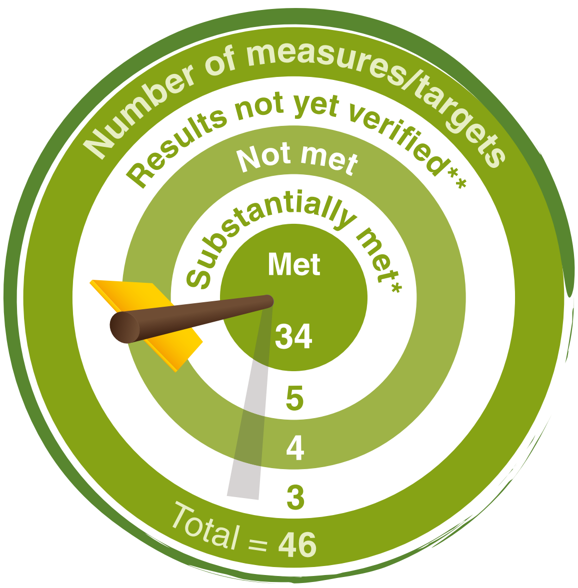
Strategic and delivery plans for Highways England are available on the government publications website.

Our performance

DfT's performance specification set out 5 high-level outcomes, all of which we successfully delivered. Those 5 outcomes were that the strategic road network should:

- support and facilitate economic growth;
- be maintained to a safe and serviceable condition;
- be operated efficiently and effectively;
- minimise its negative impacts on users, local communities and the environment; and
- balance the needs of individuals and businesses who rely on it.

The Agency fully delivered 11 of the 12 outputs underpinning the outcomes identified in the performance specification, and the vast majority of the 46 supporting individual measures and targets.



Performance against the specified outputs, measures and targets is discussed in the remainder of this section.

Financial performance

The Agency began the year with a Departmental Expenditure Limit (DEL) budget of £3,817m. This was reduced by £128m to reflect the planned programme of work which was agreed at the beginning of the year. The Agency has faced delivery challenges during the year but has successfully delivered the capital investment programme. Outturn against the final budget was £3,729m. Details against each budget category are in the table on page 13.

Overall, outturn was in line with expectations and reflected a very strong capital investment performance in the second half of the year. The resulting variance against the capital budget was agreed with the Department for Transport as investment performance continued to improve in the final quarter. Against the initial capital funding level of £1,933m, the final outturn represents an underspend of 3.8%.

The SRN consists of roads, structures, lands and technology assets which form part of a single integrated network. In 2014-15 the net book value of the SRN increased by £926m to £111,889m (2013-14: £110,963m), largely due to an upward revaluation. Further details can be found in the financial statements at section 7.

* Where the Agency did not achieve the exact specification measure, but where performance represents a significant contribution to achieving the specified outputs and outcomes.

** Safety data due for publication by DfT end June 2015; major schemes benefits realisation under evaluation; Planning report publication in July 2015.

Budget Category		Original Budget £m	Final Budget £m	Outturn £m	Variance against final budget £m	Variance against final budget %	Comment
Resource	Programme (excl Depreciation)	960	931	933	(2)	(0%)	The reduction in budget reflects savings made across various programmes in excess of the SR10 efficiency challenge. Some underspends against PFI service payments during the year were off-set by pressures arising on maintenance contracts. Income was slightly lower than anticipated. Overall, the outturn was in line with the final budget.
	Administration (excl Depreciation)	58	69	68	1	1%	Increase in the budget reflects both additional ICT costs (short term costs as the Agency procures more efficient long term arrangements) and the costs of Roads Reform (creation of Highways England and new governance arrangements). The final outturn was slightly below budget due to favourable movements on estate costs (including additional rental income).
Resource	Programme Depreciation	864	864	867	(3)	(0%)	
	Administration Depreciation	2	2	1	1	50%	
Capital	Capital	1,933	1,823	1,860	(37)	(2%)	The reduction in budget reflected the delivery challenges identified at the start of the year. A target outturn £30m higher than the revised budget was agreed with the Department for Transport following improved confidence in capital delivery in the second half of the year. The outturn was in line with this agreement and overall investment in the year was just 0.4% over the final budget of £1,823m plus £30m.
Total DEL		**3,817**	**3,689**	**3,729**	**(40)**	**(1%)**	
Resource AME		925	885	743	142	16%	AME budgets contain categories of expenditure that by their nature are difficult to forecast: write-downs and provision movements. The outturn was below budget as expected. Individual projects have different write down percentages and any change in scheme mix delivered compared to that assumed when the budget was set will impact the write down outturn. The underspend was forecast throughout the year.
Capital AME		0	35	15	20	57%	Capital AME includes the creation and release of provisions, the timing of which is difficult to predict. Some contingency is built in to the budget.
Total AME		**925**	**920**	**758**	**162**	**18%**	
Total Resource (incl AME)		2,809	2,751	2,612	139	5%	
Total Capital (incl AME)		1,933	1,858	1,875	(17)	(1%)	
Total Budget (DEL & AME)		**4,742**	**4,609**	**4,487**	**122**	**3%**	

DfT Performance Specification

Outcome 1: A strategic road network which supports and facilitates economic growth

Capacity and connectivity

The Agency completed work to identify how investment in the strategic road network can alleviate constraints to economic growth and defined future delivery and investment plans to address them.

Route strategies

Following consultation with local stakeholders, the Agency produced and published 21 route strategies for the whole of the strategic road network (SRN) 18 route strategies were published in March 2015; the first 3 were published in 2013-14.

These strategies establish the outline operational and investment priorities for Highways England in the period April 2015 to March 2021, and give an indication of the priorities beyond March 2021.

Defining route strategies enabled the Agency to:

- identify existing performance issues on the road network;
- anticipate future challenges;
- assess asset condition and operational requirements;
- plan investment;
- encourage participation from local and regional stakeholders; and
- understand local priorities.

The work on route strategies underpinned the development of the Road Investment Strategy (RIS), which was published in December 2014. The strategy sets the performance standards for Highways England in the period 2015-2020 and is designed to secure the benefits of the government's substantial increase in roads investment.

Delivery

The Agency managed and enhanced the capacity of the strategic road network to meet the growth in demand.

Improvements

The Agency delivered the programme of major improvements set out in the first performance specification on time and to budget.

Major projects – opened for use	Opened
A11 Fiveways to Thetford Improvement	December 2014
M25 J23-27 (Section 5) smart motorway	November 2014
A23 Handcross to Warninglid widening	October 2014
M6 J5-8 (Birmingham Box Phase 3) smart motorway	April 2014
M25 J5-7 (Section 2) smart motorway	April 2014

Major projects – start of works	Start
A160/A180 Port of Immingham Improvement	March 2015
M25/A13 Corridor Congestion Relief Scheme	February 2015
A5-M1 Link (Dunstable northern bypass)	February 2015
M3 J2 to 4a smart motorway	November 2014
A556 Knutsford to Bowdon Environmental Improvement	November 2014
A1 Coal House to Metro Centre	August 2014
Manchester smart motorway (M60 J8 to M62 J20)	July 2014

With the objective of unlocking critical economic growth more quickly, the Agency took some important first steps to cut the time it takes to deliver major road construction projects.

4 projects were selected to form a pilot programme:

- M3 Junctions 2-4a;
- M6 Junctions 10a-13;
- M1 Junctions 28-31; and
- A160/A180 Immingham dualling

where delivery was accelerated through a number of innovations including:

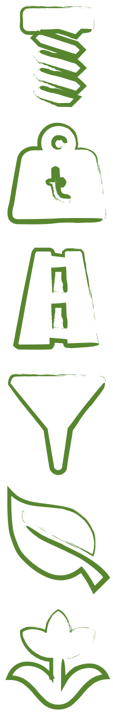
- quicker development and appraisal of options;
- faster approval processes and permissions; and
- more efficient streamlined construction techniques.

All 4 projects will achieve significant time savings compared with 'traditionally' delivered projects. Valuable lessons have been learned around managing the heightened risks associated with speedier delivery, and to enable further reductions in the time it takes to deliver major improvements in the future.

Work commenced on preparing a 'pipeline' of future schemes to support the RIS.

Fully-dual carriageway A11 opens to traffic

A new fully-dual carriageway A11 transport link between Norwich, London and the Midlands was opened in December 2014. The main contractor for the Agency was Balfour Beatty. The £105m improvement project was delivered on time and under budget. The project is set to bring a significant boost to the economy, reduce congestion and improve road safety. The new dual carriageway will benefit road users and local people by improving road safety and reducing journey times by removing the bottlenecks that have caused congestion.



The project involved the use of **1,500** tonnes of steel, **4,000** cubic metres of concrete, **140,000** tonnes of asphalt, **25** miles of drain and **50,000** trees and shrubs.

A556 scheme under way

Work began on the £192m A556 improvement scheme. The Chancellor of the Exchequer George Osborne MP officially broke ground at a ceremony on Friday 14 November 2014. This new dual carriageway is being provided as part of government's commitment to invest £24bn in roads by 2021 and will provide a direct link between the M56 and the M6, reducing congestion and allowing for faster, more reliable journey times.

Pinch point programme

The pinch point programme delivers smaller scale improvements that help to stimulate growth in the local economy and relieve congestion and/or improve safety. The programme began in spring 2013, and comprised 3 tranches totalling 123 schemes, with a budget of £318m. Each project was designed and developed in consultation with local stakeholders.

Of the 123 schemes, 100 were completed by the end of March 2015, with the remainder due for completion by September 2015. A small number of schemes were added or removed from the original programme, for example where they were subsumed into larger improvement projects on the network, and where substitute schemes were identified.

Pinch point improvements – opened for use (examples)	Opened
A40 Longford Roundabout, Gloucester	January 2015
M62 J22-23 CCTV, Huddersfield, West Yorkshire	December 2014
M62 J31 Improvements, Castleford, West Yorkshire	December 2014
M62 J32 Improvements, Pontefract, West Yorkshire	December 2014
M42 Junction 6, Birmingham	December 2014
A5 Mile End Roundabout, Oswestry, Shropshire	December 2014
A5 Churchbridge, Cannock, Staffordshire	March 2015
A5 Emstrey Roundabout, Shrewsbury, Shropshire	February 2015

A5 Churchbridge, Cannock, Staffordshire

This scheme was completed in March 2015. We have realigned the approaches to the junction to increase capacity and reduce congestion. We have also made significant improvements to pedestrian and cycling facilities at this junction.

This will help facilitate the creation of **6,300** jobs and **1,500** houses.

M42 Junction 6, Birmingham

This scheme was completed in December 2014. We have widened the roundabout, the entry and exit slip roads to reduce congestion, particularly when motorway incidents occur and when major events take place at the National Exhibition Centre. This scheme will facilitate growth to employment in the surrounding area, with links to Birmingham Business Park, Birmingham International Airport and the proposed NEC casino complex.

Development control

The Agency acted as a partner in the national planning system to facilitate the delivery of sustainable economic development and growth.

By engaging early in the plan-making process, typically as part of pre-planning application discussions, the Agency has influenced the pattern of development by working with developers, planning authorities, and local enterprise partnerships to identify the infrastructure necessary to support sustainable economic development.

In 2014-15 the Agency responded to all planning applications received within the target 21 days. The average time taken to respond to planning applications has reduced to an average of 13 days. Just 8 (0.2% of all applications), were rejected, mainly because the developers' proposals did not meet basic standards of safe road design.

In the calendar year 2014, overall levels of satisfaction in the handling of planning applications improved to 89% from 63% the previous year. And where 'holding directions' were issued, 67% of developers felt that the time taken to resolve issues was justified.

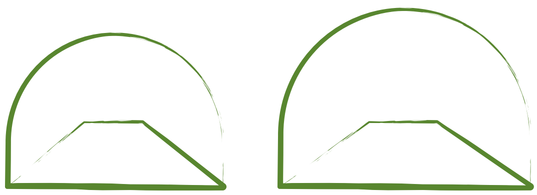
Dart Free Flow

For many years the Dartford-Thurrock Crossing has been exceeding its design capacity. The long term solution lies in a further crossing and we are working on options for this.

Meanwhile, we have moved to remote payment arrangements to improve the road user experience. Introduced in November 2014, this implementation has reduced average journey times and made journeys much more reliable and predictable.

Reduced average journey times

4 minutes | **9** minutes



northbound | southbound

Over **730,000** vehicles are now registered for pre-pay accounts, including **44,000** local residents.

Outcome 2: A strategic road network that is maintained to a safe and serviceable condition

Asset management

The Agency optimised its maintenance and renewal investment decisions, to deliver an effective, safe and sustainable network at the lowest unit cost.

Through a national programme with development, management, and assurance functions, the Agency ensured that optimised, evidence-based programmes of work were developed and delivered. The network does not suffer from a maintenance backlog.

1,485 capital renewals projects were completed during the year and delivered 2,900 lane kilometres of resurfacing. This represents approximately 10% of the network excluding routes managed under Private Finance Initiative (PFI) arrangements.

In order to enhance asset management capability and skills, the Agency developed a new asset management strategy to support the goal of becoming a high performing organisation.

A new pavement decision support tool was used to model maintenance investment levels, asset priorities and resultant condition levels. During 2014-15 the Agency expanded and integrated its decision support tool to encompass tunnels and bridges and cross-asset functionality. This will support further development of asset management capability by Highways England.

At 31 March 2015, 94.9% of the carriageway was classified as needing no further investigation for possible maintenance to remedy wear and tear.

In 2014 the strategic road network became busier, with a 5.4 million vehicle mile (2.4%) increase in traffic flow compared to 2013.

Average speed on the network reduced by **1 mile** per hour to **57.9mph.**

Outcome 3: An efficiently and effectively operated strategic road network

Network availability

The Agency successfully managed its activities to balance network availability and cost.

During 2014-15, on average 98.5% of the network was open and available to road users. Of all lane closures, 97% were for planned events, for roadworks and maintenance activities, with 3% of closures due to unplanned incidents such as vehicle breakdowns.

Over **80%** of journeys on motorways were 'on time'.

Journey time reliability

The Agency ensured that journey times on the network were reliable.

The Agency's aim has been to maintain the 'on-time reliability measure' at 2012-13 levels, as set out in section 4.4 of the performance specification. With 78.7% of journeys on time during 2014-15, this exceeds the 2012-13 level by 1.6 percentage points.

The Agency reviewed the current measure of journey time reliability, as required by section 4.7 of the performance specification, and concluded that an alternative measure is needed to better judge performance. Highways England will introduce a new reliability measure that aims to measure the additional time that drivers need to allow to ensure that they arrive on time most of the time. This new measure is known as the Planning Time Index (PTI).

Incident management

Despite a number of initiatives to reduce it, the impact of incidents (duration times of motorway incident closures) on road users has worsened since 2013.

The Agency made a commitment to reduce the duration times of motorway incident closures. The Agency worked closely with DfT on a joint initiative called CLEAR – collision, lead, evaluate, act, and reopen – and took the lead on the delivery of a number of CLEAR initiatives in partnership with other incident responders including the Association of Chief Police Officers, Chief Fire Officers Association, Association of Ambulance Chief Executives and Home Office.

The CLEAR initiative aims to identify issues that need to be addressed by all organisations involved in incident management.

New CLEAR initiatives developed by the Agency in 2014-15 include:

- clearing overturned vehicles up to 3.5 tonnes – all traffic officers are now equipped to right overturned vehicles at the scene;
- developing and piloting new support vehicles in the north-west and west midlands;
- jointly working with the DVSA, for traffic officers to support DVSA enforcement teams to increase efficiency;
- installing observation platforms for use by traffic officers, police and DVSA officers at strategic points on the network; and
- moving to national rostering for on-road traffic officers, providing greater consistency and visibility of available resources.

The Agency has also started a review of patrol park-up points with the aim of improving traffic officer response times. The impact of this will be monitored in 2015-16.

The initiatives and improved traffic officer patrolling strategies have not yet been able to reduce the duration of motorway incident closures when compared to the 2012-13 baseline.

Efficiency

The Highways Agency managed its business efficiently and effectively to ensure investment in the network offered strong value for money.

Driving down costs has been a key priority. The 4 year spending review settlement announced in 2010 assumed reductions in budgets. The Agency planned its business so that it could continue to deliver its objectives within these reduced budgets. Efficiency has been delivered across the three main business areas:

- major schemes – efficiency savings in excess of 30% achieved against a 20% target reduction;
- traffic management – efficiency savings of £160m, equivalent to 39%, achieved between 2010 and 2015 through the Future Operating Model; and
- maintenance – efficiency savings of £715m achieved between 2010 and 2015 through implementation of new contractual arrangements.

Collaborative Delivery Framework

This new framework was awarded in November 2014. It provides Highways England with procurement routes for professional design/engineering services and high value construction works.

The framework is designed to deliver flexible contracts, programmes and incentives, rewarding close collaboration between designers, contractors, and Highways England, to help procure in the most cost-effective way.

Potential suppliers were, for the first time, assessed on behaviours – collaboration, openness, trust, etc – as part of the assessment process. The framework has brought new entrants to the delivery chain.

The framework is the largest procured to date and is expected to deliver £5bn worth of investment. Over £3bn of contracts under this framework have either been let or are under competition.

The Chartered Institute of Purchasing & Supply accreditation (CIPS) is an exacting global procurement standard. CIPS corporate certification assesses how organisations operate their procurement and supply function against globally respected standards. The Agency first achieved accreditation in 2007 and has now been re-accredited, making us one of just 58 UK organisations achieving this recognition.

Safety

The Agency ensured the safe operation of the network for road users and road workers.

Road user safety

The Agency's safety framework and performance specification set out our commitment to road safety, and supported the national strategy.

We continued to move towards a target of at least a 40% reduction, by 2020, in numbers of people killed and seriously injured each year.

Improvements to safety for customers, road users and the people who work for us will continue to be a major priority for Highways England. The links between the safety of all three groups and our action plan for delivering safety improvements were key themes in our preparation for the transition into Highways England.

Gaining an understanding of the causes of incidents has always been a priority for operating a safe network. To that end, the Agency investigated innovative ways to reduce the number of avoidable incidents and so continue the downward trend for the numbers of people killed or injured.

The Agency committed to make further engineering improvements, as well as provide support for enforcement and compliance.

Working closely with safety partners, the Agency used incident data to prioritise interventions that would have the greatest safety benefit.

Targeted road safety messages were communicated through a range of initiatives embracing social media and new technologies, to influence road user behaviour.

Crown Censure

In January 2015 a formal Crown Censure was imposed on the Highways Agency under section 2(2)(c) of the Health and Safety at Work etc Act 1974 for safety failings following the death of Traffic Officer John Walmsley, on the M25 in Kent. A Crown Censure is a formal recording of a decision by the Health and Safety Executive (HSE) that, but for Crown immunity, the evidence of the Crown body's failure to comply with health and safety law would have been sufficient to provide a realistic prospect of conviction in the courts.

Mr Walmsley had been dealing with an incident on the motorway in September 2012 when he was struck by a vehicle. The Highways Agency promptly reported the incident to the HSE and fully cooperated with the investigation. The HSE's investigation concluded that there was a failure by the Agency to provide the necessary supervision of traffic officers based out of the Dartford outstation so as to ensure, so far as is reasonably practicable, the health and safety at work of its employees, including Mr Walmsley. This constituted a breach of health and safety law.

In the light of the evidence the HSE brought a Crown Censure against the Highways Agency. The Highways Agency accepted the Crown Censure.

Immediately following the death of Mr Walmsley, the Highways Agency took steps to improve the system for ensuring that all of its traffic officers are properly supervised while on the strategic roads network. This has included addressing shortcomings in the quarterly observation checks of on-road officers to ensure correct behaviours and compliance with safety procedures; establishing a system of biannual updating and annual formal re-briefing of line managers on their health and safety management responsibilities in relation to traffic officers; and re-writing traffic officer service procedures to strengthen the requirement for officers to stand behind the safety barrier (when safe to do so). The Highways England board Safety Committee has endorsed the measures and will continue to monitor compliance.

Road worker safety

While accident frequency rates for workers on our network are comparable (upper quartile performance) with the construction industry across the UK, nevertheless, the risks to road workers remain. During the year we recorded 42 reportable accidents (RIDDOR), including 4 incidents of vehicles hitting members of the workforce and 1 fatality.

As part of the Agency's health and safety strategy *Aiming for Zero*, a number of projects with the aim of reducing the risk to road workers during traffic management procedures were completed. In pursuit of our ambition to eliminate the need for road maintenance workers having to cross live carriageways on foot, from January 2015, we have published guidance which has enabled the vast majority of carriageway crossings to be eliminated, significantly reducing worker risk.

The accident frequency rate for our on-road staff was 0.36 in 2014-15, compared to 0.34 in the previous year. That means for every 278,000 hours worked there was 1 reportable accident that led to lost time.

Information provision

The Agency provided increasingly more accurate, useful and timely information to road users.

The Agency developed an information plan in April 2014, which identified how accurate, timely and useful information could be provided to users both before they set off and during their journeys.

Research tells us that information delivered in the right way leads to a number of direct customer and economic benefits. Through the delivery of the information plan now and in the future, we intend to maximise those benefits and so support economic growth. We aim to:

- engage with our customers; providing reassurance when all is well and accurate information when the unexpected happens;
- provide accurate information about works, such as network changes or roadworks;
- enable customers to make timely and appropriate decisions which benefit both themselves and other road users;
- reduce the effects of incidents and delays, also helping to reduce their impact on the environment;
- help customers to understand how the network operates and how best to use it, seeking to prevent incidents and their effects;
- provide a definitive source of data and information about the state of the network for our partners and other stakeholders; and
- provide a robust framework for our information provision in the future.

Resilience

The strategic road network was managed effectively during severe weather and other major incidents, and proved to be resilient.

Severe weather, such as snow or flooding, has the potential to cause significant disruption to the network and its role in supporting the economy.

The Agency continues to subscribe to a weather service to allow appropriate responses to such events. This has led to much more efficient and effective deployment of winter service crews.

The well-established crisis management process ensured effective planning in advance of, and in response to, all types of severe weather. The latest edition of the Crisis Management Manual, published in October 2014, included lessons learned from the previous winter.

Outcome 4: A strategic road network that minimises its negative impacts on users, local communities and the environment

Environment

The Agency has worked hard to reduce the negative environmental impacts of its activities.

The Agency remains committed to achieving high sustainability performance and to take opportunities to achieve real benefits so that it minimises the negative consequences travel.

The Agency's strategic plan recognised that it had a responsibility to road users and to those affected by the operation of its network to minimise and mitigate the negative impacts of its roads and enhance the quality of the surrounding environment.

Managing environmental impact

Carbon Footprint

The energy used in lighting and powering the electrical equipment on the road network, and in heating and lighting offices and control centres, generated emissions totalling 104,978 tonnes of carbon dioxide in 2014-15. Despite a 2% reduction in the total energy consumed, this was an increase of 7,270 tonnes compared to 2013-14. The increase in greenhouse gas emissions was caused by a more carbon intense mix of electricity generation in the UK in 2014.

Despite the increase in the carbon emitted per kilowatt-hour of electricity consumed in 2014, the Agency reduced its emissions by almost 20% compared to the 2009-10 Greening Government Commitment baseline. This fell just short of the target 22% reduction in this period.

The Agency purchased the majority of its electricity on low carbon tariffs, applying the certified factors from our electricity suppliers, we would have achieved carbon emissions some 70% lower than that stated in the tables below. However, carbon accounting rules require the calculation of emissions using standardised UK national emissions factors.

Supply chain greenhouse gas emissions

Greenhouse gas emissions from supply chain operations will naturally increase as maintenance and construction activity increases. However, emissions per £1m of investment in the network have remained broadly stable.

Climate change

The Agency continued to assess the risks that climatic changes pose to the role of network operator and developed appropriate responses to reduce these risks. The risks were set out in the Agency's climate change risk assessment document in 2011.

Reducing waste and using less

The Agency generated 226 tonnes of waste from its offices and control centres (compared to 351 tonnes in 2009-10). Of this total 152 tonnes (67%) was sent to be recycled.

Of the remaining waste, a proportion was recycled by waste contractors and a proportion was used for 'energy from waste' recovery (incineration).

The Agency has reduced its paper consumption from over 22,000 reams in 2009-10 to 13,500 reams in 2014-15.

Impact on air quality

Domestic and European legislation sets levels on ambient air quality designed to protect people from air pollution. The UK is not meeting some of these air pollution levels , particularly in relation to nitrogen dioxide (NO2), at many roadside locations and without concerted effort is unlikely to do so for some time. One of the key challenges this poses is how to support the delivery of the roads programme and tackle pollution from vehicles on our network. We need to do this to improve the health of our neighbours and customers.

Highways England continues to support delivery by reviewing the scheme's air quality impacts, and where necessary developing appropriate mitigation solutions to minimise impacts.

We have committed £100m to address poor air quality through to 2021. We have developed a plan to make best use of these funds, and to support our collaboration with other organisations that have influence on air quality. These activities will draw on our expertise and knowledge to explore innovative ways to reduce pollution, in particular nitrogen dioxide, from our network and beyond. This work includes ten pilot studies over the next 3 years. Where these pilot studies indicate new successful approaches to reducing pollution, we will look apply such approaches on our network to bring about improvements in air quality as quickly as possible.

Noise

During the 2013-15 Performance Specification period the Agency investigated all sites impacted by noise, and identified by Defra as 'Important Areas'. These sites are now being developed into a prioritised programme and will be dealt with by Highways England.

Greenhouse gas emissions from running the business:

Highways Agency Carbon Footprint of offices and Control Centres				
Greenhouse Gas (Ghg) Emissions		2012-13	2013-14	2014-15
Gross Emissions (tonne CO2e)	Scope 1: Direct emissions from gas consumption	867	749	655
	Scope 2 & 3: Indirect emissions from electricity consumption	6,097	5,876	6,203
	Scope 3: Highways Agency business travel	1,288	1,365	1,426
	Scope 3: Suppliers' emissions (caterers and couriers, etc)	136	168	136
	Total	**8,388**	**8,158**	**8,420**
Related Consumption Data	Estates (HA offices) electricity (kWh)	12,284,500	12,150,705	11,540,611
	Estates (HA offices) gas (kWh)	4,679,812	4,070,583	3,541,916
	Private car mileage (million road miles)	1.253	1.310	1.403
	Hire car mileage (million road miles)	1.620	2.060	2.269
Financial Indicators	CRC related expenditure (admin fee and provision for allowances)	£1,157,290	£ 251,200	£ 2,002,290
	Expenditure on business travel	£3,483,000	£4,618,000	£5,220,080
Normalised emissions	kWh per full time employee (office based staff)	1,779	1,758	1,752
	tCO2e per full time employee (all employees)	2.542	2.184	2.210

Greenhouse gas emissions from managing the network and supply chain:

Highways Agency carbon footprint from operating the network				
Greenhouse Gas (Ghg) Emissions		2012-13	2013-14	2014-15
Gross Emissions (tonne CO2e)	Scope 1: Traffic officer fuel	4,664	4,416	3,716
	Scope 2 & 3: Indirect emissions from electricity consumption	96,019	86,069	92,978
	Scope 3: Suppliers' emissions	203,648	312,812	383,487
	Total	**311,361**	**403,406**	**480,181**
Related Consumption Data	Traffic officer vehicle diesel fuel (litres)	1,805,494	1,656,314	1,392,739
	Network electricity (kWh)	181,229,661	178,006,121	172,988,659
Financial Indicators	Traffic officer vehicle diesel fuel	£2,752,000	£2,294,213	£1,824,826
	Network energy expenditure (roadside lighting and equipment, depots and outstations)	£24,015,000	£ 25,401,311	£26,275,490
	Spend on SRN construction and maintenance (£m)	1,735.574	2,184.304	2,718.432
Normalised emissions	Total network emissions per £m construction and maintenance spend	179.400	184.684	176.632

Note: Greenhouse gas emissions tables have been produced in accordance with HM Treasury guidance, the carbon footprint has been calculated using carbon emissions intensity factors from DEFRA and the University of Bath Inventory of Carbon and Energy

Outcome 5: A strategic road network which balances the needs of individuals and businesses that use and rely on it

Customer Satisfaction

The Agency aimed to better use customer satisfaction and insight information to improve the services it delivered.

During 2014-15, on average 98.5% of the network was open and available to road users. Of all lane closures, 97% were for planned events, for roadworks and maintenance activities, with 3% of closures due to unplanned incidents such as vehicle breakdowns.

Customers were surveyed to ask them to rate their satisfaction in relation to their last journey on the SRN, based on 5 indicators of performance, journey time, the management of roadworks, signage and information, network condition and how safe they felt.

In 2014-15 the proportion of customers that were satisfied with their latest journey has fallen from 89.6% in 2013-14 to 88.5%. The main reason for this year-on-year fall is reduced customer satisfaction with the management of roadworks. Satisfaction in the other 4 indicators has remained stable or improved in the past 12 months.

During the year, there has been an increased focus on customers, activities have included the following:

- completion of an Agency wide customer review, the recommendations from which formed the basis of a programme of transformation activity;
- research undertaken to better understand customers' emotional experience while using the network;
- creation of a customer panel;
- the Agency's central customer team continuing to work with regional teams to inform their action planning to improve customer satisfaction; and
- stakeholder and partnership teams working more closely with key stakeholders such as the Freight Transport Association to better understand their needs.

Given the scale of the capital investment programme in 2015-16 and beyond, the challenge to improve customer satisfaction is significant. To address this, our actions will include:

- an increased focus on customers and stakeholders at a regional level;
- a better understanding of customer needs through an expanded customer panel, an ongoing programme of research, developing innovative approaches to pull in customer insight and close working with Transport Focus;
- development of a customer service strategy; and
- initiatives to improve the customer experience, for example through roadworks.

Graham Dalton
Accounting Officer
18 June 2015

2. Directors' report

Significant events post 31 March

Highways England, a new government-owned company, assumed responsibility for England's strategic road network on 1 April 2015. Further details of this are included elsewhere in this report.

Research and development activity

The Agency's Innovation Programme of research played a key role in delivering the wider DfT research strategy. It was guided by a 4-year strategy designed to deliver a better targeted approach to the Agency's research investment. It focused on how innovation and new techniques could be applied to the strategic road network.

Employee participation

The Agency actively promoted staff engagement in the workplace and recognition for doing things well.

Our annual people survey had a participation rate of **78%** in 2014,

and the overall engagement score, which measured the degree of attachment and commitment to the Agency, improved.

Staff were engaged directly through regular monthly briefing sessions, and through channels such as the chief executive's weekly blog which prompts a two-way dialogue. The Agency also conducted regular meetings with its recognised Trades Unions.

In addition to regular on-the-job recognition, the Agency ran an annual 'You Make it Happen' awards scheme in 2014. This recognised individuals who particularly demonstrated the Agency's values in delivering their activity. The Agency also ran a staff appreciation and recognition scheme to recognise and commend staff who had demonstrated a special achievement by going beyond their normal duties.

The names of persons serving as directors of the Agency during the year can be found in the remuneration report.

Details of the numbers and types of staff employed by the Agency, along with a breakdown of salaries and pensions paid can be found in Note 3 to the accounts.

Details of the treatment of pension liabilities can be found in Note 1 to the accounts.

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.

By bringing together experts from the Agency and our supply chain, the Academy (hosted by the Roffey Park Institute) looks to drive improvement by exploring new ways of undertaking work and challenging existing processes. It encourages candidates to identify solutions that provide value for money in a safe and sustainable way, helping to reduce capital and operating costs.

Employees with disabilities, policy and practice

The Highways Agency strove to deliver services that all our customers could access. The Equality Act 2010 requires that we provided services in a way that ensured all groups across society could use them and that people with a protected characteristic did not receive an inferior service. The Agency made good progress in implementing its Single Equality Plan, published in January 2010, which outlined how it intended to promote equality of opportunity and eliminate discrimination both as a service provider and as an employer.

The Agency remained committed to being an equal opportunities employer, and endeavoured to recruit and retain a workforce representative of our diverse society. It has invested in diversity training that was not only positively received, but also changed people's perception around the diversity agenda. This reinforced a common commitment to working together in an inclusive working environment in which difference is respected and valued.

Equality and diversity

The Agency operated in a fair and inclusive way, compliant with the requirements of the Equality Act 2010, by:

- promoting equality;
- eliminating unlawful discrimination and harassment; and
- fostering good relations between those who have a protected characteristic and those that do not.

The Agency fulfilled the specific requirements of the duty to:

- publish information to show how the Agency and the supply chain, when operating on our behalf, gave due regard to the impacts of its work on people with protected characteristics including employees and customers, and communities within society affected by its activities; and

- produce and publicise further high level objectives every 4 years – Highways England is currently developing a new set of equality objectives that will cover a period of 5 years which will be published soon.

At 31 March 2015, **2** out of **8 (25%)** of board members were female, **6** out of **31 (19%)** of the remainder of the Agency's wider senior management team were female. In the Agency as a whole **(32%)** of all employees were female.

Sick absence information

In 2014-15 absence due to ill health was on average 8.90 days per person, compared to 8.22 days in 2013-14, and 7.3 days across the civil service. A number of steps have been taken to reduce this absence, for example the establishment of a new in-house advice and casework team resourced by professionals recruited specifically to support managers and staff with issues providing expert, business-focused advice. The new team is now the first point of call for all people-related issues.

Payments

The Agency is committed to the prompt payment of bills for goods and services received and aimed to settle 98% of undisputed invoices within contract terms. In 2014-15 over 99% of invoices were paid to terms. No interest was incurred under the Late Payment of Commercial Debt (Interest) Act 1998.

In addition to the above target, in May 2010 the government introduced a requirement for public sector bodies to pay suppliers, where possible, within 5 days. This measure is intended to help reduce financial pressures on companies by improving cash flows. In 2014-15 over 94% of all invoices were paid within 5 working days of receipt.

The Agency's work is delivered through a tiered relationship with its extensive supply chain, with 95% of the budget spent through it. Strong management of this supply chain has enabled the Agency to achieve the best possible outcomes, selecting the most capable and best performing suppliers through competitive and effective commercial procurement.

The government has an aspiration that 25% of public sector expenditure should be with small and medium-sized enterprises (SMEs). The Agency estimates that at least 33% of its expenditure, direct and indirect, is with SMEs.

Charitable donations

Although the Agency has commercial relationships with a number of charitable organisations, no donations to charity were made.

Off-payroll staff

As part of the *Review of Tax Arrangements of Public Sector Appointees* published by the Chief Secretary to the Treasury on 23 May 2012, departments have been asked to report on the tax arrangements of public sector appointees. The tables below are prescribed by HM Treasury to show the nature of the Agency's off-payroll engagements.

The Agency confirms that all existing off-payroll engagements, outlined below, have been subject to a risk based assessment as to whether assurance is required that the individual is paying the right amount of tax and, where necessary, that assurance has been sought.

Off-payroll engagements as of 31 March 2015, for more than £220 per day and that last for longer than 6 months:	No.
Existing engagements as of 31 March 2015	56
Of which:	
No. that have existed for less than 1 year at time of reporting	38
No. that have existed for between 1 and 2 years at time of reporting	10
No. that have existed for between 2 and 3 years at time of reporting	6
No. that have existed for between 3 and 4 years at time of reporting	0
No. that have existed for 4 or more years at time of reporting	2

New off-payroll engagements, or those that reached 6 months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than 6 months:	No.
New engagements, or those that reached 6 months in duration, between 1 April 2014 and 31 March 2015	41
No. of the above which include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	41
No. for whom assurance has been requested	41
Of which:	
No. for whom assurance has been received	36
No. for whom assurance has not been received	5[1]
No. that have been terminated as a result of assurance not being received	0

[1] All of these contractors left before assurance was received from them

Off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2014 and 31 March 2015:	No.
No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	0
No. of individuals that have been deemed 'board members, and/or, senior officials with significant financial responsibility', during the financial year. This figure should include both off-payroll and on-payroll engagements.	15

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 was undertaken by the National Audit Office (NAO) and cost £240,000 (2013-14 £275,000). In addition £14,000 (2013-14 £14,000) was paid to the NAO in respect of the audit of the 2014-15 Dartford-Thurrock Road User Charging Scheme account, and a notional charge of £14,000 (2013-14 £14,000) was made for the audit of the 2014-15 Severn Bridges account.

Financial statements

The statements cover the period 1 April 2014 to 31 March 2015 and have been prepared in accordance with a direction issued by Her Majesty's Treasury (HMT) under Section 7 of the Government Resources and Accounts Act 2000. A copy of the direction may be accessed online on the Treasury website at www.hm-treasury.gov.uk. The financial statements of the Agency were audited by the Comptroller and Auditor General, head of the NAO. The financial statements have been prepared in accordance with the 2014-15 Financial Reporting Manual issued by HM Treasury.

Graham Dalton
Accounting Officer
18 June 2015

3: Governance statement

Scope of responsibility

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'.

HM Treasury's Managing Public Money and Financial Reporting Manual requires 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.

Governance framework

HM Treasury Corporate Governance in central government departments: Code of good practice (the Code) 2011 has been applied (and complied with) to the extent that it is relevant and meaningful for an Agency.

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

- the board, executive committee and sub-committees;
- the Agency audit committee and its counter-fraud sub-committee;
- a sound system of internal control, including formal risk management processes; and
- independent audit and assurance activity (including reliance from external third parties, where relevant).

Each of these areas is explained more fully in this statement.

Board and executive committee

The Agency is managed by a formal board and an executive committee, supported by an audit committee. In anticipation of the establishment of Highways England the structure of the board and its committees was reviewed, moving in April 2014 to a smaller board that focused on strategic oversight and governance.

In addition there is a senior appointments committee (SAC), and 4 sub-groups of the executive committee.

The board

The board comprises the Agency chair, the chief executive, 4 non-executive directors, and the executive directors for Finance and Business Services and for Strategy and Planning.

The objective of the board is to advise the chief executive (as accounting officer) and to ensure that the Agency is organised, resourced and motivated to deliver its objectives efficiently and effectively, giving leadership to the Agency by:

- providing strategic direction;
- ensuring that the Agency has sufficient resources and staff to deliver its objectives;
- ensuring appropriate standards of corporate governance are in place;
- communicating effectively with staff; and
- representing the Agency's interests to the outside world.

The composition and attendance at board and audit committee meetings during 2014-15 is shown below. The reduction in size of the board took effect from 1 April 2014 when the following executive directors stepped down: Peter Adams, David Brewer, David Poole, and Simon Sheldon-Wilson. Colin Matthews joined the board in September 2014, and Alan Cook left the board in August 2014, both as non-executive directors.

Member	Board	Audit Committee
Colin Matthews (non-executive chairman) from September 2014	9(9)	-
Alan Cook (non-executive chairman) until August 2014	4(4)	-
Graham Dalton (Chief Executive)	13(13)	3(4) (in attendance)
Ginny Clarke (Strategy and Planning)	12(13)	-
Stephen Dauncey (Finance and Business Services)	13(13)	3(4) (in attendance)
David Hughes (non-executive board member and Audit Committee Chair)	13(13)	4(4)
Simon Murray (non-executive board member)	12(13)	4(4)
Elaine Holt (non-executive board member)	12(13)	1/(2)
Tom Smith (non-executive board member)	11(13)	4(4)

Current information on board members' directorships and significant interests is shown in director biographies and available on the Highways England corporate website.

Executive committee

The executive committee is focused on the day to day running of the business and driving the Agency's transformation change programme.

The executive committee has 4 sub-committees:

- The investment control framework committee – responsible for advising and recommending on individual investment decisions;
- The future investment programme group (FIP) – responsible for monitoring in-year and future capital investment;
- The supply chain executive group (SCG) – responsible for monitoring supply chain performance; and
- The network performance group (NPG) – responsible for driving improvements in the performance of the strategic road network.

The executive committee is also supported in its work by the Customer and Community Sub-Group.

Board and executive committee – review of effectiveness

In preparation for the creation of Highways England, and in order to become more effective, the board was restructured from April 2014, reducing the number of Executive Directors serving on the board to three. A new Chairman was appointed in September 2014.

Senior appointments committee

The Senior Appointments Committee met to review 2013-14 senior staff performance. In anticipation of Highways England a shadow remuneration committee was established which considered performance in respect of 2014-15

Audit committee

The audit committee is a sub-committee of the board with responsibility for providing assurance to the Accounting Officer that the Agency's system of governance, internal control and risk management is operating effectively. It primarily monitors progress on the internal audit programme (which includes key risk areas such as health and safety and contract management), but also considers other assurance processes across the Agency, including (through reports) the counter- fraud sub-committee and the Agency's stewardship assurance process.

It meets approximately every quarter. The committee is chaired by David Hughes, a non-executive director, who is supported by a further two non-executive directors in conducting its business. The chief executive (as accounting officer), the finance director, the head of internal audit and a representative from the National Audit Office attend to provide context to the discussion.

During 2014-15 key topics considered by the committee included the following:

- 2013-14 annual report and accounts;
- 2013-14 external audit report and management letter;
- 2013-14 head of internal audit's annual report and opinion;
- 2014-15 stewardship (management assurance) reports;
- the Agency's corporate risk register and risk management processes;
- management of instances of identified fraud and malpractice, together with assurance over central enforcement;
- 2013-14 internal audit programme;
- NAO audit strategy and processes for providing assurance to the chief executive (as accounting officer);
- NAO value for money work; and
- Dartford River Crossing and Severn Bridge Accounts 2013-14.

National Audit Office value for money study

The National Audit Office undertook a value for money investigation (Maintaining strategic infrastructure: roads; HC169), which the Public Accounts Committee reviewed in September 2014. The study examined the planned reductions to road maintenance budgets and the consequences for the network; and the systems and processes needed to achieve value for money on road maintenance. The Agency has responded to the report, putting actions in place to address the recommendations.

Internal control and internal audit programme

Performance management

The Department for Transport's Strategic Road Network Performance Specification 2013-15, set out the high level performance outcomes, outputs and specific requirements that the government expects for the strategic road network and the Agency by March 2015. This performance specification was built around the vital role that the SRN and the network operator play in delivering key government priorities.

Formal reporting took place monthly when the board and executive committee considered performance reports covering financial management, risk management, progress towards delivery of the performance specification, as well as other corporate targets and measures.

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 is in place through a variety of control systems including:

- a mandatory investment control framework to test whether a proposed project or expenditure offers value for money. The arrangements complement larger value approvals required 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 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.

Compliance with legal and technical standards

The Agency has processes and controls in place to ensure:

- 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;
- governance to ensure compliance with technical standards, including governance of departures from engineering standards; and
- compliance with European Union legislation and standards, across several areas including procurement and health and safety.

Management assurance reporting

Stewardship reporting is undertaken twice yearly in the Agency, after 9 months and year-end, in line with the DfT timetable. The report covers the full range of delegations, policies and procedures laid down by the Agency. The evidence collated forms part of a management assurance process which enables the accounting officer to sign off the governance statement in the Annual Report and Accounts.

Internal control framework

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 key Agency processes have an assigned owner 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 to seek assurance on compliance.

Internal assurance

The internal audit programme was designed to address the specific assurance requirements of the Agency, focusing on risks identified by management to provide assurance over systems and controls on a range of financial and operational areas. The programme was agreed by the Audit Committee which received the reports, and responses made by, management to issues raised.

Key areas reviewed in year include:

- all lane running;
- M25 DBFO management;
- project bank accounts;
- performance specification reporting;
- key controls: human resources and finance; and
- information asset owners.

Contract assurance over our supply chain community is also provided by the internal audit function. It combines technical specialists with experienced auditors to assess service providers' ability to manage core risks within the contract. During 2014-15 the programme was extended to incorporate regional and central reviews and is now provided entirely in-house.

The areas reviewed this year were:

- category management;
- Highways Agency led green claims with all parties;
- quality standards; and
- follow up of actions from previous reviews.

My statement of compliance and assurance is informed by the work of my internal audit function through the head of internal audit's annual assurance statement, which for this year has provided an overall 'reasonable' level of assurance rating. However, based on some key findings around data quality and reporting (and the impact that this could have on the reputation of the organisation), together with the rise in the number of individual partial assurances awarded in year, has meant that this reasonable assurance level is weighted lower than in previous years.

Project management, control and assurance

Project and contract management

We manage 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 governance processes and procedures that major projects must follow, including the use of the gateway reviews to ensure successful project delivery. 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 resulted in the delegation of increased levels of responsibility. We now have the authority to manage high risk gateway reviews.

Safety assurance

Management of safety is led by the national health and safety team, who ensure that the Agency's health and safety systems are fit for purpose, through the provision of competent advice to the business. Mike Wilson (Chief Highways Engineer) holds responsibility at Executive Director level, and is supported by an executive health and safety group, with representation from across the business. Regular reports to the executive committee and the board are made throughout the year. Where necessary, further steps are taken to improve standards.

In January 2015 the Health and Safety Executive (HSE) imposed a Crown Censure on the Agency for failing to meet our obligations under the Health and Safety at Work Act to adequately supervise our employees, specifically the Traffic Officers at our Dartford outstation. This related to an incident that took place in 2012. Our investigation, led by Simon Sheldon Wilson (Director of Customer Operations), concluded in early 2013 and identified a number of actions that have all been implemented and this was recognised in discussions with the HSE.

This year our safety leadership was strengthened with the appointment of Lucy Fell as Divisional Director Safety, Health and Wellbeing. Moving into Highways England, a Board Safety Committee has been created. An action plan has been drawn up for publication (by Highways England), which recognises the interplay between achieving safety for road users, staff and the supply chain.

Assurance over our safety systems is provided through regular audits of site safety, monitored by the national health and safety team. Safety is a key responsibility of our supply chain and their activity is managed through the review, check and challenge of our contract management actions. Our internal audit and assurance programme includes safety to ensure that existing systems, design standards, and working practices, including improvements, are working as intended.

Going forward Highways England will be seeking further improvements, including from "lessons learnt" reviews to ensure we reach the highest levels of safety assurance.

Risk management

The Agency's executive directors and 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.

Risks are reviewed, the effectiveness of mitigating actions and their impact on residual risk is monitored, and changes identified and evaluated throughout the year, as part of routine management activity. Risk was a standard agenda item in team meetings in many areas of the Agency.

The Agency's risk appetite is set to ensure that all risks with a high impact on the Agency's performance, stewardship of public funds, stewardship of the environment or the reputation of the Agency or wider government receive focused, cost justified management attention.

Where appropriate, action is escalated via a formal process through the line management chain, to the Agency's board, to DfT and to Ministers.

During 2014-15 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 or criminal incident on the network results in damage to assets and long term disruption to drivers; and
- resourcing constrains the Agency's ability to maintain the network in a serviceable condition.

There were regular meetings with DfT when operational risks were discussed. Ministers received reports, either directly or through the DfT reporting process, about risks to key initiatives as well as risks to the delivery of the Agency's objectives.

In the summer of 2014 the executive committee undertook a blank-sheet review of the Agency's risks and likely future risks in respect of Highways England. This was based around the requirements of the then emerging performance specification for the 2015-20 Roads Investment Strategy period and developed as the Agency's strategic business plan and delivery plan were agreed. The subsequent risk register has moved towards a thematic approach which improves the ability of the board and executive to assess strategic risk to the organisation. Work to cascade this approach into directorate and divisional levels of the business is ongoing and expected to be completed within the 2015-16 financial year for the new company.

Information and data assurance

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

There were no incidents involving the improper release of personal data during the reporting period.

Propriety and malpractice

Fraud is an ever present risk to organisations and the Highways Agency had a number of arrangements in place to guard against the risk of fraud and malpractice. These included the organisational culture (across the extended enterprise incorporating the supply chain), training, the internal audit programme, and a counter fraud sub-committee.

Counter-fraud sub-committee

The counter-fraud committee (the committee) is chaired by Stephen Dauncey, Executive Director Finance and Business Services and attended by the chair of the audit committee. During 2014-15, the committee undertook a review of the case load identified through the counter-fraud and whistleblowing facility, commissioning further work and investigation where the allegation related to the business.

There were 81 recorded whistleblowing allegations received in 2014-15, which consisted:

- 26 complaints against another body (such as a local authority);
- 13 complaints against a service provider (supplier);
- 23 mailshots (including 2 fictitious invoices); and
- 19 allegations that were subsequently investigated.

The majority of allegations were redirected as appropriate. Investigation was conducted on the remaining cases, either by the relevant business area (where these related to potential impropriety within the supply chain) with support from internal audit or by internal audit themselves. Where allegations related to our supply chain, subsequent investigation established that the claim was unfounded, relating to a misinterpretation of the contract by the whistle-blower, rather than a prima facie fraud. Results have been discussed with the relevant service provider to identify the root cause of the allegation and strengthen contract management control.

There have been two fraudulent attempts to change suppliers' bank details, which have been advised to the police. Both instances were identified through our internal financial controls and did not result in a financial loss to the Agency.

There is a need to ensure that the corporate integrity of the Agency is maintained. In year, the committee conducted a horizon scan across the organisation to evaluate the current risk exposure. A high level review of current mitigation was also conducted and the results from this work are being fed into our ongoing counter-fraud arrangements.

Conflicts of interest

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

During 2014-15 there we no cases of potential conflicts of interest that required management action.

Gifts and hospitality

The Agency's procedures require any offer of hospitality or gifts received by staff in the course of their official duties, whether accepted or not, to be recorded in divisional gifts and hospitality registers. Reminders of the requirement are published periodically, and towards the end of the year, divisional directors were required to confirm that they had undertaken a review of their registers.

Graham Dalton
Accounting Officer
18 June 2015

4. Remuneration report

Senior civil servants' pay and performance management is set within a framework established by the Cabinet Office in response to the recommendations of the independent Review Body on Senior Salaries. Within this there is flexibility to meet departmental business needs.

The Department of Transport's (DfT) Pay and Performance Committee comprises the DfT's Permanent Secretary (as Chair) and all DfT Directors General.

Remuneration policy for senior civil servants within the Highways Agency

The reward package for the members of the Senior Civil Service (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 4 elements:

- pay – base salary which is consolidated, pensionable pay (for some members of the SCS not all base salary is pensionable), and performance pay (non-pensionable and conditional);
- terms and conditions of service – including defined benefit, index-linked pension, and other contractual benefits such as annual leave;
- other 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 SCS pay system is based on simple broad bands, underpinned by a tailored job evaluation scheme (JESP – Job Evaluation for Senior Posts). JESP provides a consistent basis for comparing the relative value of jobs within and across Departments. It broadly ensures that people with particular levels of responsibility have access to salaries within the same range, and supports equal pay. The Agency had 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; and
- pay band 3 (chief executive) JESP range of 19-22 points.

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

- pay band 1 (deputy director) £62,000-£117,800;

- pay band 2 (director) £85,000-£162,500; and
- pay band 3 (chief executive) £104,000-£208,100.

SCS in the Agency have objectives in the following categories:

- Leadership: the DfT common leadership objective plus leadership behaviours and providing direction for the organisation; delivering results; and building capability in the organisation to address current and future challenges
- Business Delivery: defining business outcomes for the specific post, and assigning accountability and responsibility for each business plan or structural reform plan commitment
- Finance/Efficiency: capturing what the jobholder will do to ensure that costs are minimised and budgets are managed to ensure maximum value to the taxpayer
- People/Capability: ensuring that individuals, the Department and Civil Service have the right capability to deliver business outcomes now and in the future
- Corporate: the contribution to corporate initiatives outside their existing job roles. It encourages staff to work in a joined up way outside their teams, improves knowledge sharing across teams and enhances effectiveness of the Civil Service as a whole.

Diversity is incorporated as an objective 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 performance pay (non-pensionable and conditional) is linked. There are three Performance Groups:

- Top – Top 25% of performers;
- Achieving – Next 65% of performers; and
- 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 performance pay and base salary is set by the government's response to the recommendations of the Review Body on Senior Salaries.

Performance Group is the starting point for performance pay decisions. The framework, with limited provision for flexibility, restricts performance awards to a percentage of the total SCS pay bill, and limits awards to top performers.

Base salary increases are considered in line with the government's response to the recommendations of the Review Body on Senior Salaries. In 2014/15 salary increases ranged between zero and 1%. Staff in the bottom 10% of performers are not eligible for a base salary increase.

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 with financial responsibilities 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 2 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. Appointments to Highways England will generally be for 3 years.

Board composition and length of appointment

Details of the service contract for each executive director who served on the board from April 2014 and letters of appointment for the non-executive directors who served during the year are:

	Date of initial appointment	Unexpired terms (months remaining at 31/03/15)
Executive directors serving at 31/03/15		
Ginny Clarke	02/07/2001	Open – ended
Graham Dalton	30/06/2008	Open – ended
Stephen Dauncey	02/02/2009	Open – ended
Non-executive directors serving at 31/03/15		
Elaine Holt	01/01/2014	36
David Hughes	15/07/2009	36
Colin Matthews	01/09/2014	29
Simon Murray	05/11/2012	36
Tom Smith	01/01/2014	36
Non-executive directors leaving before 31/03/15		
Alan Cook	01/01/2011	

Notes: In preparation for the creation of Highways England the composition of the board was changed from April 2014, reducing the number of Executive Directors serving on the board to three. Graham Dalton CEO, Stephen Dauncey Executive Director Finance and Business Services, and Ginny Clarke Executive Director Strategy and Planning (and previously Chief Highways Engineer) continued to serve on the board and were also appointed to serve on the board of Highways England. The non-executive directors serving at 31 March 2015 were appointed to serve on the board of Highways England and Elizabeth Perelman was appointed by the Secretary of State to serve on the board of Highways England from 1 April 2015. The unexpired terms shown are in respect of service with Highways England. Alan Cook served as chairman of the Highways Agency from 1 January 2011 to 31 August 2014.

Remuneration policy for non-executive directors (audited)

The fees paid to non-executive directors were reviewed in 2008, comparing them to other DfT agencies. They have not been increased since then. However, the rates to be paid from 1 April 2015, in the light of the responsibilities associated with being non-executive directors of Highways England, have been reviewed, and an increase agreed in line with fees paid to similar government owned companies. The fee agreed for Colin Matthews as the new Chair of Highways Agency was determined taking account of the fact that he was expected to serve as Chair of Highways England.

The non-executive directors of the board received the following remuneration for their services during the year ended 31 March 2015:

	2014-15 £000s	2013-14 £000s
Alan Cook	–	35-40
Elaine Holt	15-20	0-5 *FYE 15-20*
David Hughes	25-30	25-30
Colin Matthews	75-80 *FYE 125-130*	–
Simon Murray	15-20	15-20
Tom Smith	15-20	0-5 *FYE 15-20*
Tim Walton	–	10-15

Notes: Alan Cook left the Highways Agency on 31 August 2014. His salary costs for the period were met by DfT. David Hughes is a member of the DfT Audit Committee and his remuneration for that role is included in this total. Tim Walton left the Highways Agency on 31 December 2013. Full year equivalent (FYE) remuneration is included for the non-executive directors joining or leaving the organisation part way through the year.

The amounts reported above are exclusive of travel and subsistence.

Salary and pension entitlements of executive directors (audited)

The following sections provide details of the remuneration and pension interests of the Agency's executive directors serving on the board from April 2014.

In preparation for the creation of Highways England the composition of the board was changed from April 2014, reducing the number of executive directors serving on the board to three.

Graham Dalton CEO, Stephen Dauncey Executive Director Finance and Business Services, and Ginny Clarke Executive Director Strategy and Planning (and previously Chief Highways Engineer) continued to serve on the board and were also appointed to serve on the board of Highways England.

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. This report is based on accrued payments made by the Agency and thus recorded in these accounts.

Bonuses

Bonuses are based on performance levels attained, and are made as part of the appraisal process. Bonus payments made in year relate to the performance in previous year. The actual bonuses paid in 2013-14 relate to performance in 2012-13.

Remuneration

	Salary £000s		Bonus Payments £000s		Benefits in kind (to nearest £100)		Pension benefits (to nearest £1000)		Total £000s	
	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14	2014-15	2013-14
Peter Adams	–	115-120	–	10-15	–	–	–	47,000	–	175-180
David Brewer	–	90-95 *FYE 125-130*	–	–	–	–	–	35,000	–	125-130
Ginny Clarke	105-110	105-110	–	10-15	–	–	21,000	-1,000	125-130	115-120
Graham Dalton	145-150	145-150	–	10-15	–	–	49,000	35,000	195-200	195-200
Stephen Dauncey	115-120	115-120	–	–	–	–	35,000	21,000	150-155	135-140
David Poole	–	105-110	–	–	–	–	–	42,000	–	145-150
Simon Sheldon-Wilson	–	95-100	–	–	–	–	–	–	–	95-100

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

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.

Pay multiples (audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce.

The median remuneration of the Agency's staff in 2014-15 as shown in the following table, based on full time equivalents, is £27,183, 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 of the highest paid director is 5.43, which has fallen; this is predominantly due to a nil bonus return to the highest paid director, compared to last year's £12,500 bonus.

In 2014-15, 0 (2013-14, 0) employees received remuneration in excess of the highest-paid director. Remuneration ranged from £19,500 to £150,000 (2013-14, £18,000-£165,000).

Pay multiples

Period	2014-15	2013-14
Midpoint of salary range and bonus of highest paid director (£)	147,500	160,000
Number of staff	3,832	3,475
Median point	1,916	1,737
Median remuneration (£)	27,183	26,410
Ratio	5.43	6.06

Notes: Midpoint of salary range and bonus of highest paid director is calculated by summing the midpoint of the relevant £5k salary range with the midpoint of the relevant £5k bonus range. Median salary is the full time salary, and includes allowances where appropriate and bonus payments. ERNIC and superannuation contributions are not included. Temporary agency staff have been included in these calculations 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.

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 31/3/15 and related lump sum £000s	Real increase in pension and related lump sum at pension age £000s	CETV at 31/3/15 £000s	CETV at 31/3/14 £000s
Peter Adams	–	–	–	114
David Brewer	–	–	–	21
Ginny Clarke	50-55 plus 155-160 lump sum	0-2.5 plus 2.5-5 lump sum	1,183	1,107
Graham Dalton	30-35 no lump sum	2.5-5 no lump sum	558	487
Stephen Dauncey	15-20 no lump sum	0-2.5 no lump sum	359	304
David Poole	–	–	–	119

	Real increase in CETV as funded by employer £000s	Employer contribution to partnership pension account nearest £100
Ginny Clarke	21	–
Graham Dalton	38	–
Stephen Dauncey	32	–

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 figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits 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 that is 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 uses common market valuation factors for the start and end of the period.

Graham Dalton
Accounting Officer
18 June 2015

5. 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; and

- prepare the accounts on a going-concern basis.

The Permanent Secretary for the Department for Transport 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 hm-treasury.gov.uk.

6. Certificate and report of the Comptroller and Auditor General to the House of Commons

I certify that I have audited the financial statements of Highways Agency for the year ended 31 March 2015 under the Government Resources and Accounts Act 2000. The financial statements comprise: the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity; and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the chief executive and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Highways Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Highways Agency; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit.

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 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 2015 and of the net operating cost for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

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

Matters on which I report by exception

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

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

Report

In forming my opinion, which is not qualified, I have considered the adequacy of disclosures made in Note 1 to the financial statements concerning the application of the going concern principle in light of the abolition of the Highways Agency. As the functions and activities are transferring to a new government owned company, Highways England Company Limited, the financial statements of the Agency are prepared on a going concern basis in accordance with the Government Financial Reporting Manual issued by HM Treasury.

Sir Amyas C E Morse
Comptroller and Auditor General

157-197 Buckingham Palace Road
London SW1W 9SP
22 June 2015

7. Financial Statements

Statement of Comprehensive Net Expenditure for the year ended 31 March 2015

	Note	2014-15 £000	2013-14 £000
Administration costs			
Staff costs	*3*	20,328	23,191
Other administration costs	*4*	51,493	40,966
Operating income	*6*	(2,030)	(2,722)
Programme costs			
Staff costs	*3*	105,220	94,567
Other programme costs	*5*	2,478,614	2,400,899
Income	*6*	(61,846)	(71,118)
EU income		-	(1,322)
Net operating cost		**2,591,779**	**2,484,461**

Other Comprehensive Net Expenditure

	Note	2014-15 Total £000	2013-14 Total £000
Net (gain)/loss on revaluation of property, plant and equipment	*7 & 9*	(929,158)	(2,605,785)
Total comprehensive net (income)/expenditure for year ended 31 March 2015		**1,622,621**	**(121,324)**

All income and expenditure is derived from continuing activities.

The Notes on pages 61 to 104 form part of these accounts.

Statement of Financial Position as at 31 March 2015

	Note	31 March 2015 £000	31 March 2014 £000
Non-current assets			
Property, plant and equipment	*7*	112,809,801	111,767,409
Intangible assets	*8*	-	432
Trade and other receivables	*11*	307,967	357,802
Total non-current assets		**113,117,768**	**112,125,643**
Current assets			
Assets classified as held for sale	*9*	14,636	10,143
Inventories	*10*	29,564	38,954
Trade and other receivables	*11*	182,326	145,339
Cash and cash equivalents	*12*	8,558	3,165
Total current assets		**235,084**	**197,601**
Total assets		**113,352,852**	**112,323,244**
Current liabilities			
Trade and other payables	*13*	735,134	713,950
Provisions	*14*	51,631	57,618
Total current liabilities		**786,765**	**771,568**
Non-current assets less net current liabilities		**112,566,087**	**111,551,676**
Non-current liabilities			
Provisions	*14*	101,432	78,854
Other payables	*13*	1,841,449	1,969,319
Total non-current liabilities		**1,942,881**	**2,048,173**
Assets less liabilities		**110,623,206**	**109,503,502**
Taxpayers' equity			
General fund		42,945,438	42,628,516
Revaluation reserve		67,677,768	66,874,986
Total taxpayers' equity		**110,623,206**	**109,503,502**

The Notes on pages 61 to 104 form part of these accounts.

Graham Dalton
Accounting Officer
18 June 2015

Statement of Cash Flows for the year ended 31 March 2015

	Note	2014-15 £000	Restated 2013-14 £000
Cash flows from operating activities			
Net operating cost		(2,591,779)	(2,484,461)
Adjustment for non-cash transactions	*4, 5*	1,619,575	1,497,926
(Increase)/decrease in inventories	*10*	9,390	6,248
(Increase)/decrease in trade and other receivables	*11*	(52,152)	69,265
less movement in receivables relating to items not passing through the SoCNE		874	(81,280)
(Decrease)/increase in trade and other payables	*13*	(41,686)	(62,933)
less movement in payables relating to items not passing through the SoCNE		(20,497)	109,689
Use of provisions	*14*	(31,536)	(63,308)
Non-cash movement in classification of provision	*14*	-	1,919
Adjustment for capital and interest element of PFI payments		65,804	61,891
Net cash outflow from operating activities		**(1,042,007)**	**(945,044)**
Cash flows from investing activities			
Purchase of property, plant and equipment	*7*	(1,896,432)	(1,315,177)
Proceeds of disposal of assets held for sale		13,856	13,528
Capital element of movement in provisions	*14*	44,164	12,281
Net cash outflow from investing activities		**(1,838,412)**	**(1,289,368)**
Cash flows from financing activities			
From the Consolidated Fund (supply) – current year		2,951,616	2,268,000
Capital element of payments in respect of on balance sheet PFI		(65,804)	(61,891)
Net financing		**2,885,812**	**2,206,109**
Net increase/(decrease) in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated Fund		5,393	(28,302)
Receipt of amounts due to the Consolidated Fund		71,162	115,584
Payments of amounts due to the Consolidated Fund		(71,162)	(115,584)
Net increase/(decrease) in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		**5,393**	**(28,302)**
Cash and cash equivalents at the beginning of the period	*12*	**3,165**	**31,467**
Cash and cash equivalents at the end of the period	*12*	**8,558**	**3,165**

The 2013-14 restatement is to provide greater clarity in relation to Consolidated Fund receipts and payments. The revised presentation is in alignment with the format adopted within the DfT cash flow statement.

The Notes on pages 61 to 104 form part of these accounts.

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2015

	Note	General fund £000	Revaluation reserve £000	Total reserves £000
Balance at 31 March 2013		**42,769,932**	**64,545,794**	**107,315,726**
Net gain on revaluation of property, plant & equipment		-	2,605,785	2,605,785
BRB (R) transfer		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**
Net gain on revaluation of property, plant & equipment		-	929,158	929,158
Adjustments to non-current assets		(102,384)	(60,022)	(162,406)
Reversionary interest on M6 toll road	*7*	4,220	-	4,220
Non-cash charges – auditors' remuneration	*4*	240	-	240
Transfers between reserves		66,354	(66,354)	-
Net comprehensive expenditure for the year		(2,591,779)	-	(2,591,779)
M25 gain share surrendered to the Consolidated Fund		(6,161)	-	(6,161)
Other movements		204	-	204
Total recognised income and expenses for 2014-15		**(2,629,306)**	**802,782**	**(1,826,524)**
Net funding from the Department for Transport – drawn down		2,951,616	-	2,951,616
Net funding from the Department for Transport – deemed		50,908		50,908
Supply (payable)/receivable adjustment		(56,296)	-	(56,296)
Balance at 31 March 2015		**42,945,438**	**67,677,768**	**110,623,206**

The Notes on pages 61 to 104 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 2014-15 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 New or amended accounting standards and interpretations

The Agency has reviewed all new accounting standards, amendments and interpretations of standards that are effective in 2014-15 to determine the impact on the Agency's financial statements. None of these have a material impact on the Agency's financial statements.

1.3 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2015, and accordingly have not been applied in preparing these financial statements. The following are those standards, amendments and interpretations that may need to be adopted in subsequent periods:

- IFRS 9 Financial Instruments, which will replace parts of IAS 39, deals with the classification and measurement of financial assets and financial liabilities, hedge accounting and (following the July 2014 amendment), the impairment of financial assets. IFRS 9 is intended to improve and simplify the treatment of financial instruments in financial statements. According to the International Accounting Standards Board (IASB), application of this standard is required for reporting periods beginning on or after 1 January 2018, though earlier application is permitted. However, it is yet to receive EU endorsement so it is not possible to predict the actual application date. The impact of initial application of IFRS 9 is not expected to be significant. This is because, while the classification of financial assets and liabilities will change, it appears that existing measurement approaches will continue to be appropriate. It is also considered that there will be no significant change to the recognition of impairments on the Agency's financial assets, because the expected credit losses on those assets are currently thought to be immaterial.
- IFRS 13 should be adopted by 1 April 2015. It provides guidance on establishing fair values of assets and liabilities and sets out disclosure requirements, where other standards require the fair value to be used or disclosed. It defines fair value as an exit value, reflecting the assets' highest and best use rather than its actual use. This approach is problematic for many central government assets, which may be of a specialised nature (meaning that exit values are difficult to identify) and which may need to be retained for the provision of services (meaning that the assets may need to be retained in their current use). HM Treasury have issued an Exposure Draft proposing modifications to the FReM, to adapt IAS's 16 and 38. These adaptations would require assets held for the provision of services to be valued on an existing use basis, using methods including depreciated replacement cost. Other assets and liabilities, such as surplus properties, would be valued in accordance with IFRS 13 where applicable. The strategic road network (SRN) is currently valued using depreciated replacement cost.

- It therefore seems likely that the implementation of IFRS 13 as adapted by the FReM will not have a material impact on the assets and liabilities recognised in the Agency accounts.
- IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1 January 2017, though it has not yet received EU endorsement. It requires the recognition of revenue as the performance obligations under the contracts are satisfied. Its implementation is expected to have no material impact on the Agency.
- The IASB has issued an exposure draft of a replacement to the existing leasing standard, which is expected to eliminate off-balance sheet leasing arrangements, and require recognition of a single right-of-use asset, measured at the present value of lease payments, with a matching liability. The pattern for recognition of the expenditure will depend on the type of leases: for most leases of property, the lessee will recognise expenditure on a straight-line basis; for most leases of other types of asset, the lessee's expenditure will reduce over the term of the lease. As the Agency currently occupy administrative properties under operating leases, this is likely to have an effect on the statement of financial position, but a more limited effect on the recognition of expenditure.

1.4 Going concern

As part of the Road Investment Strategy the Highways Agency was abolished as at 31 March 2015. The key functions and activities of the Agency were transferred to a new government owned company, Highways England Company Limited, which continues to be funded by the Department for Transport. Therefore, these financial statements have been prepared on a going concern basis in accordance with the guidelines in the FReM.

1.5 Non-current assets: Property, plant and equipment

Property, plant and equipment is sub-categorised into:

i) **Strategic road network (SRN)** – this consists of the motorways and all-purpose trunk roads (APTRs) in England, which form a single integrated network. The SRN constitutes 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 forming 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).

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 Agency groups assets in relation to bulk purchases of plant and machinery, information technology and fixtures and fittings. This includes the following:

(i) Fixtures and fittings and plant and machinery resulting from office refurbishments; and

(ii) IT assets resulting from major IT upgrades.

The SRN 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 that the maintenance spend enhances or replaces the service potential of the SRN. Routine maintenance expenditure, eg repairing potholes is regarded as day to day servicing and is charged to the SoCNE.

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

Technology equipment is capitalised when the equipment is installed and commissioned on the SRN for the first time. Technology equipment is taken from inventory when a project is under construction or to replace an existing faulty item on the SRN.

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

Valuation

SRN

The SRN 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 SRN is a specialised asset (ie a market value is not available) and therefore must be valued using gross replacement cost in accordance with the FReM, before applying depreciation.

The SRN valuation is based on a standard cost model, using accounting estimates to determine the valuation. 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.

External professional surveyors, Atkins undertake a full valuation of the SRN at intervals not exceeding five years on a rolling basis. The five yearly valuation is undertaken in accordance with the general principles of the Appraisal and Valuation Manual (Red Book) of the Royal Institution of Chartered Surveyors (RICS). As at 31 March 2015, the pavement, technology and land elements of the SRN were subject to a valuation as part of the rolling five year programme.

The valuation is not based on the historic actual cost of construction for individual elements of the SRN. Rather, the Agency determines standard costs for the SRN based on accounting estimates using the best information available and reflect the actual cost of recent schemes, together with physical assets records to provide unit rates for all elements and components of the SRN.

Standard costs unit rates are determined for the following elements of the SRN: road, structures, technology equipment and land. When calculating the unit rates for the various elements of the SRN, a number of accounting assumptions are implicit in determining the SRN valuation. These assumptions are reviewed every five years when the Agency provides a new valuation of the SRN.

Unit Cost	Unit cost determination
Road	The standard costing for roads is based on a series of road types created to identify all roads and determine the unit costs. There are 27 road types, each road type will have a standard width for the carriageway, hard-strip or hard-shoulder, central reservations, etc. Each road type will have a standard unit rate that is applied across the SRN. Road type rates are generated from suitable schemes which have opened for traffic in the past.
Structures	Standard 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. Non-standard structures – These are structures that, due to a combination of their size, construction and character cannot be quantified and valued in the same manner as other structures, eg the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.
Land	Land is an integral part of the SRN and forms an important part of the valuation. Although some of the land occupied by the SRN 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. Land valuation is based on the following factors: 1. Location – geographical location of land within England. 2. Classification – land is classified as either urban or rural dependent on location.
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 directly by the Agency. The unit costs for technology equipment also includes the cost of individual components; installation costs; commissioning costs; preparation and supervision costs and traffic management costs where applicable.

Data on the SRN 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 SRN.

Indexation

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

Indexation	
Roads and structures	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 the following external sources: • Urban land indices from the Land Registry House price index • Rural land indices from the Royal Institute of Chartered Surveyors (RICS) and the Royal Agricultural University (RAU) market surveys.

Indexation based on these indices is applied to all elements of the SRN. However, there may be occasions where the use of indices for particular SRN elements 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 SRN is valued on the basis that the site is a 'greenfield site' and accordingly VAT is non recoverable. The current non-recoverable VAT rate of 20% is used to reflect the current replacement cost of the SRN, However, certain non-standard structures are valued at historical 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 the SRN 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

The Agency writes-down 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 standard costing assumptions is that all construction is developed on a 'green-field' site. This is not always the case; therefore the cost of new constructions can be much higher due to additional building costs in urban areas or additional costs of replacing existing roads etc; and

ii. Generally it is cheaper to build a three lane motorway as one project rather than two lanes initially and then to widen at some point thereafter. In a road widening scheme, a significant amount of cost will relate to traffic management, which does not increase the value of the SRN and therefore is written-down.

However the Agency uses standard write-down percentages for construction projects lasting more than one year. These percentages are based on projects constructed over the previous five years. 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 valuers, 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 Valuation Office Agency (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
Motorway maintenance compounds	1 October 2011	VOA
Motorway service areas	31 March 2015	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.

1.6 Depreciation

SRN

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 and is charged to the SoCNE.

The SRN as reported in the financial statements is based on depreciated replacement cost (DRC), as required by the FReM. All parts of the SRN, apart from land and the sub-structure of the road which have an unlimited useful life, are depreciated.

Road depreciation

The road surface asset comprises:

i. Surface layer;

ii. Sub pavement layer;

iii. Fencing, drainage, lighting, signage, kerbs, footways;

iv. Road markings and studs; and

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 SRN 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 the gross book value and accumulated depreciation.
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 of 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. Capital 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 value and accumulated depreciation.

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 and 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
Surplus properties awaiting sale	no depreciation
Plant and machinery:	
Winter maintenance equipment	10 to 25 years
Office equipment	5 to 10 years
Other assets	
Technology equipment	5 to 25 years
Vehicles	5 to 10 years
Test equipment	5 to 10 years
IT equipment	5 years
Database development expenditure	5 years
Structural steelwork	10 years
Capital spares	no depreciation
Assets held for sale	no depreciation

Capital spares (eg overhead gantries), become part of the SRN 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.

1.7 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5. These assets are surplus to requirements, available for sale within one year in their present condition, and are being actively marketed. These assets are valued at the lower of carrying amount and fair value (market value) less selling costs where material.

Intangible assets

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

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

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

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

iii) the cost can be determined reliably.

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

1.8 Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories comprises 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.

1.9 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.

1.10 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 and recoveries from third parties in respect of claims for damage to the motorways and trunk roads. 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.

1.11 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. 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 SRN. They include staff costs where they directly relate to service delivery.

1.12 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.

1.13 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 reflecting 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.

1.14 Service concessions (PFI contracts)

Under a service concession, a government entity contracts with a private sector entity to develop, build, 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.

1.15 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. The Agency has not discounted its provisions to present value using HM Treasury's real discount rates, as discounting is considered immaterial to the Agency's financial statements.

1.16 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.

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.

1.17 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 represent a financial asset or liability, depending on whether the conditions are potentially favourable or adverse to the reporting entity.

1.17.1 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 upon initial recognition.

1.17.2 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.

1.17.3 Available for sale financial assets

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

1.17.4 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.

1.17.5 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 year end, it has no embedded derivatives.

1.17.6 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.

1.17.7 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.

1.18 VAT

Most of the activities of the Agency are non-business in nature and for this reason, outside the scope of VAT. Output tax does not apply to activities that are outside the scope of VAT and respective input tax on purchases is not recoverable. The Agency is eligible under s. 41 of the VAT Act 1992 to recover input VAT which is recovered under an 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.

1.19 Estimation techniques used and key judgements

The preparation of the Agency's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities (including contingent), income and expenditure. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to estimates are recognised in the period in which the estimates are revised and in any future periods affected. The most significant areas involving a higher degree of judgement or complexity are described below:

a) Property, plant and equipment (PP&E) – The Strategic Road Network (SRN) valuation is based on a standard costs model, using a number of accounting estimates and judgements. These include:

- Indices – a number of construction related indices are applied to the calculation of rates for various elements of the SRN. The Agency chooses appropriate indices for indexing the elements of the SRN, and the extrapolation of data to ascertain standard costs.
- Road rates – the valuation of pavement is based on schemes constructed by the Agency over the past 5 years. Due to limited construction of road schemes over recent years, there are a limited numbers of suitable schemes from which to derive road rates for the valuation. The Agency extrapolates rates based on this limited scheme data and by applying key construction assumptions, ie. when and how to extrapolate from small schemes to large ones. Valuation rates were also developed for smart motorways by using professional cost estimators to estimate relevant costs, based on a set of agreed construction assumptions.
- Road depreciation – is determined by condition surveys carried out across the SRN that measures rutting. Rutting measures only the 'black top' of the road surface, which represents approximately 12% of the total valuation of the road element of the SRN. The Agency has determined that rutting is a good approximation for the condition of the road surface. The Agency currently estimates that the level of rutting that is acceptable before maintenance intervention on the network is 15.5mm. An increase in the rutting results in an increase in the road depreciation charge.
- Structures rates – is based on standard widths of roads and is derived from old schemes construction data. Due to limited construction of suitable structures over recent years, there are a limited numbers of suitable structures from which to derive structures rates for the valuation exercise. The Agency applies extrapolation techniques to the limited data to ensure consistency across different road types.
- Useful economic life (UEL) – the Agency makes assumptions about the period of time during which various elements of the SRN will provide service potential. Estimates are made of the UEL of structures, pavements and technology equipment, which are based on historic trends and expert knowledge.

b) PFI – The unitary charge payable under PFI contracts is split to allocate payments between the cost of services under the contract, acquisition of the residual interest and the interest element on the liability. Management estimates the fair value of the residual asset on reversion, at the start of the PFI contracts.

1.20 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.

1.21 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 the Agency's Board and senior management have chosen to organise the business activities, manage the organisation and allocate resources for assessment of segment performance.

1.22 Trunkings/de-trunkings

The Agency has responsibility for the maintenance, management and enhancement of the SRN. Detrunking – when the Agency constructs a bypass or new road as the network operator. This will often result in responsibility for the old non-core network routes being transferred from the Agency to local authorities and treated accordingly as a transfer of function.

Trunking – this is the transfer of a road / route from a local authority to the Agency to form part of the SRN.

2. Segmental reporting

	2014-15					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Major improvements	397,643	(10,046)	387,597	778,618	(22,128)	756,490
Maintaining the network	288,596	(13,196)	275,400	705,503	-	705,503
Technology improvements	73,216	-	73,216	92,053	-	92,053
Traffic management	48,009	(4,035)	43,974	7,107	-	7,107
Smaller schemes and R&D	50,599	(1,102)	49,497	277,087	(5,500)	271,587
Running costs - programme	114,656	-	114,656	-	-	-
Running costs - admin	69,249	(2,030)	67,219	42,226	-	42,226
Other	42	(19,649)	(19,607)	-	-	-
	1,042,010	**(50,058)**	**991,952**	**1,902,594**	**(27,628)**	**1,874,966**
Unallocated costs						
Depreciation & write downs	1,612,777	-	1,612,777	-	-	-
Other	7,030	-	7,030	-	-	-
	2,661,817	**(50,058)**	**2,611,759**	**1,902,594**	**(27,628)**	**1,874,966**
Budget to accounts reconciliation						
*Capital income in resource accounts	-	(13,818)	(13,818)	-	13,818	13,818
**M25 Gain share not in budgets	(6,162)	-	(6,162)	(6,162)	-	(6,162)
Segmental total per accounts	**2,655,655**	**(63,876)**	**2,591,779**	**1,896,432**	**(13,810)**	**1,882,622**

* Income which relates to capital projects is classified as capital for budgetary purposes; however under government accounting rules this is treated as operating income in the SoCNE.

**The M25 gain share is included as a credit against expenditure in the financial statements; however it is excluded for budgetary purposes.

Segmental expenditure

- The operating segments are business activities that are regularly reviewed by the Highways Agency board and senior management for decision making purposes.
- Expenditure in the financial statements is split between capital and resource expenditure.
- Major improvements expenditure includes work on smart motorways and updating key non motorway routes.
- Maintaining the network expenditure includes work on upgrading some of the busiest junctions, resurfacing and renewing structures and other elements of the SRN.
- Unallocated costs cannot be reasonably apportioned across segments.

	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**

3. Staff numbers and related costs

a) Staff costs

Staff costs comprise:	2014-15			2013-14
	Permanently employed staff	Others	Total	**Total**
	£000	£000	£000	**£000**
Wages and salaries	116,263	9,814	126,077	117,632
Social security costs	9,907	-	9.907	8,523
Other pension costs	22,096	-	22,096	19,759
Sub total	**148,266**	**9,814**	**158,080**	**145,914**
Less capitalised staff costs	(32,188)	-	(32,188)	(27,993)
Less recoveries in respect of outward secondments	(344)	-	(344)	(163)
Total net costs	**115,734**	**9,814**	**125,548**	**117,758**
Of which:				
Admin	17,373	2,955	20,328	23,191
Programme	98,361	6,859	105,220	94,567
Total net costs	**115,734**	**9,814**	**125,548**	**117,758**

Permanent staff are those staff with a permanent employment contract with the Agency. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, 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.

Pensions

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. A full actuarial valuation was carried out as at 31 March 2012. Details regarding the scheme can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice.gov.uk/pensions).

For 2014-15 employers contributions of £21,895,703 were payable to PCSPS (2013-2014: £19,616,838) at one of the four rates in the range 16.7% to 24.3% of pensionable pay, based on salary bands. The scheme actuary reviews employer contributions every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014-15 to be paid when the member retires and not the benefits paid during the period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers contributions of £174,265 (2013-14: £146,639) were paid to one or more of the panel of five appointed stakeholder pension providers.

Employer contributions are age related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. In addition, employer contributions of £11,427 (2013-14: £8,901) 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 £15,485 (31 March 2014: £22,721). Contributions prepaid at that date were nil (31 March 2014: nil).

b) Average number of persons employed

The average number of full time equivalent persons employed during the year was as follows:

	2014-15			2013-14
	Permanent staff	Other	Total	Total
Staff funded from administration budget	366	8	374	487
Staff funded from programme budget				
Traffic officer staff	1,485	-	1,485	1,475
Direct support to front line projects and service delivery	976	15	991	819
Staff engaged on capital projects	629	10	639	569
Average FTE persons employed	**3,456**	**33**	**3,489**	**3,350**

Over the course of the financial year, the actual full time equivalents (FTE) increased from 3,380 to 3,647.

c) Reporting of civil service and other compensation schemes – exit packages

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

	Number of compulsory redundancies		Number of other departures agreed	
	2014 - 15	2013 - 14	2014 - 15	2013 - 14
Exit package cost band				
<£10,000	-	-	-	-
£10,000 - £25,000	-	-	-	5
£25,000 - £50,000	-	-	-	1
£50,000>	-	-	-	-
Total number of exit packages	-	-	-	6
Total resource cost (£)	**-**	**-**	**-**	**116,248**

4. Other administration costs

	Note	2014-15 £000	2013-14 £000
Information technology		26,629	17,857
Rentals under operating leases		5,257	5,676
Consultancy		5,126	217
Rent, rates and building costs		4,961	4,758
Recruitment and training		1,673	2,120
Communication		1,102	1,064
Travel & subsistence		988	1,153
Other administration costs		2,947	6,861
		48,683	**39,706**
Non-cash items:			
Depreciation:			
Property, plant and equipment		1,382	1,531
Impairment of non-current assets		-	32
Notional costs:			
Auditors' remuneration and expenses		240	275
Provisions provided for in year		1,188	(578)
		2,810	**1,260**
Total other administration costs		**51,493**	**40,966**

During the year the Agency did not purchase any non-audit services from its auditor, the National Audit Office. The non-cash auditors' remuneration of £240,000 (2013-14: £275,000) is for the cost of the audit of the 2014-15 Agency accounts.

5. Other programme costs

	Note	2014-15 £000	2013-14 £000
Maintenance and similar activities		380,584	380,324
PFI service charges		312,673	343,018
Interest on PFI finance leases		131,785	135,699
Traffic management vehicle costs		6,969	9,620
Research and development expenditure		7,452	5,420
Information technology		5,496	7,781
Carbon emissions licence		1,995	1,404
Other programme costs		14,895	20,967
		861,849	**904,233**
Non-cash items:			
Depreciation:			
Property, plant and equipment held under PFI finance leases		39,817	97,788
Property, plant & equipment – other		790,346	773,357
Impairment:			
Impairment of non-current assets		35,347	12,551
Write down of strategic road network		739,288	625,583
Amortisation:			
Intangible assets	*8*	432	470
Provisions:			
Provisions provided for in year		2,775	(6,424)
Provision for doubtful debt		2,178	1,865
Loss on disposal of property, plant and equipment		528	293
Provision for slow moving stock		6,054	(8,817)
		1,616,765	**1,496,666**
Total other programme costs		**2,478,614**	**2,400,899**

6. Income

Income principally arises from:

- interest receivable;
- recoveries from third parties in respect of claims for damage to the motorways and trunk roads; and
- fees and charges for work carried out on a full-cost basis to external customers in both the public and private sectors.

Income analysed by classification and activity is as follows:	2014-15 Total £000	2013-14 Total £000
Administration income		
Cost recoveries/rental income	1,938	1,320
Other income	92	1,402
	2,030	**2,722**
Programme income		
Interest receivable	19,645	21,322
Claims for damage to network	12,013	13,635
Fees and charges for third party schemes	7,096	20,506
Recovery of costs incurred on M6 toll scheme	4,235	5,739
Vehicle recovery	3,835	3,469
Rental income from properties	3,684	3,727
Other income	11,338	2,720
	61,846	**71,118**

Disclosure under HM Treasury Managing Public Money

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

	2014-15			2013-14		
	Income	Full cost	Surplus/ (deficit)	Income	Full cost	Surplus/ (deficit)
	£000	£000	£000	£000	£000	£000
Claims for damage to network	12,013	13,527	(1,514)	13,635	15,063	(1,428)
Fees and charges to external customers	7,096	7,096	-	20,506	20,506	-
National vehicle recovery	3,835	4,008	(173)	3,469	4,768	(1,299)
Rental income from programme properties	3,684	3,765	(81)	3,727	5,635	(1,908)
Recovery of costs incurred from schemes	640	640	-	151	151	-
Recovery of other costs from MEL	86	86	-	178	178	-
Cost recoveries/rental income administration	25	25	-	144	144	-
Other income	10,673	10,673	-	1,861	1,861	-
	38,052	**39,820**	**(1,768)**	**43,671**	**48,306**	**(4,635)**

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury Managing Public Money. In some instances this objective has not been achieved. In particular, full recovery for claims for damage to the network has not been possible due to value for money considerations.

7. (a) Property, plant and equipment 2014-15

	Strategic road network £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 2014	129,721,041	478,336	154,924	161,501	61,163	109,560	95	130,686,620
In year adjustments	(236,733)	4,220	121	9	-	15,558	-	(216,825)
Capital additions	631,163	1,265,269	-	-	-	-	-	1,896,432
Valuation adjustments	(631,163)	-	-	-	-	-	-	(631,163)
Write down	-	(739,289)	-	-	-	-	-	(739,289)
Disposals	-	-	(1,268)	(5,442)	(2,686)	(3,581)	-	(12,977)
Revaluation	(3,458,978)	-	18,459	20,238	(312)	2	1	(3,420,590)
Impairments	(42,147)	-	(1,638)	-	(5,796)	-	-	(49,581)
Transfers	410,977	(411,945)	588	-	480	(100)	-	-
Reclassifications to assets held for sale	-	-	(8,757)	-	(3,885)	-	-	(12,642)
At 31 March 2015	**126,394,160**	**596,591**	**162,429**	**176,306**	**48,964**	**121,439**	**96**	**127,499,985**
Depreciation								
At 1 April 2014	18,758,525	-	-	90,688	-	69,922	75	18,919,210
In year adjustments	(67,962)	-	-	-	-	9,466	-	(58,496)
Valuation adjustments	(631,163)	-	-	-	-	-	-	(631,163)
Impairments	(14,235)	-	-	-	-	-	-	(14,235)
Charged in year	821,034	-	-	3,983	-	6,507	21	831,545
Disposals	-	-	-	(3,427)	-	(3,581)	-	(7,008)
Revaluation	(4,361,522)	-	-	11,851	-	2	-	(4,349,669)
At 31 March 2015	**14,504,677**	**-**	**-**	**103,095**	**-**	**82,316**	**96**	**14,690,184**
Net book value at 31 March 2015	**111,889,483**	**596,591**	**162,429**	**73,211**	**48,964**	**39,123**	**-**	**112,809,801**
Net book value at 31 March 2014	**110,962,516**	**478,336**	**154,924**	**70,813**	**61,163**	**39,638**	**20**	**111,767,409**
Asset financing								
Owned	109,404,743	379,323	162,429	70,168	48,964	39,123	-	110,104,750
Financed leased	-	-	-	-	-	-	-	-
On-balance sheet PFI contracts	2,484,740	-	-	3,043	-	-	-	2,487,783
M6 reversionary interest	-	217,268	-	-	-	-	-	217,268
Net book value at 31 March 2015	**111,889,483**	**596,591**	**162,429**	**73,211**	**48,964**	**39,123**	**-**	**112,809,801**

7. (b) Property, plant and equipment 2013-14

	Strategic road network £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**
In year adjustments	(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**
In year adjustments	(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**

Property, plant and equipment

Property, plant and equipment (PP&E) held by the Agency includes:

7.1 Strategic road network (SRN)

The SRN consists of roads, structures, lands and technology which form a single integrated network. The road element represents approximately 60% of the SRN valuation. The SRN is unique and a market value is not available, therefore it is valued using depreciated replacement cost.

During the year, road, land and technology assets were revalued by Atkins, professional surveyors in accordance with the Agency's policy to revalue elements of the SRN every 5 years on a rolling basis.

Significant in year movements in the 2014-15 SRN valuation

(a) In year adjustments

The net in year adjustment of £168.7m (£236.7m less £68.0m) during 2014-15, (2013-14: £236.7m) resulted from adjustments in the valuation of the SRN due to improved information on dimensions for road, land area and individual structures. Dimensions are checked on a routine basis as part of the operational requirement for robust data. Changes identified in this process are updated in the asset databases and reported as either an increase or decrease in the valuation of the SRN.

(b) Capital additions

The Agency invested £631.2m (2013-14: £491.4m) on capital renewal which is the ongoing programme to update and improve the SRN through a variety of interventions that will yield future economic benefits. The valuation adjustment of £631.2m represents the gross value of materials replaced by the capital renewal programme, which are accordingly removed from the gross value and the accumulated depreciation of the road element of the SRN.

(c) Revaluation

The revaluation increase of £902.6m (£3,458.9m less £4,361.5m) (2013-14: £2,588.2m) consists of:

Revaluation	Roads	Land	Technology	Structures	Total
	£m	£m	£m	£m	£m
5 yearly valuation	5,307.0	(5,188.9)	510.7	(752.9)	(124.1)
In year indexation		1,026.7			1,026.7
Total	**5,307.0**	**(4,162.2)**	**510.7**	**(752.9)**	**902.6**

(i) The 5 yearly valuation was completed for roads, land and technology assets by Atkins and resulted in a net decrease of the SRN by £124.1m (2013-14: nil), reflecting revised standard costs and land values.

(ii) During 2014-15, the Agency applied an indexation factor to the gross valuation of all elements of the SRN to reflect the impact of current prices. The indexation resulted in an increase in the valuation of the SRN of £1,026.5m (2013-14: £2,588.2m).

(iii) The 5 yearly valuation in 2014-15 included updating preparation and supervision rates. These rates reflect the current internal costs of delivering SRN projects. Whilst structures were not subject to the 5 yearly revaluation in 2014-15 their value was reduced by this update of the preparation and supervision rates.

(d) Impairment

The impairment charge for 2014-15 was £27.9m (£42.1m less £14.2m) compared to £9.9m for 2013-14. This largely relates to structures and portal gantries removed and replaced as part of the SMART motorway schemes, including the Birmingham Box Phase 3 project.

(e) Depreciation

The depreciation charge for 2014-15 was £821.0m (2013-14: £862.0m), which is made up of:

(i) A credit of £36.1m (2013-14: £14.2m) for road condition, reflecting the improvement in the overall condition of the road element of the SRN;

(ii) £112.8m (2013-14: £295.8m) reflecting the charge for structures;

(iii) £113.1m (2013-14: £88.9m) reflecting the charge for technology; and

(iv) £631.2m (2013-14:£491.4m) reflecting capital renewals maintenance expenditure capitalised, to the extent that it restores the service potential of the asset that has been consumed and is therefore reflected as a depreciation charge in the SoCNE.

7.2 Assets under construction (AUC)

(a) Capital additions

During the year the Agency invested £1,265.3m (2013-14: £823.4m) in numerous road schemes, this included expenditure on the A1 Leeming to Barton of £93.8m and £58.8m on the A453 Widening (M1 J24- A52 Nottingham).

(b) AUC transfers

The Agency transferred £411.9m of completed road schemes from AUC to the SRN at standard cost. This included completed sections of the A11 valued at £156.5m, sections of the A23 valued at £55.8m and technology equipment for a number of smart motorway schemes valued at £149.7m.

(c) Write down

The Agency's valuation of the SRN is based on standard costing and indexation. There is always a difference between the actual cost of construction and the standard cost valuation of the SRN, reflecting the standard costing assumption that all construction is developed on a 'greenfield site'. This difference is defined as write-down. During 2014-15 the write-down was £739.3m (2013-14: £625.6m) and included £246.3m relating to improvement schemes, £139.8m relating to managed motorway schemes and £271.0m relating to smaller projects. The amount of the write down is impacted by the type of scheme under construction or opened to traffic during the period.

(d) Reversionary Interest – in year adjustment

There was an in year adjustment of £4.2m relating to the reversionary interest for the M6 toll road. The M6 toll road agreement includes the provision that the asset will revert to public ownership when the concession ends in 2054.

7.3 Other property plant and equipment

(a) Land

Land consists of surplus land and land reserved for future road schemes. As at 31 March 2015 this includes Dartford commercial land valued at £37.0m (2013-14: £37.0m), motorway service areas, land valued at £56.5m (2013-14: £77.9m) and motorway maintenance compounds land valued at £28.1m (2013-14: £28.1m).

(b) Buildings

As at 31 March 2015 the value of buildings includes motorway maintenance compounds valued at £39.0m (2013-14: £35.1m), regional control centres valued at £14.5m (2013-14: £13.4m) and commercial buildings at Dartford valued at £11.3m ((2013-14: £11.5m).

(c) Dwellings

As at 31 March 2015 the value of dwellings is £48.9m (2013-14: £61.1m), which are classified as either surplus or non-surplus. This includes dwellings relating to the following schemes: A6M Stockport North/South bypass valued at £10.8m (2013-14: £11.5m), the M42 J3J7 widening bypass, valued at £9.0m (2013-14: £9.0m) and the A57/A628 Mottram, Hollingsworth & Tintwhistle, valued at £6.3m (2013-14:£6.3m).

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

	31 March 2015 £000	31 March 2014 £000
Freehold buildings	227,228	217,123
Short leasehold buildings (less than 50 years)	8,412	8,613
Total	**235,640**	**225,736**

8. Intangible assets

	Software licences £000	Development expenditure £000	Total £000
Cost or valuation			
Balance at 1 April 2014	6,417	76,088	82,505
Amortisation			
Balance at 1 April 2013	6,417	75,186	81,603
Charged in year	-	470	470
Disposals	-	-	-
Balance at 1 April 2014	**6,417**	**75,656**	**82,073**
Charged in year	-	432	432
Disposals	-	-	-
Balance at 31 March 2015	**6,417**	**76,088**	**82,505**
Net book value at 31 March 2015	**-**	**-**	**-**
Net book value at 31 March 2014	**-**	**432**	**432**

9. Assets classified as held for sale

	Land and buildings £000	Dwellings £000	Total £000
Balance at 1 April 2013	5,273	7,041	12,314
In year adjustments	-	(302)	(302)
Disposals	(1,946)	(4,119)	(6,065)
Revaluation	3,570	134	3,704
Impairments	(258)	(297)	(555)
Reclassifications to/from property plant and equipment	(1,058)	2,105	1,047
Balance at 1 April 2014	**5,581**	**4,562**	**10,143**
In year adjustments	-	143	143
Disposals	(3,517)	(4,854)	(8,371)
Revaluation	79	-	79
Impairments	-	-	-
Reclassifications to assets held for sale	8,757	3,885	12,642
Balance at 31 March 2015	**10,900**	**3,736**	**14,636**

10. Inventories

	31 March 2015 £000	31 March 2014 £000
Communication/electrical equipment for the strategic road network	16,704	26,601
Salt	11,273	11,818
Uniforms for traffic officers working on the strategic road network	1,587	535
	29,564	**38,954**

The communication/electrical equipment inventory include variable messaging signs which are extensively used in the ongoing roll-out of smart motorway schemes across the network. The Agency's salt stock includes reserves held for English Local Highways Authorities; this reserve is only for use as a last resort in the event of normal domestic salt supply channels being unable to meet the demands of Local Highways Authorities. The salt is stored to protect it from leaching from rainfall, however over time salt will deteriorates and therefore the Agency's policy is to reduce the holding by 3% pa to reflect the loss from deterioration during the period.

11. Trade receivables and other assets

a) Analysis by type

	31 March 2015 £000	31 March 2014 £000
Amounts falling due within one year		
Trade receivables	11,005	6,355
Deposits and advances	13,789	6,715
Other receivables	76	162
Prepayments and accrued income	7,337	12,250
VAT	137,955	107,870
Midland Expressway Limited M6 concession	12,096	11,919
Finance leases	68	68
	182,326	**145,339**

	31 March 2015 £000	31 March 2014 £000
Amounts falling due after more than one year		
Severn River Crossing Plc subordinated loan	21,296	84,722
Severn River Crossing Plc deferred interest	93,134	84,931
Midland Expressway Limited M6 concession	177,101	173,058
Deposits and advances	9,953	8,536
Finance leases	6,477	6,545
Staff relocation housing loans	6	10
	307,967	**357,802**
Total receivables	**490,293**	**503,141**

A £60m 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 earliest 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.

The finance lease relates to the Hyde Park underground car park, which is owned by the Crown and managed by the Highways Agency (Agency) under its delegated authority. In 2011 the Agency granted a 99 year lease to Westminster City Council (WCC). The lease was for £6.75m and transferred responsibility for maintenance and structural repairs of the car park.

Included within the trade receivables and other assets is £137.6m (2013-14; £201.0m), that will be due to the consolidated fund once the debt has been collected. This is made up of loans relating to Severn River Crossing and Midland Expressway Ltd.

b) Intra-Government receivables

	Amounts falling due within one year		Amounts falling due after more than one year	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Balances with:				
Other central government bodies	138,892	108,290	-	-
Local authorities	2,001	4,056	6,477	6,545
Public corporations and trading funds	2	25	-	-
Total intra-government balances	**140,895**	**112,371**	**6,477**	**6,545**
Balances with bodies external to government	41,431	32,968	301,490	351,257
Total receivables	**182,326**	**145,339**	**307,967**	**357,802**

12. Cash and cash equivalents

	31 March 2015 £000	31 March 2014 £000
Balance at 1 April 2014	3,165	31,467
Net change in cash and cash equivalent balances	5,393	(28,302)
Balance at 31 March 2015	**8,558**	**3,165**
The following balances at 31 March 2015 were held at:		
Commercial banks	724	1,055
Government banking service	7,834	2,110
Balance at 31 March 2015	**8,558**	**3,165**

The Agency does not hold any cash equivalent balances.

13. Trade payables and other liabilities

a) Analysis by type

	Note	31 March 2015 £000	31 March 2014 £000
Amounts falling due within one year:			
Other taxation and social security		5,344	5,977
Trade payables		18,821	81,563
Accruals and deferred income		563,993	498,597
Current part of imputed finance lease element of on balance sheet PFI contracts	*17*	69,972	65,804
Amounts due to the Consolidated Fund in respect of supply		56,296	50,907
Amounts due to DfT in respect of Dartford River Crossing road user charges		17,845	8,445
Consolidated fund extra receipts due to be paid to the Consolidated Fund:			
Received		4	-
Receivable		2	6
Other payables		2,857	2,651
		735,134	**713,950**

	Note	31 March 2015 £000	31 March 2014 £000
Amounts falling after more than one year:			
Imputed finance lease element of on balance sheet PFI contracts	*17*	1,671,044	1,741,016
Consolidated fund extra receipts due to be paid to the Consolidated Fund in respect of:			
Midland Expressway Ltd concession		61,497	61,497
Severn River Crossing Plc subordinated loan interest		54,815	54,815
Severn River Crossing Plc subordinated loan		21,296	84,723
Other payables, accruals and deferred income:			
Payable as agents in respect of the Midland Expressway Ltd concession		13,758	12,492
Other		19,039	14,776
		1,841,449	**1,969,319**
Total payables		**2,576,583**	**2,683,269**

Accruals and deferred income comprise:

	31 March 2015 £000	31 March 2014 £000
Amounts payable relating to road schemes	485,660	417,139
PFI related accruals	46,529	48,133
Third party funded projects (s278)	18,162	17,079
Administration accruals	5,855	13,356
Other	7,787	2,890
Total	**563,993**	**498,597**

b) Intra-Government payables

	Amounts falling due within one year		**Amounts falling due after more than one year**	
	31 March 2015 £000	31 March 2014 £000	31 March 2015 £000	31 March 2014 £000
Balances with:				
Other central government bodies	66,447	62,907	137,609	201,042
Local authorities	10,642	9,292	260	-
NHS Trusts	10	10	-	-
Public corporations and trading funds	38	52	-	-
Total intra-government balances	**77,137**	**72,261**	**137,869**	**201,042**
Balances with bodies external to government	657,997	641,689	1,703,580	1,768,277
Total payables	**735,134**	**713,950**	**1,841,449**	**1,969,319**

14. Provisions

	Land and property acquisition £000	Bridge strengthening £000	Other £000	Total £000
Balance at 1 April 2013	99,557	19,562	73,463	192,582
Provided in the year	55,804	(450)	15,018	70,372
Provisions not required written back	(26,754)	(51)	(38,288)	(65,093)
Provisions utilised in the year	(22,736)	(50)	(40,522)	(63,308)
Reclassification	-	-	1,919	1,919
Balance at 1 April 2014	**105,871**	**19,011**	**11,590**	**136,472**
Provided in the year	73,152	6,176	3,333	82,661
Provisions not required written back	(31,366)	-	(3,168)	(34,534)
Provisions utilised in the year	(26,477)	(2,047)	(3,012)	(31,536)
Reclassification	-	-	-	-
Balance at 31 March 2015	**121,180**	**23,140**	**8,743**	**153,063**

Analysis of expected timing of discounted flows:

	Land and property acquisition £000	Bridge strengthening £000	Other £000	Total £000
Not later than one year	28,554	18,597	4,480	51,631
Later than one year and not later than five years	92,626	4,543	4,205	101,374
Later than five years	-	-	58	58
Balance at 31 March 2015	**121,180**	**23,140**	**8,743**	**153,063**

Provisions provided in year and not written back reconciles as follows:

	Note	2014 - 15 £000
Provisions provided in year		82,661
Less provisions written back		(34,534)
Provisions expenditure		**48,127**
Split as follows:		
Administration expenditure	4	1,188
Programme expenditure	5	2,775
Capitalised expenditure		44,164
Provisions expenditure		**48,127**

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.

Bridge strengthening

The provision is predominately for work required to strengthen the Chelmer Viaduct and River Bridge to comply with legal minimum requirements, as established by European Community legislation and authoritative statements by ministers in Parliament. The provisions that have been recorded represent the directors' best estimate of the expenditure required to settle the obligation, often with the benefit of technical advice.

15. Capital commitments

	31 March 2015 £000	31 March 2014 £000
Contracted capital commitments not otherwise included in these accounts:		
Property, plant and equipment	1,615,449	552,636

The capital commitments as at 31 March 2015 include the following significant project commitments:

- £304.5m relating to the A5/M1 link; this is to construct a two-lane dual carriageway running east from the A5 north of Dunstable to join the M1 at a new Junction 11a south of Chalton;
- £216.1m relating to the A1 Leeming to Barton upgrade: this will replace the existing dual carriageway with a new three lane motorway. It will also include the provision of a new local access road alongside the new motorway;
- £146.2m relating to the Manchester smart motorways; smart motorways help relieve congestion by using technology to control traffic flows and assist in the management of incidents and providing information to road users. This will include converting the existing hard shoulder to a permanent running lane;
- £131.7m relating to the A556 Knutsford to Bowden; the Agency is carrying out improvements to create a modern dual carriageway road and we will also be making the existing A556 into a single carriageway road with facilities for pedestrians, cyclists and horse riders; and
- £123.7m relating to the M3 J2 - 4a; this will improve the M3 by making it a "smart motorway" between junctions 2 and 4a, a distance of 13.4 miles.

16. Commitments under leases

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

	31 March 2015	31 March 2014
	Buildings £000	Buildings £000
Obligations under operating leases comprise:		
Not later than one year	7,617	7,215
Later than one year and no later than five years	29,765	28,564
Later than five years	33,216	32,905
	70,598	**68,684**

17. Commitments under PFI and other service concession arrangements

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 Agency's most significant PFI commitment is the M25 London Orbital Motorway contract. The contract commenced on the 13 September 2009, is for a period of 30 years and there is no renewal option. The contractor is required to operate, maintain, renew, reconstruct, repair and reinstate the road and facilities within the designated area.

The substance of the PFI contract under IFRIC 12 is that the Agency has a finance lease, with the asset being recognised as a non-current asset of the Agency. Payments under on balance sheet PFI contracts comprise; an imputed finance lease charges and service charges. The total payments under on balance sheet PFI contracts forwhich the Agency is committed are given in the tables below, analysed according to the period in which the commitment expires.

(a) Imputed finance lease charges under on balance sheet PFI contracts comprise:

	31 March 2015 £000	31 March 2014 £000
Not later than one year	197,590	197,590
Later than one year and not later than five years	760,648	770,552
Later than five years	2,613,863	2,801,549
	3,572,101	**3,769,691**
Less interest element	(1,831,085)	(1,962,871)
	1,741,016	**1,806,820**

(b) Capital element under on balance sheet PFI contracts comprises:

	Note	31 March 2015 £000	31 March 2014 £000
Not later than one year	*13a*	69,972	65,804
Later than one year and not later than five years	*13a*	295,847	287,327
Later than five years	*13a*	1,375,197	1,453,689
		1,741,016	**1,806,820**

(c) Interest element under on balance sheet PFI contracts comprises:

Future interest commitments	31 March 2015 £000	31 March 2014 £000
Not later than one year	127,618	131,785
Later than one year and not later than five years	464,802	483,226
Later than five years	1,238,665	1,347,860
	1,831,085	**1,962,871**

(d) Details of the minimum service charge analysed according to the period in which the commitment expires:

	31 March 2015 £000	31 March 2014 £000
Not later than one year	529,538	528,471
Later than one year and not later than five years	2,081,667	2,089,997
Later than five years	10,177,014	11,335,749
	12,788,219	**13,954,217**

The amount that is expected to be paid as at the 31 March 2015 has fallen due to payments made and changes to inflation and traffic forecasts. The total amount charged to the SoCNE in respect of the service element of on balance sheet PFI transactions for the period end 31 March 2015 was £312.6m (2013-14: £343.0m).

18. 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.

18.1 Credit risk

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

18.2 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.

18.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Agency's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures where these are considered to materially impact the business and operations of the Agency.

18.3.1 Interest rate risk

This is the risk that the Agency will suffer financial loss due to interest rate fluctuations. 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.

18.3.2 Exchange rate risk

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

18.3.3 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.

19. Contingent liabilities and assets

a) Contingent liabilities disclosed under IAS 37

Quantifiable

The Agency has the following quantifiable contingent liabilities:

	31 March 2015 £000	31 March 2014 £000
Land and property acquisition	178,687	128,761
Engineering and construction services	3,000	6,157
Other	8,637	11,708
	190,324	**146,626**

(i) 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 31 March 2015, 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.

(ii) 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.

(iii) 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 SRN being damaged but for which no claim has been received at year end. These claims are estimated based on prior years' experience.

Unquantifiable

The Agency has the following unquantifiable contingent liabilities:

Dartford pension deficit:

The Thames Crossing between Dartford and Thurrock consists of two tunnels and the Queen Elizabeth II Bridge. The first tunnel was built in 1963, the second in 1980 and the bridge was opened in 1991. The related pension commitments initially rested with Kent County Council, after a number of transfers the liability for any future deficit on the scheme now rests with the Secretary of State for Transport.

The scheme valuation takes place every three years and it is currently in deficit. The Agency has recorded a liability of £3.7m in the 2014-15 financial statements. However, the fund value is affected by a number of factors including market conditions therefore due to the uncertainty it is not possible to quantify further potential shortfalls as at 31 March 2015.

b) Contingent assets

The Agency has a contingent asset with Midland Expressway Ltd (MEL) in relation to refinancing and developments of the M6 toll road. MEL has an obligation to contribute up to a maximum of £70.0m towards a road enhancement project which would provide a motorway to motorway link between the M54 to the M6 Toll. The commitment amount is indexed according to the Road and Construction Tender Index from May 2006.

20. 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.

(a) Losses statement

	2014-15	2013-14
Total number of losses:		
Bookkeeping/cash losses	2	10
Claims abandoned	1,779	1,649
Fruitless payments	3	3
Store losses	333	317
Total:	**2,117**	**1979**

	2014-15 £000	2013-14 £000
Total value of losses:		
Bookkeeping/cash losses	89	348
Claims abandoned	7,409	4,377
Fruitless payments	2	2,224
Store losses	2,433	3,425
Total:	**9,933**	**10,374**

Details of cases over £300,000

Claims abandoned

These losses largely relate to damage to the SRN and traffic management clean-up costs, where the culprit is unknown and it is not viable to pursue the claim. Included in the claims abandoned is one reportable case of £556,660, which relates to vandalism and fire to the M5 Midland Links Motorway Wigmore Viaduct control panels. This required the replacement of the electrical works and control panels.

Store losses

These losses largely relate to theft or vandalism to SRN equipment where the culprit is unknown, this includes cables, fencing, barriers, communication equipment, signs or lighting. During 2014-15 there was one reportable store loss greater that £300,000, this related to the theft of cable from the SRN totalling £310,000 (2013-14: £334,000).

(b) Special payments

	2014-15 £000	2013-14 £000
Total value of special payments		
Ex-gratia compensation	**143**	**113**

Total number of special payments		
Ex-gratia compensation	**2**	**7**

21. 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 HM Treasury, Treasury Solicitors, Department of Energy and Climate Change, Valuation Office Agency, and a number of Local Authorities. 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 22, the Agency draws monies from escrow accounts held at Lloyds Bank. 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.

22. Third party assets

The Agency, under Section 278 of the Highways Act 1980, receives payment in advance of works. The work completed on behalf of the developer relates to developments which may have an impact on the SRN. The amounts received 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 March 2015 £000	31 March 2014 £000
Lloyds Escrow Bank Accounts	1,513	3,079
Lloyds Euro Bank Account	63	157
	1,576	**3,236**

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

23. British Railways Board (Residuary) - BRB(R)

BRB(R) was wound-up on 30 September 2013. The ongoing functions of BRB(R) 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 BRB(R) 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 DfT's accounts.

24. Events after the reporting period

On 1 April 2015, the vast majority of the net assets of the Highways Agency ('the Agency') were transferred to Highways England Company Limited under the Infrastructure Act 2015. The transfer of net assets resulted in a corresponding transfer of the responsibility of managing the SRN in pursuance of the objectives laid down by the road reform programme of the government. The transfer of net assets to the Company was for no consideration. The Transfer Scheme between the Secretary of State and the Company was made by the Secretary of State under section 15 of the Infrastructure Act 2015.

Material assets and liabilities not transferring to Highways England Company Ltd but remaining with the Secretary of State include loans receivable and payable relating to the Severn River Crossing and Midland Expressway Limited, as detailed in notes 11 and 13, along with the structures forming the Severn River Crossing valued at £2.8bn.

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 Highways Agency's management to the Secretary of State for the DfT. 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 board

Chairman
Colin Matthews

Chief Executive
Graham Dalton

Non-Executive Director
David Hughes

Executive Director
Strategy and Corporate Affairs
Ginny Clarke

Non-Executive Director
Simon Murray

Executive Director
Finance and Business Services
Stephen Dauncey

Non-Executive Director
Elaine Holt

Non-Executive Director
Tom Smith

Annex B

Delivering against the performance specification 2013-2015.

The table summarises the performance against each specific output.

Outcome	Output	Requirement		Performance
A strategic road network which supports and facilitates economic growth	1: Capacity & Connectivity	Deliver the agreed programme of route based strategies across the Strategic Road Network (SRN) by March 2015.	Met	18 Route Strategies were published in March 2015.
		The major schemes programme should continue to be developed and delivered in this two year specification period.	Substantially Met	Two schemes failed to meet original start of works dates, but revised dates published in National Infrastructure Plan 2013 have been achieved.
		Deliver the agreed programme of pipeline work for future major schemes.	Substantially Met	One scheme's' open for traffic' date has slipped from 2019-20 to 2020-21.
		Deliver the agreed pinch point schemes by March 2015.	Substantially Met	100 schemes completed by March 2015 out of 123 planned, addressing safety or congestion issues.
	2: Development Control	Continue to build on progress made to date to improve the transparency of its performance, both in terms of the quality of engagement with the development community and the speed at which processes concerning planning applications are completed. To continue to drive improvement and provide transparency, 99% of formal planning applications should be responded to within 21 days.	Result not yet verified	Provisionally 99.89% of all applications were responded to in 21 days. Verification due in Annual National Planning Report due July 2015.
		The network operator should report on the following measures: • The average time taken to respond to planning applications. • The percentage of applications which have a holding direction placed on them by the network operator and a breakdown of the main reasons for doing so. • The average time taken to remove holding directions. • The percentage of applications which have indefinite non approvals imposed on them by the network operator and the reasons for doing so. • Quantification of the expected housing and job benefits (as reported by developers) facilitated through final responses provided by the network operator on planning applications.	Met	Data published monthly in National Planning Reports.
		Gather and report on the levels of satisfaction in the network operator's handling of applications, with a view to determining whether a target for customer satisfaction levels should be set from 2015-16. Satisfaction levels should be reported under two categories: where holding directions have been placed on applications, and all other applications.	Met	Overall satisfaction with the handling of planning applications increased Target for customer satisfaction levels for 2015-16 onwards identified.

Outcome	Output	Requirement		Performance
A strategic road network which is maintained to a safe and serviceable condition	3: Asset Management	Enhance asset management capability and skills to become a high performing asset management organisation. The network operator should be able to forecast the levels of future investment needed in maintenance and renewals to maintain the network to a safe and serviceable condition, and model how the condition of the SRN will change with levels of investment in maintenance and renewals.	Met	A detailed asset management improvement plan has been produced to identify and measure progress for requirements to achieve ISO55000 (asset management ISO standard).
		Develop decision support tools (DST) that model maintenance investment levels, asset priorities and resultant condition levels. The network operator must produce a plan during this specification period detailing how these tools will be developed, and how they will be embedded from 2015-16 onwards.	Met	The Programme Investment Tool successfully supported the delivery of the Simple Surfacing Scheme programme. The structures DST trial has provided an initial outline 5-year programme of structures renewals (for bridges and large culverts).
		Continue to monitor and report on the current pavement condition indicator.	Substantially Met	96.5% of the network was in good condition on 31 March 2015. Evidence of monthly reporting not available for audit.
		Continue to monitor and report on the cost of maintaining the SRN per lane mile measure.	Met	The maintenance cost per lane mile for 2014-15 was £51k.
An efficiently and effectively operated strategic road network	4: Network Availability	Monitor and report on network availability, reported as the percentage of lane kilometres available on the SRN, to provide a direct indication of how well both planned and unplanned activities are managed to reduce negative impacts on road users.	Met	Year to March 2015 average availability: 98.46%.
	5: Journey Time Reliability	Maintain the annual national reliability level, as measured by the on time reliability measure, to that for the year ending March 2013. The figures used to assess performance will be those reported once re-baselining has taken place.	Met	On-time reliability improved to 78.7% from 77.6% in March 2013.
		Greater focus should be placed on decreasing the variability of performance on similar road types. The network operator should segregate the SRN into the following link types by the end of year one of the specification period: • Managed motorway links • Uncongested rural motorways links • Congested rural motorway links • Urban motorway links • All purpose trunk road links	Met	Achieved.
		Journey time reliability should be measured and reported on the link types set out above in year two of the specification period with a view to setting a target for performance from 2015-16. Particular reference to the change in reliability should be made where links have been upgraded within the performance specification period.	Met	Report on reliability by link type produced. Conclusion that segregation does not provide a useful classification for performance measurement, and makes recommendations going forward.

Outcome	Output	Requirement		Performance
An efficiently and effectively operated strategic road network	5: Journey Time Reliability	Complete a piece of work by the end of March 2015 which: Builds understanding of how the investment, and therefore activities, it undertakes affect the on time reliability performance of the network.	Met	We looked at various measures and compared how effective they were at showing the impact of major schemes on journey time reliability. The recommended measures will be used in POPE of major schemes. It gave early warning of the performance issues of some managed motorway schemes.
		Complete a piece of work by the end of March 2015 which: Investigates whether there are other measures of reliability, aside from the on time measure currently used, which could help reflect how, and to what extent, the network operator's investments and interventions affect the reliability of the SRN.	Met	A piece of work has been undertaken examining the On Time Reliability Measure for parts of our network where there has been large scale investment.
	6: Safety	Monitor the annual road fatalities on the SRN.	Met	Targets established and monitoring process in place.
		Work with others to introduce and/or continue with measures which reduce the numbers killed or seriously injured using and working on the SRN.	Met	A range of initiatives and partnership opportunities have been explored to support the destination statement and vision that "no-one should be hurt on our roads".
		The Strategic Framework for Road Safety 2011 includes forecasts for the reduction in those killed or seriously injured on Great Britain's roads. The document states that by 2020 a 40% reduction against the 2005-09 average in those killed or seriously injured on the roads can be expected. The network operator should work towards this aspirational goal, and by the end of this specification period they should demonstrate their trajectory year on year.	Result not yet verified	DfT publishes safety data end June 2015.
		Aim to reduce the numbers of road workers killed or seriously injured whilst undertaking activities on the network operator's behalf, seeking a reduction in the accident frequency rate from the 2012-13 figure.	Not Met	Accident Frequency Rate 0.14 against 2012-13 baseline of 0.12.
	7: Incident Management	Reduce the overall mean duration of incidents on motorways against 2012-13 figures. The network operator should therefore report on and target reductions in the mean incident durations nationally for the following incident types on motorways: Breakdowns in live lanes - Debris - Road traffic collisions damage only - Road traffic collisions minor injury - Road traffic collisions killed and seriously injured	Not met	Despite 'CLEAR' initiatives and improved traffic officer patrolling strategies, monthly incident durations haven't improved when compared to the 2012-13 baseline. [March 2015: 27 minutes; April 2013: 26 minutes].
		Report on the regional variations of incident duration times, segregated by the above categories.	Met	Reported monthly to DfT.
	8: Information Provision	Devise an information plan, by March 2014, which identifies how more accurate, timely and useful information will be provided to users both before they set off and during their journeys. The information plan will develop the concept of using data to drive knowledge, the provision of information and action in a continuous process to improve the operation of the SRN.	Met	Highways Agency developed an information plan which identified how useful information could be provided to users before they set off and during their journeys.

Outcome	Output	Requirement		Performance
An efficiently and effectively operated strategic road network	9: Efficiency	The major roads programme should be delivered on time and to budget. Achieve cost performance and schedule performance indexes (CPI/SPI) of at least one for major schemes programme.	Met	CPI and SPI for schemes in construction have both achieved the target of 1.00.
		Report the percentage of appraised major project spend which is assessed as good or very good value for money.	Met	100%
		Demonstrate the benefits realised through major schemes delivered during the specification period as part of the post opening project evaluation (POPE) process.	Result not yet verified	Schemes delivered in this specification period will not all fall within the current evaluation process.
		The network operator should also review how it is learning from the findings of the POPEs and disseminating this information.	Met	Review undertaken of how Agency is learning from POPE findings, and disseminating this information across stakeholders.
		20% savings across the programme of 20 major schemes funded since the spending review 2010.	Met	Savings exceeding 30%.
		20% savings in the network operator's traffic management budget due to the roll out of the future operating model for the Traffic Officer Service by the end of 2013-14.	Met	Savings of 39% and 40% in 2013-14 and 2014-15 respectively.
		Reduction of annual maintenance spending from an average of £900m to £700m by the end of 2014-15.	Met	Annual average savings of £715m over 4 years achieved. Criterion for success is annual average below £750m.
		Pilot accelerated delivery of 4 major schemes. M3 Junctions 2 - 4a, M6 Junctions 10a-13, M1 Junctions 28-31, A160/A180 Immingham dualling.	Substantially Met	All 4 schemes are forecasting completion later than the original target date, but well ahead of the standard timetable.
	10: Resilience	Ensure that the SRN remains safe and available to road users throughout the year and that the necessary precautions and preparations are undertaken to ensure this is the case. Severe weather plans should continue to be developed and adhered to when a severe weather event occurs.	Met	The fourth edition of the Highways Agency's Crisis Management Manual was published in October 2014, including lessons learned from the previous winter.
A strategic road network which minimises its negative impacts on users, local communities and the environment	11: Environment	Continue to assess the risks that climatic changes pose to its role as network operator and develop appropriate responses to reduce these risks as set out in the HA's Climate Change Risk Assessment 2011 document.	Met	Climate change risk register reviewed regularly. Mitigation actions progressing. Transport resilience review has climate change action which is in hand.
		Deliver its contribution to the Greening Government commitment by achieving a 22% reduction in its carbon emissions by 2015 against the 2009-10 baseline.	Not met	20% reduction in greenhouse gas emissions achieved.
		Work with the supply chain to minimise supplier carbon emissions when undertaking activities on the network operator's behalf.	Met	New carbon accounting tool which will meet the needs for future supplier performance metrics.

Outcome	Output	Requirement		Performance
A strategic road network which minimises its negative impacts on users, local communities and the environment	11: Environment	Investigate 'Important Areas', identified by Defra, that are impacted by noise, and treat 'Important Areas with First Priority Locations' as a priority. Maintain the practice of taking noise measurements where necessary in the locations of road improvement schemes.	Met	All important areas investigated.
		Work with partners to achieve its commitments on air quality, and fulfil its role as statutory consultee to the local air quality management process.	Met	Work with stakeholders is in the context of a wider strategic approach for Air Quality, which will use the powers and independent position of Highways England to deliver interventions.
A strategic road network which balances the needs of individuals and business that use and rely on it	12: Customer Satisfaction	Maintain the overall national customer satisfaction level to that reported for the year ending March 2013, as currently reported through the national road users' satisfaction survey.	Not met	Customer satisfaction fell to 88.51% (from 90.73% in March 2013).
		Demonstrate a clear link between its business decisions and customer feedback, and disaggregate the national customer satisfaction level to identify the areas of performance which should be targeted for improvement.	Met	Significant activity to improve customer experience undertaken across Agency.
		Conduct a review of the customer feedback channels currently available to improve the network operator's understanding of customer perception in relation to the outputs contained in this performance specification. The network operator should suggest any amendments to customer feedback channels that are needed to accurately judge the effects of the performance specification on customer satisfaction. This review should be initiated at the end of year one and be completed by the end of this specification period.	Met	Review undertaken, and a Customer Experience group was created as a result.

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