Highways England
Annual Report and Accounts
2015-2016

Highways England

Annual Report and Accounts 2015-2016

Presented to the House of Commons pursuant to Section 7 of the Government Resources and Accounts Act 2000

Ordered by the House of Commons to be printed 13 July 2016

HC 529

This publication is available at **www.gov.uk/government/publications**

Any enquiries regarding this publication should be sent to us at: **info@highwaysengland.co.uk**

Print ISBN 9781474134279

Web ISBN 9781474134286

ID 2815682 07/16

Printed on paper containing 75% recycled fibre content minimum

Printed in the UK by the Williams Lea Group on behalf of the Controller of Her Majesty's Stationery Office

Contents

Highways England's role is to operate, maintain and modernise England's motorways and major A-roads, known as the strategic road network.

- **Traffic England:** http://www.trafficengland.com/
- **Customer Contact Centre:** 0300 123 5000, info@highwaysengland.co.uk
- **Contact centre details published at:** https://www.gov.uk/government/organisations/highways-england
- **Twitter:** https://twitter.com/highwaysengland or @highwaysengland
- **App:** It's called "Live Traffic Info"; get it from Google Play, iTunes or Blackberry app store; links and info about the App published at: http://www.highways.gov.uk/mobile-services/

Section 1

Chairman’s statement

Colin Matthews CBE explains how we have focused our attention on our three key priorities over the year

Roads matter to our society. They connect businesses with customers, and bring friends and family together. In particular, England’s strategic road network of motorways and major trunk roads is vital, carrying one-third of all passenger traffic and two-thirds of all freight.

To support economic growth and its longer-term vision for a strategic road network, the Government allocated £15bn to the Road Investment Strategy to start in 2015. As a key part of this strategy, Highways England Company Limited was established, owned by the Department for Transport. Building on the strong legacy of the Highways Agency, Highways England is determined to deliver the Government’s ambitious strategy.

At the end of our first year, I am pleased to report good progress. The Board has focused on three key priorities. These are to:

- make our roads safer for all users, including those who work on them
- improve the experience of all road users
- deliver the Government’s five-year Road investment Strategy.

Colin Matthews, CBE
Chairman

Making our roads safer

Although it is encouraging that our motorways and trunk roads have become safer over the years and rank amongst the safest in the world, there are still too many people who are killed or seriously injured. The 2015 national statistics on the reported road casualties in Great Britain shows a decrease in the number of people who were killed or seriously injured from 1,853 (in 2014) to 1,787 (in 2015). We regard it as our utmost priority to reduce this number further.

To achieve our safety ambitions will take time, persistent hard work and energetic collaboration with individual road users and many different organisations. As an important first step towards this, we have developed a five-year safety plan about which you can read more in Section 4.

Improving our service to road users

We are determined to improve customer service, even as the number of road users rise and as increased investment leads to more roadworks in the short to medium term. For example, we are working to provide more accurate and timely information to drivers; to manage traffic flows better on busy stretches to reduce congestion; and carry out roadworks in ways which minimise the impact on road users.

At the same time, we are working to minimise our footprint on the natural and built environment. We aim to find imaginative and sustainable solutions to environmental challenges whether these involve taking traffic away from important historic sites or helping to protect landscapes. You can read more on this topic in Section 6.

Delivering the Government's Road Investment Strategy

Increased investment is welcome and presents us with some demanding challenges. Delivering such large-scale improvements to the highest standard, and offering the best possible value for taxpayers' money, requires a significant increase in the technical and commercial capacity of Highways England.

Over the year, we have started to recruit people with the specialist skills that are needed to meet our workload. Our partners in construction companies are doing likewise to commit the necessary resources that the five-year plan demands.

In addition, Highways England is re-evaluating how to get the best results in working with our supply chain partners. For example, we are developing a new approach to road maintenance whereby Highways England will take a more direct lead in deciding when work is to be completed. To do so requires us to maintain within the company a detailed understanding of road condition, something which in recent years has been done by our supply chain partners. There is more about our new asset-led delivery model in Section 5.

Working with new partners

The launch of Highways England has also required us to forge strong new relationships, notably with the Highways Monitor, a directorate of the Office of Rail and Road, whose role it is to monitor our performance through regular reviews. We have also worked closely with Transport Focus, the road-users' watchdog organisation. The newly-formed 2,000-strong Customer Panel represents our customers and stakeholders across our network and they help inform our actions by clarifying customer needs through a range of research methods.

We are strengthening our capacity to engage with key regional bodies such as Transport for the North and the combined authorities. We are also working more closely with local enterprise partnerships, regional businesses and developers to achieve highly positive results for local communities. For example, the Growth and Housing Fund, established in the Road Investment Strategy, has allowed us to plan road improvements which can then unblock housing and employment projects, greatly benefiting local people and enterprises.

The longer-term future

We support wholeheartedly the Government's aim that by 2040 the strategic road network will be smoother, smarter and more sustainable. This work represents a major investment in the country's infrastructure, and, by harnessing the best technology, engineering and construction expertise, will bring significant gains to the country. Accordingly we are already looking beyond the first five years to prepare for the next period of investment.

I thank everyone who works at Highways England and our colleagues across our many partner organisations for their energy, skills and commitment in getting our new company off to an assured start.

I am grateful to Graham Dalton who successfully led the Highways Agency in the years leading up to its transformation into Highways England. I also thank both Ginny Clarke and Stephen Dauncey, who retired from the Board in 2015-16, for all they have contributed.

Colin Matthews
Chairman

Section 2

Chief Executive review

Jim O'Sullivan, Chief Executive, Highways England

Our customers expect safe, reliable, uninterrupted journeys on a modern, well maintained road network. At Highways England, we are responsible for the Government's five-year programme of work to deliver the £15bn Road Investment Strategy. It is an exciting and demanding challenge.

I joined as Chief Executive in July 2015 and it has been a privilege to lead the company during its first year of transformational change. This year everyone across the organisation has invested their skills and talent to develop our three imperatives: to make our roads safer; improve customer service; and deliver the road investment programme.

Jim O'Sullivan
Chief Executive

Making roads safer

We have some of the safest roads in the world, for both road user and road worker, but they are not safe enough. Each year people that use or work on our network are killed or incur life changing injuries and this is not acceptable.

This was brought into focus on 21 February 2016 by the tragic death in service of Adam Gibb, a traffic officer. Adam, 51, was killed, and a colleague seriously injured, between Junctions 38 and 37 on the M6 in Cumbria. Our thoughts remain with Adam's family and with the injured traffic officer and his family.

We are determined to make real and lasting safety improvements for our customers, and for those who work on our roads, often overnight and in very challenging conditions. We have virtually eliminated the need for road workers to have to put out traffic management signs on the central reservation of two to four lane roads. This has saved a significant number of crossings a year and substantially reduces the risk of road-crossing accidents.

The Government has set us a target to reduce the number of people who are killed or injured on our network by 40% by the end of 2020. While we cannot eliminate risk altogether, understanding the factors that cause incidents will help us improve the information to road users about road safety across our network and help us target investment more effectively.

Improving our service to customers

Our second imperative is to improve our services to all our customers.

Four million people use our network every day. We know they expect safe, reliable, and uninterrupted journeys. They also want better information to help inform decisions about their journeys and they expect us to manage roadworks better. We have continued to improve the quality of information we give them, both before and during their journey.

We have taken steps to improve the quality of the traffic information that users access through our Traffic England website. Live updates from our Traffic Control Centres include the latest on any incidents, details of current and planned roadworks, and the best routes to use at busy times. Customers can follow us on Twitter or download the new app for Android and iPhone that, among other functions, pinpoints a customer's location for up-to-the-minute traffic news.

We must keep our roads in good condition. Over the year, we exceeded our resurfacing target of 1,200 lane miles by 271 miles. Improving our network inevitably involves some level of disruption while the work is carried out. We believe that by designing roadworks differently to keep traffic flowing, we can alleviate the frustrations of road works while making sure our road workers are safe. We will be testing the benefits of raising the speed limit through roadworks to 55mph and 60mph, where safe to do so, and we plan to introduce the new limit on many of our new schemes from 2017.

The danger and impact of storms was brought home by the damage caused to Cumbria at the end of last year. At the Secretary of State's request, we helped Cumbria County Council with the repair and re-construction of the A591, which re-opened in May 2016. This is an important road for visitors and vital for the many businesses in the area which rely on tourism.

Delivering the Road Investment Strategy

The Government established Highways England to deliver its substantial investment programme in, and management of, the strategic road network.

Over the past year, we have completed five major schemes: four in the Midlands and one in the North East and Yorkshire region. Three of these involve smart motorway schemes on the M1 and M6, opening up an additional 90 miles of lane capacity to reduce congestion. In Section 6 we outline the schemes across the different English regions that are currently under construction, in development, or in the planning or assessment stages.

The Road Investment Strategy also recognises the importance of pursuing environmentally sustainable solutions. We seek to mitigate the impact of particular schemes on local communities, vulnerable users and wildlife habitats.

We are active participants in the Government's sustainability framework of actions to improve air quality. We established an Air Pollution Strategy Board with representatives from the Department for Transport, the Department for Environment, Food and Rural Affairs and the Office for Low Emission Vehicles, which has worked effectively throughout the year. We have started six air quality pilot studies that will provide valuable data for how we manage future operations.

Concerns about noise represent the highest number of complaints we receive and we have committed to mitigate at least 1,150 Noise Important Areas over the next five years.

We have a Design Panel that advises us about the particular sensitivities of our schemes. It is chaired by our Chief Highways Engineer and includes stakeholders, such as Historic England and the National Trust. The Panel has helped us to develop how to better integrate our schemes into the environment and communities that they serve. More information on our environmental work is in Section 6.

Building constructive relationships

We seek and work towards building constructive relationships with our many stakeholders and partners who play a vital role in influencing and delivering our work.

The Office of Rail and Road monitors the performance of our delivery through regular reviews, which are published on their website.

The independent watchdog, Transport Focus, is key to helping us improve our customer service. With their support, we established a Customer Panel of 2,000 people. This has provided us with valuable feedback on a number of topics over the year.

We have stepped up our engagement with local authorities and other strategic bodies, such as Local Enterprise Partnerships, Transport for the North and Midlands Connect. This makes sure that our network links seamlessly across all regions and to vital hubs, such as airports and seaports.

Working with the freight and logistics industry, we have improved our understanding of the ways in which they use our network across the country. The importance of this work was vividly brought home to me by the disruption caused by Operation Stack only weeks after I joined.

Operation Stack is a last-resort solution when heavy goods vehicles are parked-up on a closed section of motorway after Channel crossings are disrupted. In June and July 2015 we deployed this solution 23 times on the M20 in Kent. While effective in dealing with the immediate issue, it causes major disruption, not only in Kent but also for the freight industry, and this has implications for the wider economy. Working with the Secretary of State and Kent County Council, we identified alternative temporary solutions and, at the request of the Government, we have completed a consultation on possible locations for a lorry park that would allow heavy goods vehicles to be parked away from the motorway.

Financial update

The stability of our five year capital funding enables us to maintain and enhance the strategic road network. It underpins the long-term plan, meaning that we can engage more effectively and work more strategically with our major contractors. Showing them the likely pipeline of future work and giving them a better insight into our plans will result in efficiency savings for both parties.

2015-16 was the first year of our five-year plan. We invested £663m on network renewals schemes and £1.1bn on improvements. Section 6 details that we opened a number of major projects to traffic including smart motorways and widening schemes.

Efficiency savings

The Road Investment Strategy sets a challenging target of delivering £1.2bn of efficiencies from our capital investment programme over the next five years.

In 2015-16, we have reported in excess of our £33m year one target spread across the capital improvement and renewals programmes. We have developed a clear strategy to identify where we can make further efficiency savings and deliver even more value for money across our activities. The Finance Director's review in Section 8 provides further detail on our efficiency programme.

Organisational changes

Our transformation from agency to company is a significant one. We employ 3,851 people across seven locations with 1,648 of our staff working within the Traffic Officer Service. Towards the end of this financial year, we implemented a new organisational structure. This brings together the management of our network and customer services activities, which most directly impacts on road user daily experiences, while enhancing our capability in key delivery areas such as IT, critical to providing timely and accurate information to road users. The reorganisation will give us a stronger basis to support our three imperatives of safety, customer service and the delivery of the Road Investment Strategy. We are phasing these changes throughout the 2016-17 financial year.

We must be ambitious in our recruitment and training in order to attract and retain the skills we need to deliver the strategy particularly in engineering, technical expertise, supply chain management and project management. Our Delivery Plan forecast that we would recruit 600 new staff during the year. We successfully recruited 439, with a further 220 internal promotions or transfers and have plans in place to recruit a further 768 staff in 2016-17.

Looking forward

The Road Investment Strategy is a bold and long-term investment in our country's infrastructure. However we recognise the challenge of maintaining delivery as the volume of works and investment increases. It involves bringing together the talent and innovation of new technologies with the highly-skilled expertise of the engineering, construction and financial sectors.

The Government has recognised that long-term planning is essential in its Road Investment Strategy. Next year our challenge is to start planning in earnest for the next stage of the investment in 2020 and beyond so that the aims of the strategy are met for the future.

The people here at Highways England and our partner organisations have worked hard during our first year as a company. Together we shall continue to improve our network to bring tangible and lasting benefits to our customers, communities and country.

Overview

A snapshot of our performance against our KPIs

Target: We must achieve a score of 90% road user satisfaction by March 2017.

We achieved **89.32%** in year.

Target: We must report on the number of new and upgraded crossings.

We have completed design on **49 new** and **172 upgraded crossings**.

Target: We must ensure that 95% of pavement (the carriageway) requires no further investigation for possible maintenance.

We achieved **95.4%**

Target: We need to make capital expenditure savings of at least £1.212bn by 2019-20.

We identified **£54.5m of efficiency savings** against our 2015-16 target of £33m. (Subject to final validation by Highways Monitor.)

Target: We must make sure there is 97% lane availability in any one year to support the smooth flow of traffic.

We achieved **98.4%**

Target: We must publish a Biodiversity Action Plan by 30 June 2015 and report annually on how we have delivered against the plan.

We published our plan on the 29 June 2015 and established a Biodiversity Technical Working Group to help with the development of projects. Our first annual report was published in February 2016.

Target: We must clear at least 85% of incidents on the motorways within the hour.

We achieved **85.96%**

Target: We must mitigate at least 1,150 noise important areas by 2020.

We delivered **48 noise mitigation schemes** in the year.

These results have been validated and recalculated by our Internal Audit team.

An at-a-glance guide of our year

Performance headlines

Improving safety

We have appointed Regional Safety Coordinators, together with a requirement for tools and associated guidance to be developed, to help regions establish their own Incident and Casualty Reduction Plans.

Improving customer service

Our new Customer Panel provides valuable insights on key areas of our work and helps us develop policy.

Adding capacity [delivering RIS investment]

We completed three smart motorway schemes, which added around 90 extra lane miles capacity to our network. We also completed the A453 widening scheme (creating a dual carriageway link from Nottingham to the M1) and widened the A14 Kettering bypass. More detail is contained in Section 6 – delivering the Road Investment Strategy.

Improving our network

A number of new schemes started construction on schedule and are forecast to contribute 130 lane miles towards our commitment of starting 480 lane miles of smart motorway during this investment period.
More detail is contained in Section 6 – delivering the Road Investment Strategy.

Trans-Pennine study

We have started work on the Trans-Pennine Upgrade Programme, which aims to improve the safety and environmental issues associated with the route.

Accessibility of network for vulnerable users

Of the 44 named cycle schemes in the Delivery Plan, 21 schemes are complete with a further 19 schemes due for completion by the summer of 2016. An additional programme of reserve schemes was taken forward with nine of these completed in early 2016.

Supporting economic growth

We carried out an intense programme of engagement with all 39 Local Enterprise Partnerships (LEPs) across the country, exploring the local economy and growth plans, and our role in supporting these.

We invested

Over the year we invested a total of £663m in renewing road surfaces, structures and technology assets.

Making our network safer

The safety of our customers and those who work on our network is our first imperative.

Our aims and commitments

Too many people are killed or seriously injured every year on motorways and trunk roads.

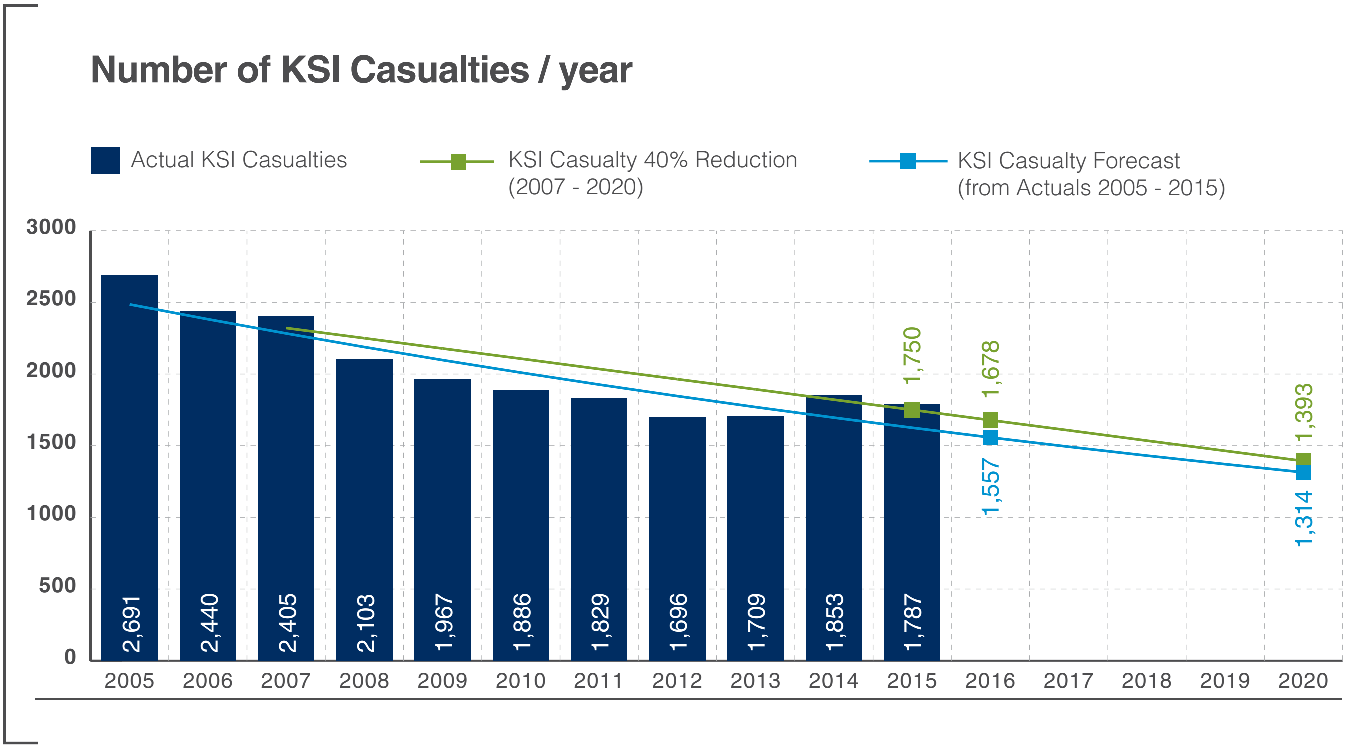
No one should be harmed when travelling or working on our network. To that end, our aim is to reduce the numbers of killed and injured by 40% by 2020, and as close as possible to zero by 2040.

TARGET - We must achieve a 40% reduction in the number of people who are killed or seriously injured on our network by the end of 2020.

What this means for us

England's roads are among the safest in the world and the number of people killed or seriously injured has fallen by around 40% since 2000. Road user casualties have reduced year-on-year until 2013, when an increase in the overall rate was reported. In 2014, the upward trend continued, with 1,853 people killed or seriously injured on our network.

Headline figures for 2015 show an overall reduction in the number of reported collisions and casualties, with killed and seriously injured (KSI) casualties decreasing 3.6% from 1,853 in 2014 to 1,787 in 2015. This takes KSIs above the 2015 monitoring value of 1,750, as highlighted in the chart below but within the 5% parameter agreed with the Department for Transport.



Our delivery over the year

In the publication: Health and Safety – our approach outlined, we highlighted the five key elements that are needed to secure positive health and safety results:

- leadership and culture
- competent people
- managing risk
- measuring performance
- engaging with stakeholders.

We launched our National Incident and Casualty Reduction Plan, which outlines the framework for the Safe System - an approach that considers every aspect of an incident: (i.e. leadership and management; roads; vehicles, people; and the post-collision response).

We appointed Regional Safety Coordinators, alongside the development of tools and associated guidance, to help establish the Incident and Casualty Reduction Plans. We have also developed a forecasting tool that will help us identify how we can reduce the number of casualties.

Case Study

Hard shoulder abuse project

Motorists have always seen the hard shoulder of a motorway as a safe haven where they can pull up if they are in difficulty. Sometimes, however, the hard shoulder is abused when drivers use it as a way to avoid a traffic jam.

Aim

To trial a system on our smart motorways that identifies vehicles that abuse the hard shoulder and encourages a positive behaviour change.

Actions

Highways England led the collaboration of the Police, Safety Camera Partnership and Motorway Operations to trial a new system. Working together we delivered a unique approach to identifying the offending vehicles and their owners. Warning letters were issued with supporting educational information.

Results

Fewer repeat offences have been noted, leading to a significant reduction in abuse, thereby bringing improvements in road safety. The trial also offered interesting insights into driver behaviour - for example, drivers are more likely to use the hard shoulder illegally after seeing other drivers using it.

We are taking forward the Smart Motorway Compliance Programme, which includes a range of engineering, education and encouragement activities to improve compliance.

As part of this programme we received a Prince Michael of Kent International Road Safety Award for the innovative and effective delivery of the Dynamic Hard Shoulder Abuse project.

Case Study

Research into causes of fatal collisions

Aim

To identify the root causes of why fatalities occurred by analysing police data against our Safe System framework.

Actions

We have developed a strong working relationship with the National Police Chiefs' Council through our work with the National Roads Policing Intelligence Forum.

The partnership helped us carry out valuable research into fatal collisions on the strategic road network in 2014. For the first time this meant we could analyse fatal collision information from across police forces against the Safe System framework to identify the root causes of why fatalities occurred.

Result

We will report the results of the research in September 2016 and use it to identify future programmes of work to reduce the risk of death and serious injury on our roads.

Case Study

Identifying non-compliant tyres

Aim

To improve the use of compliant tyres on vehicles through identifying the use of non-compliant tyres.

Actions

The North West Regional Safety Coordinator, working closely with the Safer Roads Group, identified an opportunity to use emerging technology to identify non-compliant tyres on vehicles which use our roads.

The Regional Control Centre demonstrated to our partners across the North West the use of hand-held laser tyre scanners.

Result

Following this demonstration, local safety partnerships across Cheshire, Lancashire, Merseyside, and Greater Manchester agreed to use the new technology to raise the profile of tyre safety to our customers.

The first of these events was held at an NHS hub in Warrington, where the demonstration was positively received. It was also a great opportunity for face-to-face discussions about the importance of tyre safety in general.

Improving customer service

Improving customer service is our second imperative.

This section explains how we are working to deliver:

- customer satisfaction
- a more serviceable network
- a free-flowing network
- an accessible and integrated network
- building collaborative relationships.

1. Customer satisfaction

Our commitment and objectives

The Road Investment Strategy sets out the expectation that we will improve customer satisfaction to 90% by the end of March 2017 and maintain it at this level or higher.

What this means for us

Satisfaction is currently measured using the National Road User Satisfaction Survey (NRUSS). One of our Delivery Plan requirements is to develop a better understanding of what makes customers satisfied, or not, and measure performance against those factors, for example, incident-related congestion. Our Delivery Plan also commits us to working with our consumer watchdog: Transport Focus, to develop a replacement for the NRUSS. More detail on this activity is provided in the box overleaf.

TARGET - We must achieve a score of 90% road user satisfaction by March 2017.

Our delivery over the year

We published our Customer Service Strategy in December 2015, which provides a high-level overview of our strategic approach in:

- delivering the basics
- improving our service and network
- engaging with our customers.

The strategy can be found on www.highways.gov.uk

The NRUSS is conducted throughout the year and we receive a monthly satisfaction score. The 2015-16 year-end satisfaction score of NRUSS respondents who are 'very' or 'fairly satisfied was 89.32%.

NRUSS measures satisfaction through:

- journey times
- information and signs
- management of roadworks
- feeling safe
- up-keep (of our network).

We acknowledge that the most recent NRUSS result is only just below our target and we know how vital it is to minimise the disruption that roadworks cause. We are determined to achieve the improvement in customer service that road users expect, and we are making changes in a number of areas. These are discussed in more detail below and include:

- supporting the smooth flow of traffic
- keeping our network in good condition
- ensuring we have a safer network.

Each area of work is monitored through one of our Key Performance Indicators (KPIs).

Communicating more directly with our users

Customers want to be updated about road conditions before they set off. We have developed tools to help road users access the latest news and information through:

- the Traffic England website, with up-to-the-minute updates on any incidents, weather change and current and planned roadworks
- our hands-free mobile app
- www.highways.gov.uk which has details of our plans and progress.

Our Customer Panel brings valuable insights about key areas of our work and helps us develop policy.

Working with Transport Focus to measure customer satisfaction

transportfocus

Aim

To pilot the use of a single measure that asks 'how satisfied were you?' with scope for individual comment.

Method

The main survey will be online and will involve drivers of all kinds of motor vehicles (cars, buses, coaches, light and heavy goods vehicles). A separate survey is also planned that will collect views from commercial companies and others who rely on our network for their businesses, such as logistics companies and coach operators.

Transport Focus is reviewing how best to seek views from cyclists, pedestrians and other vulnerable road users. The plan is to develop a panel of around 20,000 vehicle users using the DVLA database. Cyclist and pedestrian users will be included through other methods.

Transport Focus has also supported us by arranging research on road users' insights to help us develop our strategies.

Our Customer Panel – valuable insights

We obtain customer feedback in a number of ways including our Customer Panel, which has 2,000 members. The panel has already provided valuable customer insight on topics such as:

- the expressways concept
- customer awareness of smart motorways
- air quality
- winter weather campaign
- customers' frustrations.

We will be asking the Panel for feedback on:

- reasons why customers do and don't use the M6 Toll Road
- the Customer Contact Centre transformation
- the mobile services app (phase 2)
- a new incident performance measure
- the variable message sign: U-turn messaging
- our Traffic Officer services.

2. A better maintained network

Our commitment and objectives

Keeping our network in good condition for all our customers is a core requirement of the Road Investment Strategy.

Highways England is committed to improve the maintenance of – and operations on – our network to give the best possible service to road users. As part of this, we committed to updating our asset management policy, and improving asset information, by August 2015 and producing a strategy for the work by April 2016.

What this means for us

We stated in our Delivery Plan that we would invest £3.658bn in renewing our network by the end of this investment period (2019-20) and to maintain the carriageway (often referred to as the 'asset' or the 'pavement') in good condition to ensure it does not fall below the 95% target. The target is the percentage of the carriageway that does not require any investigation for possible maintenance.

During our first year we have invested £663m in renewing road surfaces, structures and technology: 18% of the total planned investment within this first five year period.

Our delivery over the year

During the year we continued to:

- monitor the condition of the carriageway to check that it was in good condition
- start our renewals and maintenance programme
- carry out investigations where inspections showed this was necessary.

We exceeded our target on our KPI for investigation. The measure excludes the carriageway (which is managed by the DBFO (design, build, finance and operate) companies under Private Finance Initiatives. We have ensured that 95.4% of the network does not require further investigation.

TARGET - We must ensure that 95% of pavement (the carriageway) requires no further investigation for possible maintenance.

Percentage of pavement asset that does not require further investigation

Our programme of planned renewals and actual renewals is summarised in the table below.

Unit cost	Planned renewal	Actual renewal
New road surface	1,200 lane miles	1,471 lane miles
Vehicular barriers (VRS)	178,000 linear metres	144,350 linear metres
Lane miles of drainage	230,000 lane miles	231,000 lane miles
Technology renewals and upgrades	375	381

Changing our contracting model

We are committed to improving how our roads are maintained and operated so that we give the best possible service to road users. During the year we started work to fundamentally change our maintenance operating model and to enhance the way in which we organise the management and procurement of our asset delivery.

The new asset-led delivery model

This new model, currently developed for the East Midlands means that Highways England will, for the first time, directly manage its assets rather than contracting out the responsibility through its supply chain. The new operating model is based on the following core principles, namely to:

- ensure a healthy and safe working environment
- own and have visibility of asset information, cost and productivity
- own and fully understand key investment and maintenance planning decisions
- own and maximise the planning and order of works to manage network occupancy
- develop active, collaborative relationships with suppliers delivering the work.

Building a service based on these principles will help us deliver a safe service to road users and our workforce. Direct ownership of decision making will be based on an improved knowledge of asset information, cost, and productivity and allow us to use our resources more efficiently and flexibly.

New contracts have been drawn up to work within these new arrangements:

- **Maintenance and response contract** – a single supplier that will provide routine maintenance and respond to incidents for up to 15 years
- **Design services contract** – a single supplier that will be appointed for five years. Duties will include preparing technical designs and undertaking supporting work for capital projects
- **Construction works framework** – this framework is made up of 14 lots representing the construction expertise required to maintain, repair, renew and improve the strategic road network in the East Midlands
- **Specialist goods and services** – a series of separate tenders including technical surveys, laboratory testing, road safety audits, principle and general inspections and weather forecasting.

Improving our data to manage our assets

To develop a longer-term and more integrated view of maintaining and modernising our network, we need better knowledge of all of our assets. The basic principle being that, when affordable, we will carry out all of the necessary works in one go on a stretch of our network without having to return for at least five years to do more work.

We are in the development stage of building a better asset data system and will bring it online when it has been fully tested.

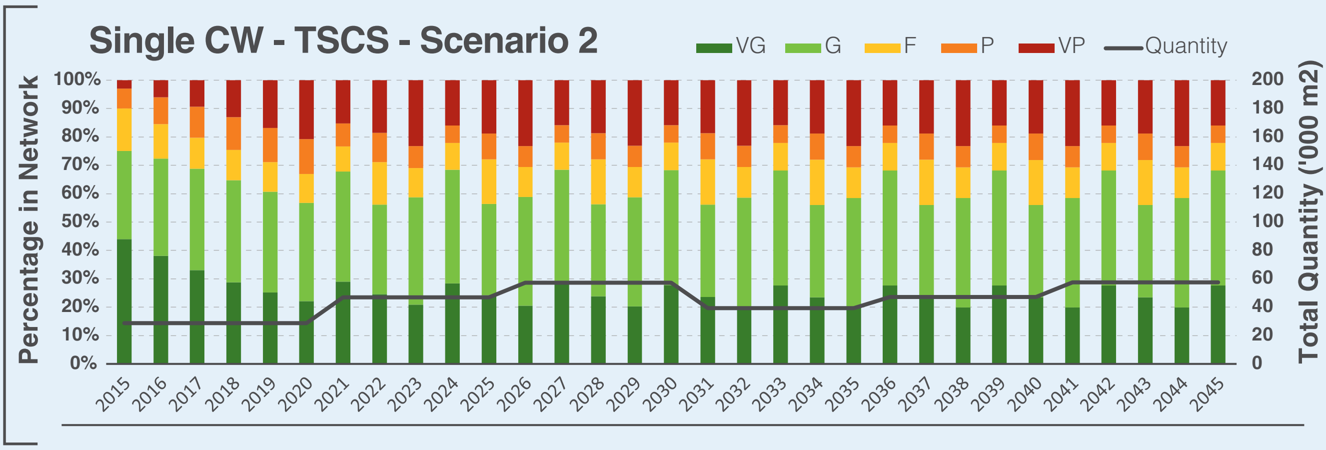
Case Study
The Lifecycle Asset Management Plan (I-AMP)

Our development of the asset management system in 2015-16 included the completion of our first batch of I-AMPs, to support the new asset-led delivery model.

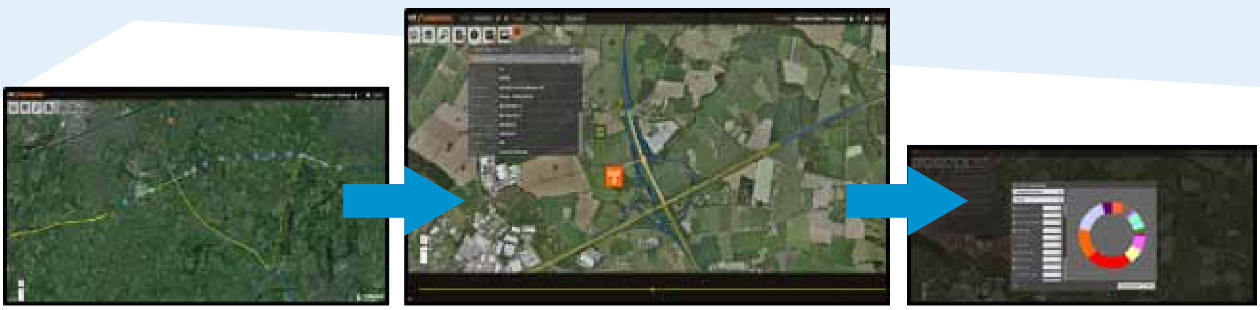
Using specialist modelling tools for each of the key asset types, we considered the needs of these assets over the next 30 years to predict required investment levels to sustain the performance of our network.

Within the I-AMP development process, asset inventory, condition, performance and cost data is gathered and cleansed before importing into decision support software tools. These tools apply asset deterioration and intervention rules to determine the 'whole-life' needs of the asset.

The modelled output is consolidated with the existing investment programme. The I-AMPs provide a projection of asset condition profiles into future road periods, which are informing asset investment decisions at area level. We are producing investment profiles, such as the one shown below depicting the outcome pavement condition for a set investment level.



As we develop the I-AMPs we have started to import the long-term programmes from across all asset types into our visualisation tool. This will enable our asset managers to start to identify potential opportunities for cross-asset rationalisation and to realise potential efficiency savings through the alignment of capital improvements with renewals and maintenance. The screen shots below are from our pavements decision support tool developed to model future asset condition and identify where we can implement our interventions to best effect and maintain the asset condition into the future.



3. A free-flowing network

Our commitment and objectives

Our aim is to reduce delays on our network and make sure that lane availability does not fall below 97% in any one year and that 85% of all motorway incidents are cleared within one hour. We are also committed to providing more effective information well in advance of peak journey times to help our users plan ahead or avoid congested areas following an incident.

What this means for us

We will use the designated Innovation Fund to deliver incident detection technology on our network. This will help us identify and respond to incidents more quickly.

Our delivery over the year

TARGET - We must make sure there is 97% lane availability in any one year to support the smooth flow of traffic.

We have exceeded our target. While these results are positive, we know that some incidents take longer to clear than we would like, and that these delays are frustrating for customers. We are determined to improve the quality of the advanced information we give our customers about roadworks and after incidents have been cleared.

TARGET - We must clear at least 85% of incidents on the motorways within the hour.

We met our target of clearing at least 85% of incidents on the motorway within the hour, achieving 85.94%. Whilst these results are positive, we know that our customers can get delayed by roadworks. This is frustrating and we are determined to improve the quality of the advanced information we give our customers about roadworks.

Transforming traffic information

Harnessing the latest technologies and working closely with partners, we are starting to improve the information we give to our road users.

Central to this is our development of the Traffic England website so that it is recognised as a trusted source of information.

We launched a new National Traffic Information Service (NTIS) in December 2015, with more accurate real-time and predictive information now provided. The data is collated and processed by NTIS to create 'live events' that set the Variable Message Signs on our network, which are then published on the Traffic England website. They are also available in DATEX II format for interested third parties who can subscribe to the service free of charge.

Traffic England website

The new Traffic England website provides customers with access to:

- more up-to-date information – quicker publication of traffic information
- a more detailed view of traffic conditions across our network
- more accurate predictions of future traffic conditions
- improved resilience so that the website copes better with high demand during major traffic events
- a more contemporary and user-friendly design.

Traffic England Pro

Traffic England Pro is for haulage companies, local authorities and other professional and commercial bodies. Users can access information (such as unconfirmed events, recently completed events and RSS feeds).

This service will be password protected, but free to access for those that sign up to the service.

Advanced notification of roadworks

We know that our customers, particularly hauliers, get frustrated by the lack of advanced information about roadworks, and we are working hard with Transport Focus to improve this. We have reviewed all of our processes, including monitoring our data quality, to identify where we can improve our service.

The new system - called the Network Occupancy Management System (NOMS) is anticipated to replace our current Scheduled Roadworks (SRW) system later in 2016. This will help improve data validation and the accuracy of roadworks information.

Planning and managing roadworks

Another crucial factor in achieving free-flowing roads and maximum lane availability is how effectively Highways England plan and manage roadworks. Through improving the quality of information on the most disruptive roadworks, and ensuring that planned roadworks are communicated more effectively, road users will be in a better position to plan their journeys.

Our traffic officers, control room operators and contact centre staff

Our traffic officers, control room and contact centre staff all play a crucial part in keeping traffic moving and are at the forefront of our network's operations. Traffic officers have a visible presence and offer face-to-face support to road users in the event of a breakdown or collision. They also help clear debris and restore carriageways to their full capacity.

Control room staff are at the core of our day to day operations. They manage the information we provide to road users across our network (for example, as a result of an incident or sudden change in weather conditions).

The Customer Contact Centre (CCC) operates 24 hours a day, 365 days a year. The CCC is the main point of contact for road users with enquiries about specific projects and the team gain valuable insights into their concerns and interests. These are used by other teams to improve the quality of information or identifying potential consultation groups for specific projects.

Our traffic officers, control rooms and the CCC are delivering a range of projects to improve how we operate, including:

- developing a new rostering pattern for traffic officers to more closely align resource to demand
- procuring a new IT rostering solution to plan and roster staff more effectively

- developing the role of traffic officers so they can better respond to incidents, for example, enabling them to identify asset repairs
- increasing single-crewing for traffic officers to increase their availability
- using different vehicles to respond better and more quickly
- attending responder meetings where key partners such as police, fire and ambulance services meet to discuss operational challenges and plan management of the roads in their region
- installing an improved command and control system in control centres for more efficient responses to incidents.

4. An accessible and integrated network

Our commitment and objectives

An accessible and integrated road network is a vital part of any effective transport system. Journeys need to be smooth and seamless so that road users have access at the times that suit them.

Our Delivery Plan commits us to working with our partners to improve integration with other key transport networks, such as local roads, existing and emerging rail links, ports and airports.

We are also committed to help provide safe, accessible routes for all users on and across our network, including making sure that vulnerable road users are kept separate from general traffic.

What this means for us

We recognise that our network has a significant effect on its surroundings and that it is important we minimise the negative impact of roads on communities. We want to be far more ambitious in our actions and bring about improvements that meet the needs of cyclists, walkers, others who interact with our network on a daily basis, as well as local road users.

Our delivery over the year

Our cycling strategy

We continue to enhance and provide safe facilities for vulnerable users through a continuing improvement programme, which is funded through our Designated Funds Programme.

Although cycling is prohibited on our motorways and is incompatible with many parts of our network, we are making sure that the needs of cyclists are supported. Working closely with different cycling groups, we published our cycling strategy in January 2016. It is available on www.highways.gov.uk

We are delivering 200 projects across the country over the next five years, which will be paid for out of the Government's dedicated funding £100m for cycling.

In 2015-16 we started construction on 49 cycling schemes, the majority of which were the 44 named schemes within the Delivery Plan. However, as a consequence of additional design work, delays in completing third party works, and adverse weather conditions we actually delivered 21 schemes by the end of March, with a further 28 schemes well advanced with completion scheduled by the end of Summer 2016. We also undertook a wider programme of feasibility and design work at over 40 locations.

Improved cycling routes

Better cycling is already evident through:

- the improvements at 11 locations along a 2.5 mile stretch of the A12 in Lowestoft, Suffolk to provide a high-quality route through the town
- a new footbridge over the A27 in Kingsham in Hampshire
- new signs on a 12 mile stretch of the A590 in Cumbria.

On the M60, between Junctions 1 and 27 in Stockport, we identified that there was no safely accessible direct link between the Trans-Pennine Trail (Sustran's National Cycle Network route 62) towards Stockport town centre because the M60 posed a barrier. A link is being constructed under the River Tame Bridge between the existing cycleway that runs adjacent to the local supermarket and route 62.

Accessibility and inclusion strategy

TARGET - We must report on the number of new and upgraded crossings.

We have completed design on 49 new and 172 upgraded crossings.

We established our Accessibility and Inclusion Strategy in May 2016, which will measure our progress through an Accessibility Working Group and will:

- publish a non-technical Annual Accessibility Report to set out progress against the strategy
- provide examples of best practice
- list our activities for the next 12 months.

We are developing an analytical tool that uses demographic, social, population and economic information on a scheme-by-scheme basis so we can identify where accessibility and inclusion efforts need to be concentrated.

5. Building collaborative relationships

The launch of Highways England has given us a unique opportunity to re-define our relationships with our partners and stakeholders. We interact with a number of different groups and our aim is to build strong and enduring relationships with a number of stakeholder groups including (but not limited to):

- our work partners, such as infrastructure operators
- our suppliers, including small and medium-sized enterprises
- motorists' organisations, such as the AA and RAC
- active regional interest groups, such as Transport for the North
- the emergency services
- those who do not necessarily use our network but who are affected by it, such as cyclists, walkers and environmental groups
- our Highways Monitor (the Office of Rail and Road), responsible for monitoring our performance
- Transport Focus, the consumer watchdog that contributes to the ways in which we measure and respond to our customers' satisfaction levels
- the Government at both national and local levels.

Our commitment and objectives

Our aim is to focus on building long-term constructive relationships so that by the end of the first five years of operating we will deliver a better service for all of our network users, while minimising the impact on the environment.

What this means for us

Inevitably, our customers, partners and stakeholders have many different – and sometimes conflicting – needs and expectations. We have to be flexible, responsive to changing requirements and proactive in delivering the right results on time.

Supplier relationships

We have placed a strong emphasis on transforming our approach to engaging with our supply chain, particularly in meeting the Government's target of a 25% spend in procuring goods and services from small and medium-sized enterprises (SMEs). During 2015-16 we have exceeded the target and spent 27% with SMEs over the year.

SMEs are actively encouraged to bid for work through a range of schemes including the Collaborative Delivery Framework. This breaks large tasks into multiple units, enabling smaller suppliers to bid for work that would traditionally have been part of larger contracts.

We have set up a Collaboration Board and an Engagement Council whose membership extends to all who supply services, goods or works to us.

The Engagement Council:

- is the prime route for collaborative engagement between Highways England and highway suppliers
- promotes innovation and improvement, sets pace and drives progress.

The Collaboration Board has elected representatives from the Engagement Council who oversees specific issues and commitments.

These include:

- seeking to enable change within Highways England and supplier organisations
- enabling change to happen by reducing barriers to change
- establishing work streams to develop and adopt best practice.

The emergency services

We are striving to improve our capability to clear incidents and reinvigorate our relationships with our partners through the Joint Emergency Services Interoperability Programme, and the CLEAR initiative (Collision, Lead, Evaluate, Act, Re-open), which outlines the steps to take.

Government stakeholder relationships

Working with our stakeholders, particularly the Government at national and local levels, helps improve our understanding of the challenges of the external environment in which we work and the impact that this might have on future policy decisions.

At the same time we have communicated regularly with all of our wider stakeholder groups, providing updates, news and background information, particularly when we published our various key strategies over the year. Many of our stakeholders were themselves active contributors to those strategies.

Equally important is being able to develop new relationships so that we can be agile and responsive to unexpected pressures and demands. A good example was Operation Stack, (see overleaf) which our Chief Executive touched on in his review.

The Highways Monitor

We have worked closely and productively with the Highways Monitor over the course of the year.

This body is a directorate within the Office of Rail and Road (ORR) and its role is to monitor

Highways England and our management of the Government's investment in the strategic road network. The ORR holds us to account, monitoring our performance and ensuring that we deliver the investment efficiently, safely and sustainably for the benefit of road users and the wider public.

They also require us to submit all appropriate data, when requested, to help them produce regular reports on our performance. These are published on the ORR website at www.orr.gov.uk

Transport Focus

The newly formed road-users' watchdog, Transport Focus, and Highways England work together to exchange surveys and information gathered from across the regions and road-user groups. This helps us be aware of the specific issues that matter to customers.

Operation Stack

In the summer 2015, the port of Calais was frequently shut because of strikes and issues with migrants trying to cross the Channel. As a result, Operation Stack was deployed by Kent Police to queue lorries to ease the gridlock. This had a great impact on local roads in the surrounding areas of Kent.

Highways England worked hard with partners, including Kent County Council and other local councils, on medium to long-term solutions to avoid similar disruption in the future.

A solution to introduce Manston Airfield into the Operation Stack portfolio was implemented. This provided short-term additional capacity to help manage the freight traffic on its way to Dover. It worked alongside the existing Operation Stack exercise to help reduce disruption on the M20.

International relationships

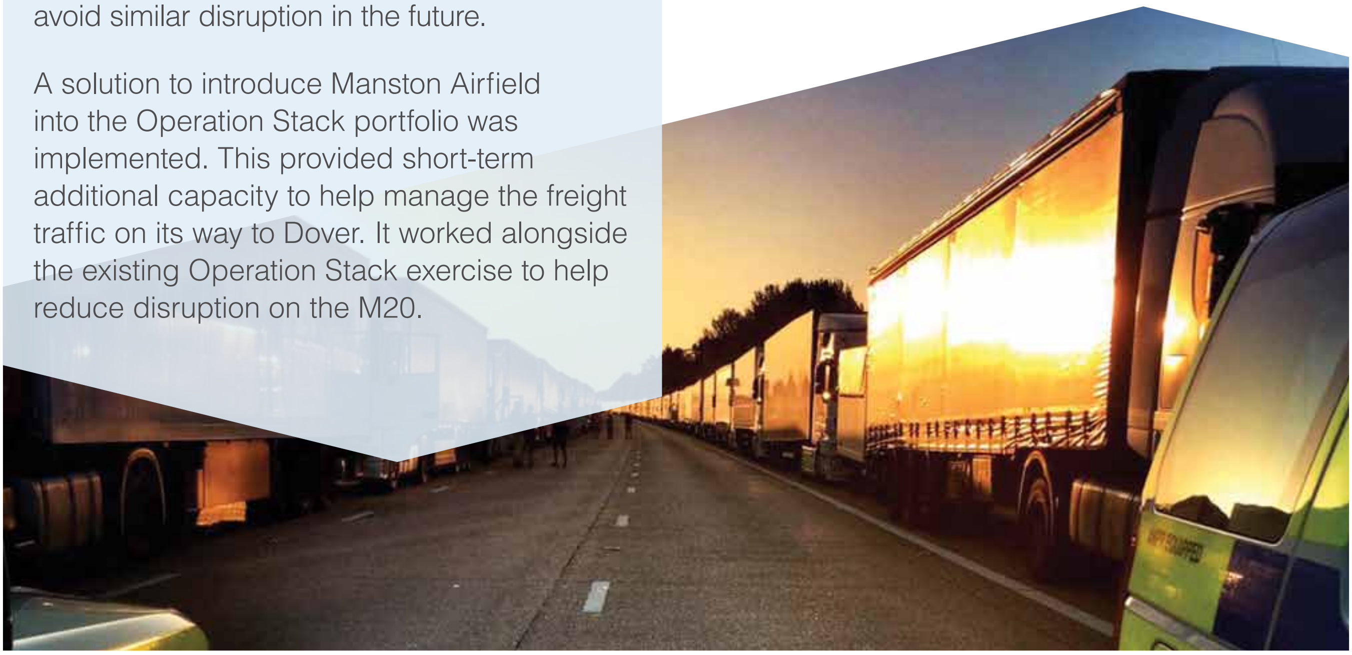
Internationally, we continue our strategic research collaboration with other European road authorities within the umbrella of the Conference of European Directors of Roads (CEDR), investing around 5% of our research budget here.

This collaboration has already delivered significantly more cost-effective research, leveraging up to eight times the value of research we would have carried out independently. It helps us avoid repetition and duplication, and gives us access to the best international practice and a wider range of suppliers.

Our CEDR membership has helped us to understand the requirements of the EU Intelligence Transport Systems (ITS) Directive and its likely impact on our business. We have also drawn on the progress of the Netherlands, Austria and Germany as they develop their ITS-connected corridors. We are using these contacts to inform our own connected corridor work, funded through the designated Innovation Fund.

Our Advanced Traffic Management System, known as CHARM, is a good example of bilateral research collaboration with the Netherlands. The first centre is scheduled to start at the North East Regional Control Centre by the end of 2017, followed by the rest of the country.

Highways England also receives visit requests from road administrations from around the world. These visits contribute greatly to mutually beneficial knowledge-sharing and collaboration.



Delivering the Road Investment Strategy

1. Our major improvement schemes

Our commitment and objectives

We have an agreed programme of major works over the next five years that total around £7bn of capital expenditure. This involves 112 schemes and the development of a further 15 schemes for the next period of investment from 2020.

This major investment in the country's infrastructure will bring many tangible benefits - from relieving congestion and reducing delays to helping businesses grow to support the economy.

What this means for us

TARGET - We need to make capital expenditure savings of at least £1.212bn by 2019-20.

Our role is to deliver an investment programme that builds growth, shortens journey times, while reducing average delay times and keeping the network as available as possible in the short term.

A significant challenge for us is to carry out major roadworks while, above all, ensuring the safety of road users and those working on our network.

The shareholder and the public, rightly, expect us and our supply chain to deliver on time and to budget while delivering capital efficiencies.

We agreed a number of performance indicators and requirements designed to measure our achievements in supporting economic growth.

These include:

- procuring 25% of our goods and services from small and medium-sized enterprises (SMEs)
- responding in a timely fashion to planning applications
- work to support the Government's five Construction 2025 goals
- continue to support the Roads Academy programme, a joint initiative between Highways England and the roads industry, which, through a two-year development programme targeted at those in our sector, aims to create significant change in how the industry thinks, behaves and performs.

We also committed in our Delivery Plan to modernise the network and introduce new technology to support the development of:

- expressways
- latest smart motorway designs
- improved information to the road user.

Our delivery over the year – summary

The capital budget allocated to us must either maintain the strategic road network or add benefits to it. The stability provided by having a long-term plan allows us to give our major contractors an insight into our plans, resulting in efficiencies for both parties.

2015-16 was the first year of our five-year plan. During the course of the year, we invested £663m on asset renewals schemes and £1.1bn on asset improvements. As we show throughout this section, we opened five major projects to traffic including smart motorways and widening schemes.

Efficiency savings

The Road Investment Strategy sets a challenging target. The £15bn capital investment programme assumes £1.2bn of efficiencies over the first five-year (plus one) period.

We have identified £54.5m of efficiency savings against an annual target of £33m, which is currently being validated by the Highways Monitor. These efficiencies are spread across capital improvement and renewals programmes. We have a clear strategy to embed value-for-money across all of our activities and work to identify where efficiencies can be made without compromising our imperatives. There is more about the measures we take to improve efficiencies in Section 8: The Financial Review.

Completed projects

Our work involves a range of measures including smart motorway solutions, junction improvements, road widening and bypasses.

In the reporting period we have completed the following five major projects. Opening these schemes added around 90 extra lane miles capacity to the strategic road network. Three of these were smart motorway schemes, which are an integral part of all our motorway projects. These roads are designed to be as safe as ordinary motorways and all evidence to date suggests this to be the case.

- A453 widening (near Nottingham)
- A14 Kettering Bypass widening (near Kettering)
- M1 Junctions 28 to 31 (Derby and Nottingham)
- M1 Junctions 39 to 42 (Wakefield and Leeds)
- M6 Junctions 10a to 13 (Stafford).

In addition we also completed improvements to junctions 5 and 7 on the M5.

Smart motorways

Smart motorways use the latest technology and active traffic management techniques to enable the hard shoulder to be converted into a running lane at the busiest times. This provides much needed capacity managed in an efficient manner. These roads are designed to be as safe as ordinary motorways and all evidence to date suggests this to be the case. We are upgrading the busiest motorways on our network to a smart motorway standard.

New schemes on schedule

The following new schemes started construction on schedule:

- A160/A180 Immingham, Humberside
- A21 Tonbridge to Pembury, Kent
- A43 Abthorpe Junction, East Midlands
- M1 Junctions13 to 19, West Midlands
- M5 Junctions 4a to 6, West Midlands
- M5 Junctions 5, 6 and 7 upgrades, West Midlands
- M6 Junctions 16 to 19, the North West.

A160 /A180 Immingham, Humberside

These schemes are forecast to contribute 130 lane miles towards our commitment of starting 480 lane miles of smart motorway during this investment period.

We have also provided funds and technical support for Staffordshire County Council to start work on the A50 around Uttoxeter that will improve access to new housing and industrial sites such as the new development by JCB.

Major contracts were awarded to further develop projects including the A14 Cambridge to Huntingdon scheme and a further 10 smart motorway schemes.

Expressways

The Government has set an ambition for A roads to be converted into high quality 'expressways'.

These expressways will offer similar features to motorways to encourage more free-flowing traffic by modernising junctions, providing emergency refuge and maintenance areas and advanced technology for better journey information.

A breakdown of what we have done over the year region by region follows.

Innovation and technology

We published our Innovation Technology and Research Strategy to be implemented over the remainder of this investment period. An associated £120m Innovation Fund for 2015-20 has helped establish key partnerships with organisations, such as Innovate UK, (the UK's innovation agency). We are already looking to use innovative solutions to:

- trial radar technology on motorways and acoustic technology at the Hindhead Tunnel in Surrey to improve breakdown detection
- join a trial that would see information sent wirelessly to specially adapted vehicles on the A2/M2 between London and Kent. The on-road technology would wirelessly transmit latest journey information directly to vehicles and could suggest, for example, changing lanes or taking an alternative route
- carry out trials for autonomous vehicles on motorways, to start collecting real-life data on performance and potential impacts on capacity and operations
- improve signalling at motorway junctions to increase traffic flows
- investigate the use of sensors to provide better information about the condition of roads, bridges and tunnels
- explore creating a Test and Innovation Centre to pioneer new research
- develop the use of 'expressways' on A-roads to encourage more free-flowing traffic by modernising junctions, providing emergency refuge and maintenance areas and advanced technology for better journey information.

Case Study

M5 fuel price signs

Aim

To provide fuel information to road users.

Actions

We are displaying the real-time price of fuel at five Motorway Service Areas along the southbound carriageway of the M5 motorway (between Bristol and Exeter). This is as part of a trial to provide better information to road users using that route.

This will mean that road users will be able to make more informed choices about where to refuel and refresh and take a break along their journey. These signs have been in operation since 29 March 2016, and we have worked in partnership with the Motorway Service Areas and fuel providers.

Results

We will monitor the impact of these signs over the next 18 months to better understand whether increasing the transparency of fuel prices at motorway service areas has an impact on:

- driver behaviour
- the number of fatigue and fuel-related incidents
- fuel pricing.

The results of the trial will be used to determine whether there is sufficient benefit for further roll-out of this activity across the country.

Looking ahead

Preparing delivery of further schemes

As part of planning for the longer-term development and upgrade to our network, during this investment period, we will prepare a further 15 schemes for delivery in the 2020-25 investment period.

Development of these projects are in their early stages.

Developing our route strategies

Working closely with Local Enterprise Partnerships and other local stakeholders, we use route strategies to identify current and future constraints to economic growth that the performance of our network potentially causes.

We published the first 18 route strategies in April 2015 in line with our Delivery Plan commitments and have begun the process of consulting with our stakeholders as we develop the next round of route strategies.

2. Our work region by region

Major infrastructure and regional projects that improve our network help us meet our over-riding objectives while supporting economic growth.

Here, region by region across our network, we summarise the major road improvements that are already:

- under construction
- in development
- in the options identification phase
- project assessment phase.

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

North East and Yorkshire

Schemes contained within the Road Investment Strategy

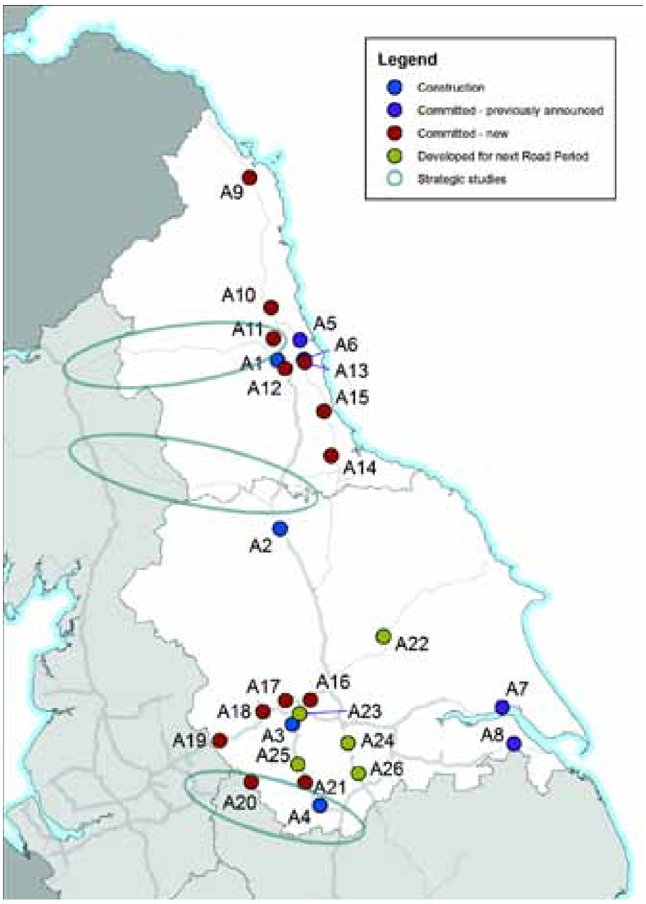
Construction
A1 A1 Coal House to Metro Centre
A2 A1 Leeming to Barton
A3 M1 Junctions 39-42
A4 M1 Junctions 32-35A

Committed – previously announced
A5 A19 Coast Road
A6 A19 Testos
A7 A63 Castle Street
A8 A160/A180 Immingham

Committed – new
A9 A1 North of Ellingham
A10 A1 Morpeth to Ellingham dualling
A11 A1 Scotswood to North Brunton
A12 A1 Birtley to Coal House widening
A13 A19 Down Hill Lane junction improvement
A14 A19 Norton to Wynyard
A15 A1 & A19 Technology enhancements
A16 M1 Junction 45 Improvement
A17 M621 Junctions 1-7 improvements
A18 M62/M606 Chain Bar
A19 M62 Junctions 20-25
A20 A628 Climbing Lanes
A21 A61 Dualling

Developed for next Road Period
A22 A64 Hopgrove Junction
A23 M1/M62 Lofthouse Interchange
A24 A1 Redhouse to Darrington
A25 M1 Junctions 35A-39
A26 A1(M) Doncaster Bypass

Strategic studies
Northern Trans-Pennine
Trans-Pennine Tunnel



Major projects - current progress

Completed

M1 Junctions 39 to 42
Opened in December 2015 as planned

Under construction

A1 (Coal House to Metro Centre)
Increasing lane capacity

A1 (Leeming to Barton)
Upgrade to motorway standard

A160/A180 (Immingham)
Junction improvements. Dual carriageway from A180 to port

M1 Junctions 32 to 35a
Upgrade to smart motorway

In development

A1 (North of Ellingham)
Major junction improvements; 3 sections of climbing lanes; better crossing facilities for pedestrians and cyclists

A1 (Morpeth to Ellingham)
Upgrade to dual carriageway

A1 and A19
Technology enhancements

A19 (Coast Road)
Upgrade roundabout

A63 Castle Street
Improvement

M1 Junction 45
Improvement

Options identification phase

A1 (Birtley to Coal House)
Road widening

A11 (Scotswood to North Brunton)
Improvement to relieve congestion

A19 (Testos)
Combining Downhill Lane junction improvements

A19 (Norton to Wynyard)
Widening to dual carriageway; low-noise surfacing

A61
Upgrade to dual carriageway

A628 (Climbing Lanes)
Addition of two overtaking lanes

M1/M62 (Lofthouse Interchange)
Upgrade

M62/M606 (Chain Bar)
Improving M62 Junction 26 roundabout

Project assessment phase

A1 (Redhouse to Darrington)

A1(M) (Doncaster Bypass)

A64 (Hopgrove Junction)

M1 Junctions 35a to 39

M62 Junctions 20 to 25

M621 Junctions 1 to 7 improvements

Trans-Pennine upgrade programme

We have started work on the Trans-Pennine upgrade programme which aims to improve the safety and environmental issues associated with the route.

These projects include:

- **Mottram Moor link road** – a new dual-carriageway link road from the M67 terminal roundabout to a new junction at the A57(T) Mottram
- **A57(T) to A57 link road** – a new single carriageway link from the A57 at Mottram Moor to a new junction on the A57 at Brookfield, bypassing the existing A628/A57 and A57 Woolley Lane/Hadfield road junctions
- **A61 dualling** – on the east side of the Pennines, completion of the dualling of the A61 between the A616 roundabout and Junction 36 of the M1
- **A628 climbing lanes** – consideration of two overtaking lanes on the A628 near Woodhead Bridge and near Salter's Brook Bridge
- **Safety and technology improvements** – measures focused on addressing accident clusters; and the provision of traffic light cameras, speed cameras and message signs so drivers can make informed decisions.

Trans-Pennine Tunnel

We are also working with the Department for Transport to carry out a strategic study that looks at improving connections between Manchester and Sheffield in the form of a Trans-Pennine tunnel beneath parts of the Peak District. The study will look at viability, costs and how to deliver such a connection.

Results from the study will be used to inform the content of the next Road Investment Strategy from 2020.

Powering the Northern Powerhouse

The Road Investment Strategy involves a large number of projects across the North of England to support the aims and objectives of the Northern Powerhouse.

Progress has continued during 2015-16 on constructing seven schemes and developing others for future construction. Highlights are:

- investment on the M1 between J32 to J35a and J39 to J42 to carry out smart motorway technology to relieve congestion and smooth the flow of the traffic, improving safety and journey times

- on the M62, investment at Junction 26 (Chain Bar) will tackle the severe delays experienced by commuters travelling between Leeds and Bradford. This will be supported by investment in the M621 and, in the next investment period, Junction 29 of the M62 (Lofthouse) to reduce congestion to and from the approach to Leeds
- investment on the A1 between Leeming and Barton will improve safety, journey time reliability and open up the route to the North East. Further investment on the A1 Newcastle and Gateshead Western Bypass between Coal House and the Metro Centre will reduce congestion and improve safety and journey time reliability along the route. This will be followed by improvements to the Western Bypass between Birtley and Coal House, and Scotswood and North Brunton to reduce congestion, accidents and facilitate opportunities for development and economic growth around this key transport corridor
- further north on the A1, an improvements package will see capacity enhancements to 13 miles of single carriageway between Morpeth and Ellingham. This is in addition to a package of smaller enhancements north of Ellingham to improve safety and performance
- investment in key strategic junctions along the A19 will reduce congestion and support economic growth in the region. This will include the A19/A1058 Coast Road junction, the A19 Testos and Downhill Lane junctions and Sunderland. Capacity and noise reduction improvements are also being delivered on the A19 between Norton and Wynyard at Stockton-on-Tees
- introducing technology across key sections of the A1 and A19 in the North East will mean better information for road users, help improve safety and reduce accidents
- access to key seaports is being improved through investment on the A160/A180 at Immingham. Construction started in March 2015 and is expected to end in November 2016. Further investment will be made to improve access to the port of Liverpool later in this investment period
- in addition to the Trans-Pennine upgrade programme, significant investment will be made in the North West. This includes current smart motorway schemes around Manchester on the M60 between J8 to J15 and on the M62 between J18 to J20
- further improvements will follow on the M62 between J20 to 25 to create a four-lane motorway between Manchester and Leeds, on the A585 between Windy Harbour and Skippool in order to reduce congestion and promote economic growth, a new junction on the M56 at J11a will improve the link to the Mersey Gateway and major improvements to J19 of the M6 will improve access to southern Manchester.

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

The North West

Schemes contained within the Road Investment Strategy

Construction
B1 M60 Junction 8 to M62 Junction 20: Smart Motorway
B2 A556 Knutsford to Bowdon

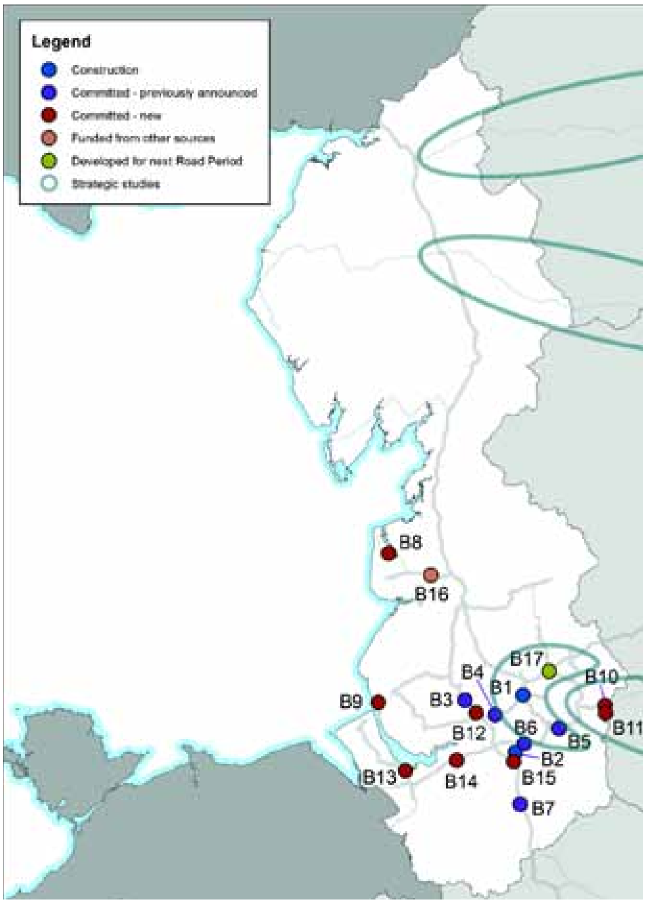
Committed – previously announced
B3 M6 Junctions 21A-26
B4 M62 Junctions 10-12
B5 M60 Junctions 24-27 & J1-4
B6 M56 Junctions 6-8
B7 M6 Junctions 16-19

Committed – new
B8 A585 Windy Harbour – Skippool
B9 A5036 Princess Way – Access to Port of Liverpool
B10 Mottram Moor link road
B11 A57(T) to A57 Link Road
B12 M6 Junction 22 upgrade
B13 M53 Junctions 5-11
B14 M56 new Junction 11A
B15 M6 Junction 19 Improvements

Developed for next Road Period
B16 M55 Junction 2

Developed for next Road Period
B17 M60 Simister Island Interchange

Strategic studies
Northern Trans-Pennine
Manchester North-West Quadrant
Trans-Pennine Tunnel



Major projects - current progress

Under construction

A556 (Knutsford to Bowdon)
Upgrade to dual carriageway (progressing towards opening in 2016-17)

M6 (Junctions 16 to 19)
Upgrade to smart motorway; CCTV installation

M60 (Junction 8 and M62 Junction 20)
Upgrade to smart motorway (progressing towards opening in 2017-18)

In development

M6 (Junctions 21a to 26)
Upgrade to smart motorway

M56 (Junctions 6 to 8)
Upgrade to smart motorway

M60 (Junctions 24 to 27 and Junctions 1 to 4)
Upgrade to smart motorway

M62 (Junctions 10 to 12)
Upgrade to smart motorway

Options identification phase

Mottram Moor
Link road

A57 ((T) to A57)
Link road

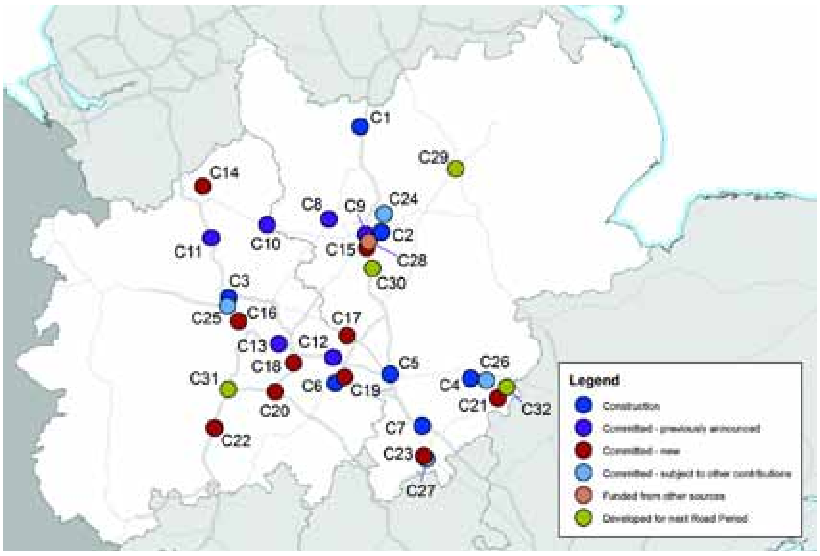
A585 (Windy Harbour – Skippool) Improvements	
A5036 (Princess Way) Improved access to Port of Liverpool	
M56 New Junction 11a	
M6 (Junction 19) Improvement	

Project assessment phase
M6 (Junction 22) Upgrade
M53 (Junctions 5 to 11) Upgrade to smart motorway
M60 (Simister Island Interchange) Improvement

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

The Midlands

Schemes contained within the Road Investment Strategy



Construction
C1 M1 Junctions 28-31
C2 A453 Widening
C3 M6 Junctions 10a-13
C4 A14 Kettering bypass widening
C5 M1 Junction 19 improvement
C6 A45-A46 Tollbar End
C7 M1 Junctions 13-19

Committed – previously announced
C8 A38 Derby Junctions
C9 M1 Junctions 24-25
C10 A50 Uttoxeter
C11 M6 Junctions 13-15
C12 M6 Junctions 2-4
C13 M5 Juntions 4a-6

Committed – new
C14 A500 Etruria widening
C15 M1 Junctions 23a-24
C16 M6 Junction 10 improvement
C17 A5 Dodwells to Longshoot widening
C18 M42 Junction 6
C19 A46 Coventry junction upgrades
C20 M40/M42 interchange Smart Motorways
C21 A45/A6 Chowns Mill junction improvement
C22 M5 Junctions 5, 6 & 7 Junction upgrades
C23 A43 Abthorpe Junction

Committed – subject to other contributions
C24 A52 Nottingham junctions
C25 M54 to M6/M6 Toll link road
C26 A14 Junction 10a
C27 A5 Towcester Relief Road

Funded from other sources
C28 M1 Junctions 24-24a improvement

Developed for next Road Period
C29 A46 Newark Northern Bypass
C30 M1 Junctions 19-23a
C31 M5/M42 Birmingham Box Phase 4
C32 A45 Stanwick to Thrapston

Major projects - current progress

Under construction

A43 (Abthorpe)
Roundabout improvement

A45/A46 (Tollbar End)
Roundabout improvement

A50 (Uttoxeter)
New junction to ease congestion

M1 (Junction 19)
Improvements

M1 (Junctions 13 to 19)
Upgrade to smart motorway

M5 (Junctions 5, 6 and 7)
Junction upgrades

M5 (Junctions 4a to 6)
Upgrade to smart motorway

In development

A5 (Dodwells to Longshoot)
road widening

A45/A6 (Chowns Mill)
Junction improvement

M1 (Junctions 24 to 25)
Upgrade to smart motorway

M6 (Junctions 13 to 15)
Upgrade to smart motorway

M6 (Junctions 2 to 4)
Upgrade to smart motorway

Options identification phase

A5 (Towcester)
Relief road

A14 (Junction 10a)
Grade separated junction

A38 (Derby junctions)
Improving junctions

A46 (Coventry)
Junction upgrade

A52 (Nottingham)
Improving junctions

A500 (Etruria)
Widening between Wolstanton and Porthill junctions

M6 (Junction 10)
Improvement

M42 (Junction 6)
Combining existing junction with new junction

M54 to M6/M6 toll
Proposed routes under discussion

Project assessment phase

A45 Stanwick to Thrapston

A46 Newark Northern Bypass

M1 Junctions 19 to 23a

M5/M42 Birmingham Box Phase 4

M40/M42 Interchange

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

East of England

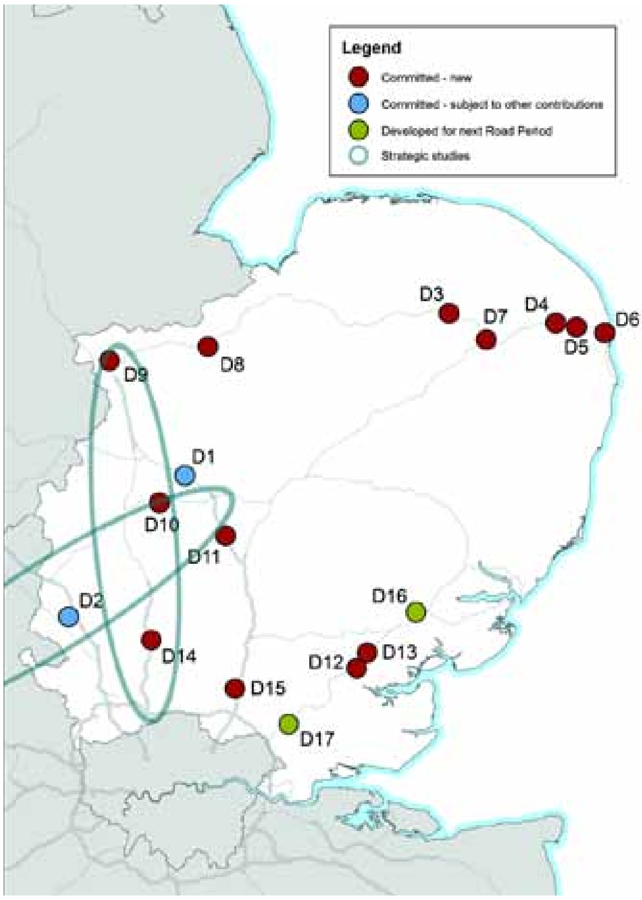
Schemes contained within the Road Investment Strategy

Committed – subject to other contributions
D1 A14 Cambridge to Huntingdon
D2 A5/M1 Link Road

Committed – new
D3 A47 North Tuddenham to Easton
D4 A47 Blofield to North Burlingham dualling
D5 A47 Acle Straight
D6 A47/A12 junction enhancements
D7 A47/A11 Thickthorn Junction
D8 A47 Guyhirn Junction
D9 A47 Wansford to Sutton
D10 A428 Black Cat to Caxton Gibbet
D11 M11 Junctions 8 to 14 – technology upgrade
D12 A12 Chelmsford to A120 widening
D13 A12 whole-route technology upgrade
D14 A1(M) Junctions 6 to 8 smart motorway
D15 M11 Junction 7 junction upgrade

Developed for next Road Period
D16 A12 Colchester Bypass widening
D17 A12 M25 to Chelmsford

Strategic studies
Oxford to Cambridge Expressway
A1 East of England



Major projects - current progress

Under construction

A5/M1 (Junction 11a link)
Dual carriageway to new junction 11A

In development

A14 (Cambridge to Huntingdon)
Improvements including widening

A47 (Acle Straight)
Junction improvements

A428 (Black Cat to Caxton Gibbet)
Improvements

M11 (Junction 7)
Upgrade

Options identification phase

A47 (North Tuddenham to Easton)
Dual carriageway upgrade

A47 (Blofield to North Burlingham)
Dual carriageway upgrade

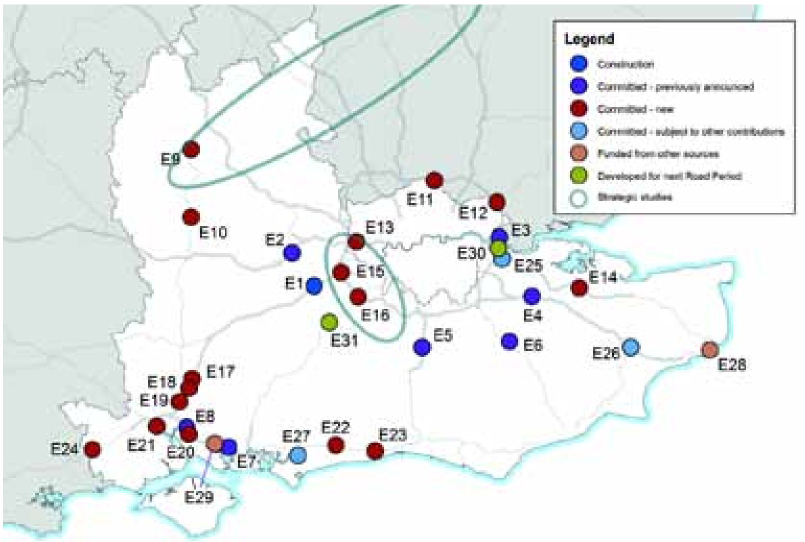
A47 and A12
Junction enhancements

A47/A11 (Thickthorn Junction) Improved interchange for better access to Norwich	A12 (Chelmsford to A120) Widening
A47 (Guyhirn Junction) Improvement linking A47 with A141	A12 Whole-route technology upgrade
A47 (Wansford to Sutton) Dual carriageway upgrade	A12 (Colchester Bypass) Widening
Project assessment phase	A12/M25 to Chelmsford Improving lane capacity
A1(M) (Junctions 6 to 8) Upgrade to smart motorway	M11 (Junctions 8 to 14) Technology upgrade

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

London and the South East

Schemes contained within the Road Investment Strategy



Construction
E1 M3 Junctions 2-4A

Committed – previously announced
E2 M4 Junctions 3-12
E3 M25 Junction 30
E4 M20 Junctions 3-5
E5 M23 Junctions 8-10
E6 A21 Tonbridge to Pembury
E7 M3 Junctions 9-14
E8 M27 Junctions 4-11

Committed – new
E9 A34 Oxford Junctions
E10 A34 Technology enhancements
E11 M25 Junction 25 improvement
E12 M25 Junction 28 improvement
E13 M4 Heathrow slip road
E14 M2 Junction 5 improvements
E15 M25 Junctions 10-16
E16 M25 Junction 10/A3 Wisley interchange
E17 M3 Junction 9 improvement
E18 M3 Junction 10-11 improved sliproads
E19 M3 Junctions 12-14 improved sliproads
E20 M27 Southampton Junctions
E21 M271/A35 Redbridge roundabout upgrade
E22 A27 Arundel Bypass
E23 A27 Worthing and Lancing improvements
E24 A31 Ringwood

Committed – subject to other contributions
E25 A2 Bean & Ebbsfleet junctions
E26 M20 Junction 10a
E27 A27 Chichester Improvement

Funded from other sources
E28 A20 Access to Dover
E29 M27 Junction 10

Developed for next Road Period
E30 Lower Thames Crossing
E31 A3 Guildford

Strategic studies
Oxford to Cambridge Expressway
M25 South-West Quadrant

Major projects - current progress

Under construction

A21 (Tonbridge to Pembury)
Upgrade to dual carriageway

M3 (Junctions 2 to 4a)
Upgrade to smart motorway

M25 (Junction 30)
Improvement to relieve congestion

In development

M3 (Junctions 9 to 14)
Upgrade to smart motorway

M4 (Junctions 3 to 12)
Upgrade to smart motorway

M20 (Junctions 3 to 5)
Upgrade to smart motorway

M20 (Junction 10a)
New junction and link road

M23 (Junctions 8 to 10)
Upgrade to smart motorway

M27 (Junctions 4 to 11)
Upgrade to smart motorway

Options identification phase

A2 Bean & Ebbsfleet

A27 Chichester Bypass

A27 Arundel Bypass

A27 Worthing and Lancing
Improvements

A31 Ringwood

A34 Oxford
Junctions improvements

A34 Technology enhancements

Lower Thames Crossing

M2 Junction 5
Improvement

M3 Junction 9
Improvement

M3 Junctions 10 to 11
Improved slip roads

M3 Junctions 12 to 14
Improved slip roads

M4 Heathrow
Slip road

M25 Junction 25
Improvement

M25 Junction 28
Improvement

M25 Junction 10/A3 Wisley Interchange

M27 Southampton
Junction improvements

M271/A35 Redbridge
Roundabout upgrade

Project assessment phase

A3 Guildford

M25 Junctions 10-16

Lower Thames Crossing

Solving the existing severe traffic problems at the Dartford Crossing is also critical to our road users who use the crossing 50 million times a year. It will also help stimulate and unlock economic growth and new jobs in the area.

Following a thorough assessment of options and possible routes at two key crossing locations, we shared this work with the public through a large-scale consultation. This was held over eight weeks between January and March 2016. Our proposed solution is for a bored tunnel crossing just east of Gravesend in Kent to Tilbury in Essex, thereby reducing our impact on internationally valuable habitats.

Our proposal creates a 'motorway-to-motorway' connection between the M2 and M25. We believe this option offers the best balance between journey time improvements, value for money, national and regional economic benefits and environmental impacts.

Our public consultation, which included 24 public information events and substantial digital and online communications, generated almost 47,000 responses.

This was an unprecedented rate for Highways England and demonstrates the importance of the decision to many people. The scale of the response will enable us to provide a comprehensive recommendation on the route to the Secretary of State later this year.

We are anticipating that a decision by the Secretary of State on the route is announced by the end of 2016, along with its decision on how the scheme will be funded.

The following information represents those schemes contained within the Road Investment Strategy and the supporting table details the current progress made.

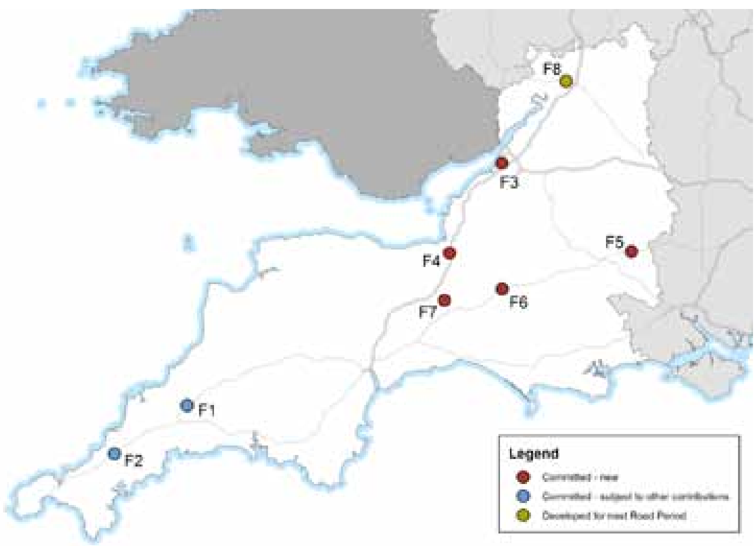
The South West

Schemes contained within the Road Investment Strategy

Committed – subject to other Contributions
F1 A30 Temple to Higher Carblake
F2 A30 Chiverton to Carland Cross

Committed – new
F3 M49 Avonmouth Junction
F4 M5 Bridgwater Junctions
F5 A303 Amesbury to Berwick Down
F6 A303 Sparkford – Ilchester dualling
F7 A358 Taunton to Southfields

Developed for next Road Period
F8 A417 'Missing link' at Air Balloon



Major projects - current progress

Under construction
A30 (Temple to Carblake) Improvements

In development
M5 (Bridgwater Junctions) Improvements

Options identification phase
A30 (Chiverton to Carland Cross) Improvements
M49 (Avonmouth Junction) Improvements
A303 (Amesbury to Berwick Down) Improvements
A303 (Sparkford to Ilchester) Improvements
A358 (Taunton to Southfields) Improvements

Project assessment phase
A417 'Missing Link' at the Air Balloon roundabout improvement

A303 Amesbury to Berwick Down

Work has progressed on the A303 Amesbury to Berwick Down scheme to develop options which, alongside other major upgrades planned along the corridor, will start the process of creating an expressway to the South West.

The scheme will improve journeys, and greatly ease local congestion on the A303. This will, in turn, bring local economic benefits as well as wider benefits for the South West.

A solution to the problems on this stretch of the A303 will make a significant contribution to our national heritage. By removing the existing road we will help transform the Stonehenge World Heritage site and reunite this exceptional landscape.

We will be consulting with the public on options in 2017 as outlined in our Delivery Plan. We have been working closely with our key stakeholders including the heritage organisations and Wiltshire Council. Work is planned to start before the end of March 2020.

3. Supporting Economic Growth

Our aims and commitments

One of our five objectives in our Strategic Business Plan is to support economic growth. Our Delivery Plan also makes commitments around launching a new Growth and Housing Fund, and producing a Strategic Economic Growth Plan.

What this means for us

While a significant amount of our work has delivered benefits for the economy, including through the delivery of improvement schemes and faster responses to planning applications, these commitments place a new focus on economic growth. We need to enhance our relationships with a wide range of stakeholders, including local authorities, Local Enterprise Partnerships (LEPs), businesses, developers, freight and logistics industry, Government and supply chain.

Our delivery over the year

During the first half of the year, we raised awareness of our role in supporting economic growth: the work that we already do, and our approach to strengthening this. This includes promoting our guide to working with us on planning matters, our plans for developing the Growth & Housing Fund, and our approach to developing a Strategic Economic Growth Plan.

We held an economic growth event for stakeholders in London in September. Around 130 attendees heard about our work, and discussed their ideas with us about how we could better support economic growth.

Engagement activity in this awareness-raising phase also included content on our website, articles in our stakeholder newsletters; and presentations or exhibition stands at several events, including:

- our regional launch events
- the Highways UK Conference
- the LEP Annual Conference
- The Northern Powerhouse Annual Conference.

Towards the end of the year, we carried out an intense programme of engagement with all 39 LEPs across the country, exploring the local economy and growth plans, and our role in supporting these. In particular, we are exploring with LEPs the

Growth and Housing Fund

The strategic road network has an important role in supporting new housing development and economic growth.

We are committed to support road improvement schemes needed to directly unlock stalled housing and employment sites. To further this objective a Local Growth Fund (Housing Infrastructure) was established for this investment period.

The fund is designed to help accelerate and unlock smaller housing developments between 250 and 1,499 units that have stalled. These schemes are often of considerable significance for local communities and can help boost economic growth.

potential for collaborative activity. Naturally, this was carried out in partnership with our regional and local asset managers, who lead our daily engagement with local stakeholders.

We also engage regularly with established and emerging regional partnerships such as Transport for North and Midlands Connect, and we will increase this during 2016-17 to support the development of our Strategic Economic Growth Plan.

Stakeholders are overwhelmingly supportive of our commitment to strengthen our focus on supporting economic growth, and the initiatives we are pursuing to achieve this.

Growth and Housing Fund

In relation to the Growth and Housing Fund, we have invited the Local Enterprise Partnerships to work with us to identify suitable schemes and we are now considering 44 expressions of interest from them for potential schemes across the country. We see the Growth and Housing Fund providing a valuable opportunity to pilot some new and improved ways of working collaboratively with local highway partners and other Government departments, including exploring the use of innovative funding agreements and pooling mechanisms.

Future activities

During 2016-17 we will broaden our work on supporting growth to include key national stakeholders.

4. Our work and the environment

Our commitment and objectives

We will ensure that all of the activity we carry out on our network is delivered in a manner that delivers long-term benefits to the natural and built environment and contributes towards creating a sustainable future.

What this means for us

We are already working on major schemes and studies that start to address longstanding environmental issues. These include:

- the design and development of a twin-bore tunnel on the A303 at Stonehenge to take traffic away from the surface and reunite the World Heritage site
- the Trans-Pennine route study, including consultation with the National Park Authority.

The Government's Environment Fund will invest £225m over this investment period and their designated Air Quality Grant Programme will invest £75m.

TARGET - We must publish a Biodiversity Action Plan by 30 June 2015 and report annually on how we have delivered against the plan.

Our delivery over the year

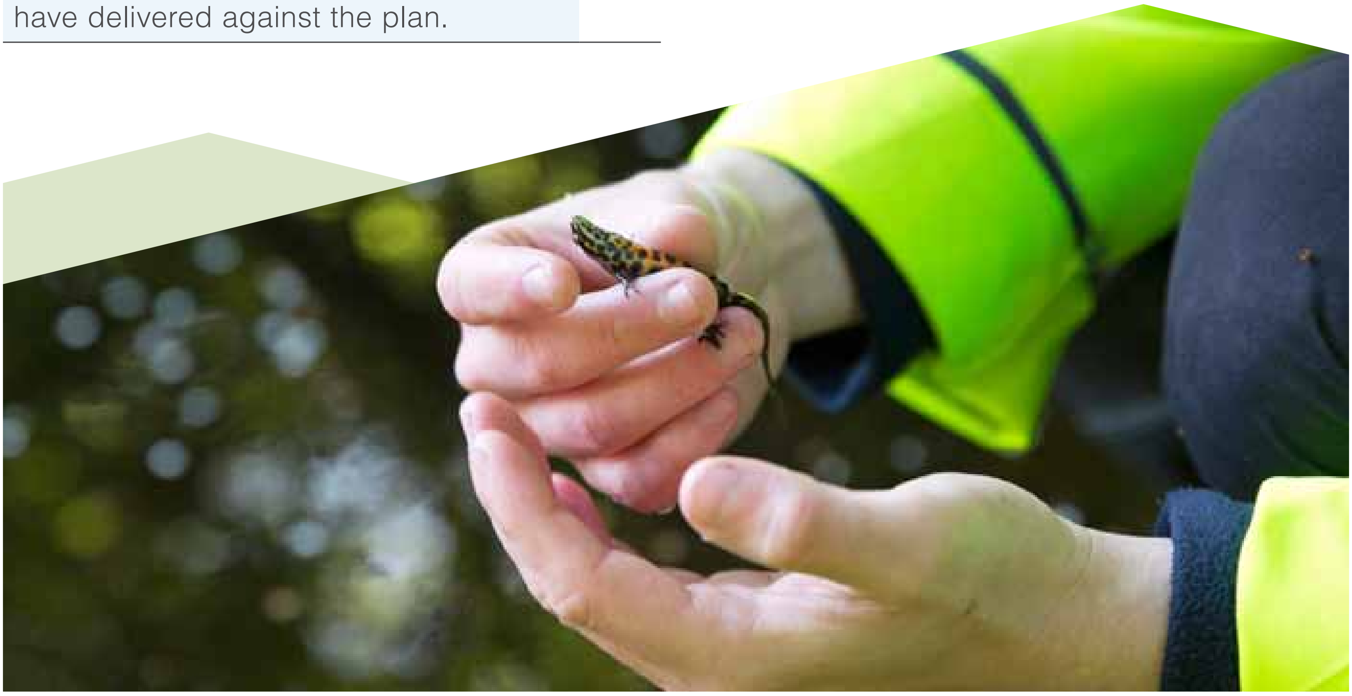
Our Sustainability and Environment Strategy will detail how we will enhance the environment rather than merely mitigating harm during a scheme delivery. We are working alongside key stakeholders and partners to achieve this.

Our approach to all investment decisions is to consider the sustainability and environmental impact of the scheme and look at what measures we can take to reduce visual impact.

Supported by the designated Environment Fund, we have already started to identify potential environmental improvement projects for delivery in 2016-17.

These include:

- continuing our work in reducing carbon emissions, guided by the principles in the Sustainable Development Strategy (see box)
- ensuring that major road schemes contribute to improving the environment
- use of the Environment Fund to enhance cultural heritage sites



Highways England receives Carbon Trust Triple Accreditation for Carbon, Waste and Water

We are the first Government body to be awarded the prestigious Carbon Trust Triple Accreditation for Carbon, Waste, and Water. The electricity savings equate to over 8.9 million kWh (kilowatt hours). This is the equivalent to the consumption of more than 2,245 average households.

The savings are largely being made by a move to more energy efficient LED lighting on our network and in our offices, which gives a 30% carbon saving compared with traditional lighting.

- establishing a Design Panel to bring advice and expertise to sensitive schemes (see box)
- investing in solutions to address flooding and pollution from highway runoff and improve flood resilience on the strategic road network
- ongoing activity to remove litter and target overgrown vegetation to improve visual aspects of our network
- developing a noise mitigation plan
- publishing our air quality strategy (see case study).

We believe that there is scope to manage and develop our network so that we can play our part in improving biodiversity while reducing its loss.

We have set aside investment to support measures that improve biodiversity. We will report on our work, including how we are halting net biodiversity loss on our website at www.highways.gov.uk

Case Study

Our biodiversity plan

We are determined to continue playing our part in reducing biodiversity loss. We will make sure that biodiversity is fully considered in all our plans and projects, helping to halt the decline in the vitality of habitats in and around our network.

Aim

We will recognise the importance and value of biodiversity when carrying out work to manage and operate our network. We will refresh our contract requirements and standards and guidance to ensure we mitigate our impacts on wildlife. And, we will look for the opportunities provided by our management and construction work to enhance biodiversity.

Actions

We are building our capability by changing our technical standards. Working with our key stakeholders (such as Network Rail and Natural England) we aim to understand best practice and train our staff in how they can improve biodiversity through the delivery of projects and the operation of our network.

Case Study

Improving air quality

Air quality and noise are two of the biggest issues that impact most directly on our road users and wider communities and influence satisfaction levels. We have worked closely with partners to develop an Air Quality Strategy that benefits the nation as a whole.

Aim

We aim to play our part in reducing air pollution to help protect the health of the nation and improve the environment. This includes working with others and taking the necessary action ourselves through measures that include policy, planning, monitoring and operational management.

Actions

We have established an Air Pollution Strategy Board, which has operated effectively throughout the year, with representatives from the Department for Transport (DfT), the Department for Environment, Food and Rural Affairs (Defra) and the Office for Low Emission Vehicles (OLEV).

We also started six air quality pilot studies:

- four geographic studies: in Manchester; Tinsley (Sheffield), Derby Junctions and the West Midlands
- two intervention studies: to explore if we can influence traffic movements over short durations to reduce pollution levels; and the second working with the freight industry to explore opportunities to help accelerate the uptake of cleaner lorries and vans.

Results

These pilot studies are building our knowledge and understanding of air pollution to inform stage 2 in 2016-17, which is to find solutions to these challenges.

Concerns about noise

Concerns about noise represent the highest number of complaints from our customers and we understand the annoyance that noise can cause.

TARGET - We must mitigate at least 1,150 noise important areas by 2020.

We are committed to mitigate at least 1,150 Noise Important Areas over this investment period.

We delivered 48 schemes by 31 March 2016 and expect the programme to be achieved through:

- the network modernisation programme
- the planned quiet noise resurfacing programme
- stand-alone measures such as noise barriers or insulation
- subject to feasibility studies, ultra-low-noise surfaces (studies are scheduled for 2016 and 2017).

Case Study

Sound demonstrations

We are committed to mitigating at least 1,150 noise important areas through a range of measures.

Aim

To complete a sound demonstration 'proof of concept' project. Sound demonstrations allow the listener to experience how noise levels will change as a result of a road scheme or the installation of sound mitigation measures such as barriers or low-noise surfaces.

Results

The proof of concept project shows it is a technique with the potential for several uses including:

- during consultation on major projects
- management of operational noise
- as a training tool.

The project also gives residents and road users the chance to hear first-hand the changes in noise that will result from a scheme. We will be developing a business case for further investment in 2016-17.

Case Study
Our Design Panel

Our Design Panel gives advice on sensitive schemes, relevant design standards and other matters. The Panel, which includes external stakeholders, is chaired by the Highways England Chief Highways Engineer.

Aims

The Panel's aims are to:

- ensure future schemes and standards recognise broader goals for our network
- harness engineering and design talent
- preserve and enhance the environment in which we live.

Results

Bringing schemes to the Panel has resulted in providing support to scheme development. The Panel is also involved in the continuing development of technical standards to promote 'good design' in schemes.

Case Study
Mitigating environmental impact: The A556 project

The current A556 has safety, noise and air quality issues. Although the construction of a new bypass will remove these concerns for local communities, the scheme has inevitably led to road development within an agricultural landscape.

Aim

To mitigate the environmental impact of the bypass.

Results

The project team has ensured that the environmental mitigation was carefully developed to minimise the impact on the landscape.

The scheme includes a 'green bridge' (that reduces the amount of steel and concrete needed, resulting in carbon savings), a replacement badger sett, and a range of methods to reduce the impact of the work on the local bat populations.

This is accompanied by an up-to-date approach on water quality, including the development of features to clean the water before it passes into a Special Area of Conservation and Site of Special Scientific Interest.

Earthworks and tree and shrub planting help to integrate the new road into the wider countryside, and also help listed buildings and other community features retain their character.

Water Quality and Flooding

The Delivery Plan refers to a programme of interventions across the network with reference to three particular areas in managing flooding and water quality risks. This includes:

- improving resilience to flooding particularly on high-priority flood risk locations recorded in Drainage Data Management System
- improving water quality
- working closely with the Environment Agency.

Flooding in Cumbria

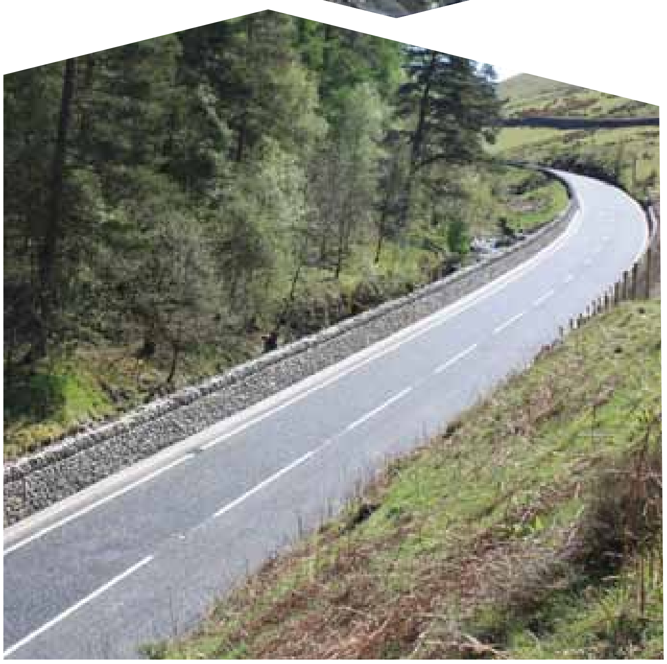
We stepped in to support Cumbria recover from December's floods by taking on responsibility for the repair of a four-mile-stretch of the A591, which was badly damaged in the storms.

The vital route between Grasmere and Keswick, which links the north to the south of the county, is well used by tourists, businesses and residents.

The project included building a new 106 metre retaining wall where part of the A591 was washed away. We made repairs to three bridges, seven other retaining walls and 91 drains alongside Thirlmere reservoir. We also carried out resurfacing along the entire stretch of damaged road.

Construction teams worked 7 days a week to repair the road, which is normally managed by Cumbria County Council.

We also investigated what was needed to restore the historic Pooley Bridge in Ullswater and Eamont Bridge, south of Penrith.



Keeping our network tidy

We are working with Plymouth City Council to clear litter on the A38 and notifying local authorities when we have road closures to allow them to pick litter.

We have also captured best practice such as:

- the identification of litter hotspots to target our resources
- poster campaigns in motorway service areas
- using time-lapse video to demonstrate how quickly litter accumulates.

We supported the Clean for the Queen campaign, collecting over 3,000 bags of litter from the network during March 2016.

Litter

Litter on our roads is unsightly, a safety risk and can harm wildlife.

Our aim is to achieve a network predominantly free from litter, without compromising safety which is delivered in an affordable way. While litter on our network has reduced by 25% since 2011, we are still collecting around 200,000 sacks of litter every year from our network.

The four work streams that aim to reduce the need for litter picking; while organising the collection and delivery of an efficient litter clearing service are:

- influencing littering behaviour
- improving operational delivery and asset maintenance
- seeking and responding to customer feedback
- improving partnership working.

In addition to our usual litter clearance activities, we are working with various bodies and anti-litter organisations, including Keep Britain Tidy, to draw attention to the issues associated with litter, highlighting that it is socially unacceptable.

Influencing a change in littering behaviour takes time, but by raising awareness through national and regional anti-litter campaigns, and supporting local authority partners with local initiatives, we are moving towards a safer, cleaner and tidier network. Sharing best practice is always useful and our litter partnership agreement will formalise working relationships and better coordinate litter clearing operations.

Our people

In this section we look at the ways in which we are developing our people and our actions to improve equality and diversity across all of our operations.

Our commitment and objectives

We are proud of our people. However, in order to meet our ambitious goal over the next five years we need to make sure that we have the capability to call on a highly-skilled and capable workforce.

Our Delivery Plan sets out the four pillars, detailed below, which underpin our people strategy.

We are committed to equality and embed the principles of equality, diversity and inclusion into all areas of our business to drive change in how we work with our customers, communities, our supply chain and our employees.

People Strategy

The creation of the new People Strategy, from the Business Strategy, defined how Highways England would engage with the workforce and provided direction of the HR function within the company.

1. Accountable leadership

We require positive and engaging leadership to be demonstrated at all levels of the organisation, through all individuals and teams taking accountability for their delivery and their personal responsibilities as individuals, teams and managers of people. We expect all employees to take accountability for decisions.

2. Capable employees

We will support the development of our people, relevant to their role and professional aspirations using structured career paths to enable them to manage their own journey. We will hire talented individuals to drive growth and innovation at pace and build internal capability through blended learning programmes. We will develop leaders who can provide the inspiration, coaching and recognition needed.

3. Customer focused delivery

We will organise ourselves to create a modern working environment that puts our people and our customers at the heart of the business. We will support our employees to build stronger relationships, respecting and prioritising our internal customers alongside our external customers. We will go the extra mile to help one another.

4. Rewarded for performance

We will reward, recognise and retain high performing individuals who deliver excellent customer service and demonstrate the company values and behaviours through a robust performance management framework, including a financial/ non financial rewards offering and recognition programme.

Our delivery over the year

The Road Investment Strategy demands high-level performance and a significant increase in the size of our workforce.

Our Delivery Plan forecast that we would recruit 600 new staff during the year. We successfully recruited 439, and made 220 internal placements (through in-house promotions or staff moves). We continually update our workforce plan requirements and we have plans in place to recruit a further 768 staff in 2016-17. This growth is focused on recruiting key capabilities such as:

- engineering
- programme and project management
- technical specialists
- supply chain management know-how.

During the year we recruited 16 graduates and 30 apprentices and partnered with a youth social action charity, Envision, to act as corporate coaches for 17-18 year olds in Birmingham's community apprentice competitions.

We are in the second year of a pilot Civil Engineering Apprenticeship scheme and are currently recruiting for the 2016-17 graduate scheme.

We were also shortlisted for the National Apprenticeship Awards in the Newcomer Large Employer category.

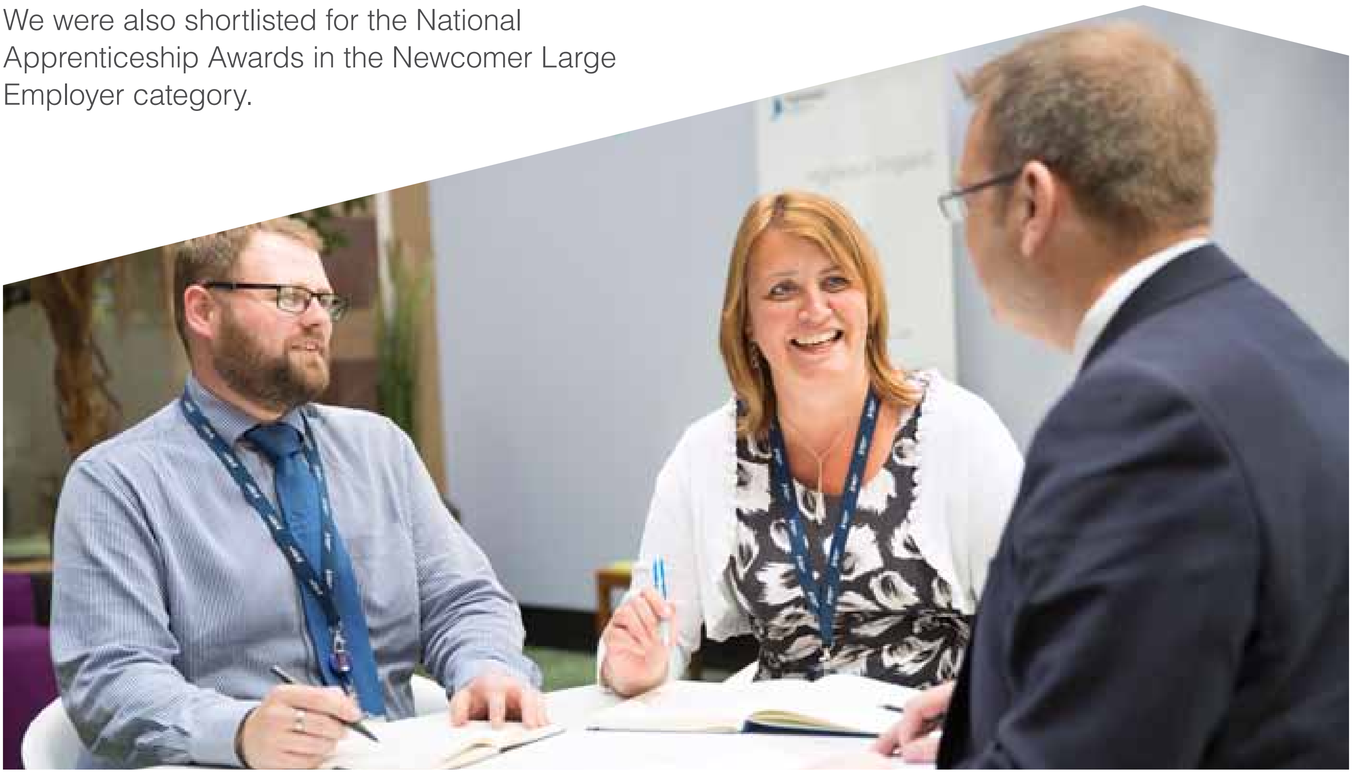
Performance-related pay

During the year we agreed the company's own remuneration framework with the shareholder and HM Treasury. This sets out the principles of remuneration within the company and provides the platform for a robust performance-related pay scheme and developing flexible non-financial awards to assist us in recruiting and retaining staff.

Employee engagement at a time of major change

In our latest staff survey carried out in October 2015, we came close to our employee engagement index target with an index of 53% against a target of 54%.

This is a time of continuing and major change having transitioned agency to company. In light of this, the engagement score is not unexpected. In order to drive improvements in employee engagement we have developed a number of targeted actions, at both corporate and local levels, in consultation with employee focus groups.



In particular, we want to ensure our staff have easier and smoother (once booked) access to training and development opportunities. We have also developed our total benefits package, including non-financial benefits. We also need to address concerns about managing change, communication and the visibility of senior leadership, which we are doing via a number of internal communications channels.

We were pleased that the next two drivers of employee engagement (which relate to personal work satisfaction and immediate line management) have both increased from last year. My work was 69% positive (an increase of 2 from the previous year). My team was 76% positive (an increase of 3).

Overall our survey shows that the workplace experience in terms of inclusion and fair treatment was 69% positive (an increase of 1 from the previous year).

We have made a number of changes to the workplace environment to ensure people have the right tools to do the job, make better use of existing space and are provided with more interesting workplaces.

New organisational structure

In March 2016 we agreed a new organisational structure. We are leveraging current and future capabilities by bringing together our maintenance and network operations business areas/directorates to deliver a better service to our customers. We have also put in place a Capital Portfolio Team to deliver the investments more efficiently and effectively. We are phasing in these changes from April 2016 and our focus is to:

- enhance operational capability across the regions
- provide fully-integrated technology and improved data throughout the business
- deliver on all our Delivery Plan commitments.

Diversity and equality

We agreed a more ambitious overarching objective to reflect our ambition in this area. We also set out more detailed goals and plans concerning our customers and communities, supply chain and employment practices from a diversity and equality perspective.

Over the year we have:

- encouraged our supply chain to take steps in improving equality outcomes, including membership of a supplier diversity forum, support for the National Women in Engineering Day, and working with sector bodies to promote diversity and inclusion such as CIHT, CITB and Civil Engineering Contractors' Association
- improved our understanding of, and responsiveness to, the needs of protected groups within local communities that are affected by our activities on the strategic road network, including:
    - publishing an accessibility strategy to benefit all users and communities
    - launching a Customer Panel in December 2015, made up of some 2,000 members that represent users of our network
    - building our working relationship with Transport Focus, the road user watchdog, to include the diversity perspective in the national road user satisfaction survey

- promoted an inclusive culture where the needs of a diverse workforce are valued and promoted including:
    - creating a people strategy, which supports employee engagement, well-being, equality, diversity and inclusion
    - established the 'leading women' network
    - revised employment policies
    - delivered a mental health awareness programme
    - provided for e-learning and other diversity resource materials to our own staff and supply chain to aid education and awareness of equality matters.
- encouraged talented people from a range of backgrounds to join and progress through the business
- held events to showcase success. We were pleased to receive external recognition, such as good practice in the supply chain. Highways England's David Poole and Nicky Ensert from the National Centre for Diversity won the Most Influential Persons Award.

Looking ahead

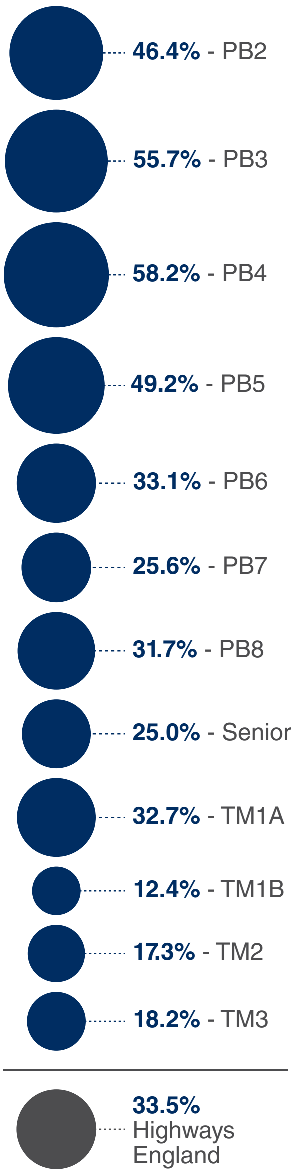
We are focusing on the following core areas of our organisation and work:

- **Customers and communities:** we shall make sure that we understand and consider the different needs of customers and communities in delivering our services
- **Supply chain:** we shall lead the improvement in how all sectors of society view and experience the network so that by 2020 all our key suppliers will have improved their strategic alignment review tool (StART) scores for inclusion by 15%
- **Diverse workforce:** we are aiming to be a highly-skilled, agile and dynamic organisation that is engaged, modern and innovative.

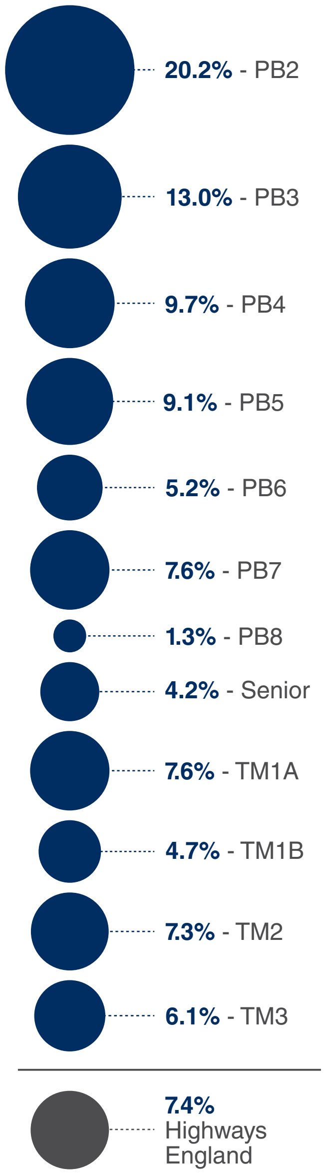
Senior Posts Gender split

Board Gender split

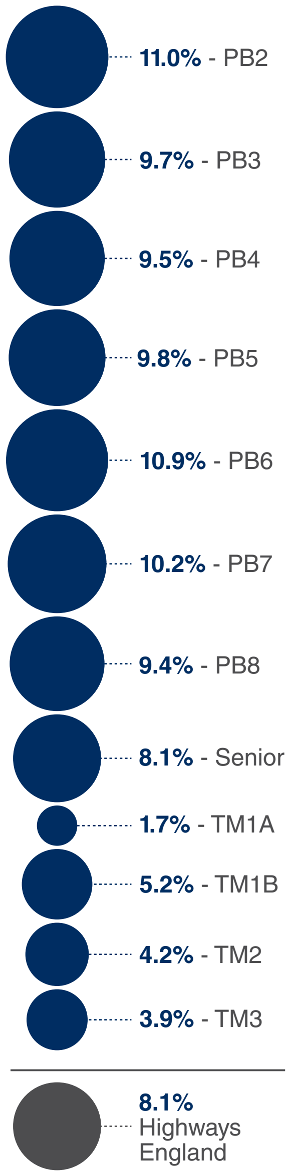
Female employees by grade



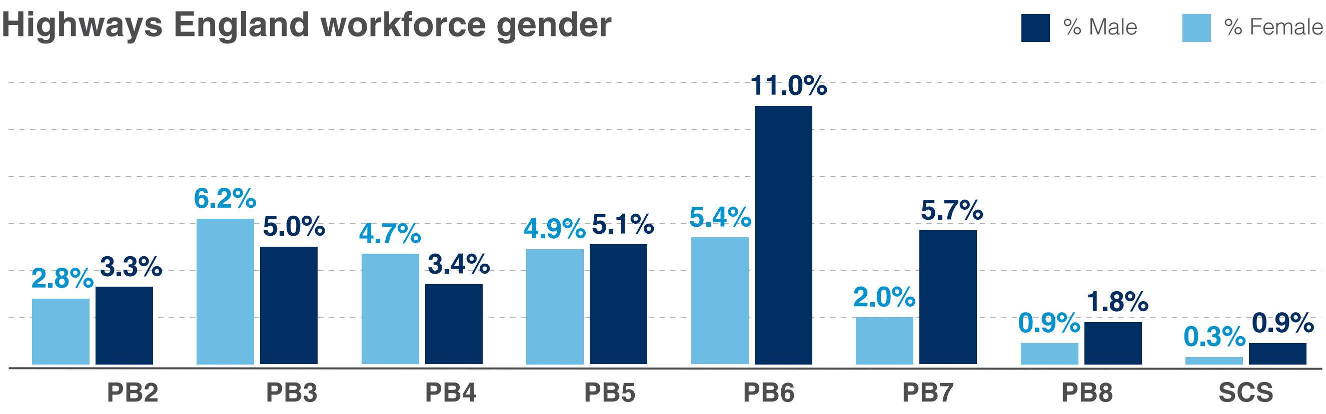
Disabled employees by grade



BAME employees by grade



Highways England workforce gender



Financial Review

A new financial framework

The Roads Reform Programme, and the establishment of Highways England as a Government-owned company, has resulted in some changes in the financial framework that supports the operation and enhancement of the strategic road network.

The most fundamental change was the establishment of the Roads Investment Strategy that includes a Statement of Funds Available to 2019-20 thereby creating a more certain funding position to plan maintenance and enhancement work. In addition, the company is able to flex up to 10% of its capital funding between years. Given the long term nature of many major schemes and contracts, that cannot easily be managed within a fixed annual profile, these changes allow the company to manage across its portfolio of schemes to deliver more efficiently and with a greater focus on minimising the impact on the road user. The company has not sought to operate the flex for 2015-16.

The company, like its predecessor the Highways Agency, remains entirely funded by Government. The small amount of other income that we receive is mainly a reimbursement of costs incurred, the disposal of land or property relating to major schemes, or a contribution to a specific network enhancement. Where costs can be recovered, the company aims for full-cost recovery and does not generate a surplus.

As a company wholly owned by the Secretary of State for Transport, Highways England's accounts are consolidated into the Department for Transport's (DfT) group accounts. The accounts for the company are prepared under international accounting standards (IFRS); however, for consolidation purposes, they are prepared in accordance with the central Government financial reporting manual (FReM). Differences between these two accounting methodologies are immaterial.

Highways England's funding is part of the DfT Vote. Cash requirements are included in the Vote and this is drawn-down from the DfT on a periodic basis during the year. We use the Government Banking Service and do not hold deposits or other forms of financial investments.

Transfer of assets and liabilities from Highways Agency

Highways England was registered on 8 December 2014. On 1 April 2015 the majority of the assets and liabilities of Highways Agency were transferred into the company for nil consideration. The transfer of assets was effected by the DfT, which was a controlling party for the Agency and remains so for the company. The transfer represented a capital contribution under IFRS and accordingly the company has recorded the various assets and liabilities transferred from the Agency at their existing book value in the financial statements. The assets transferred to the company included the £110bn strategic road network and liabilities included £1.7bn relating to existing PFI contracts. Note 3 in the accounts provide greater detail on the transfer of assets to the company.

Financial performance in the year

The company has had a successful first year with financial outturn in line with the funding provided for both capital investment and operational expenditure.

	Budget £m	Outturn £m	Variance £m
Capital investment (Capital DEL)	**1,926**	**1,931**	**(5)**

The capital funding provided in this investment period for the year was £1,782m. This was supplemented with £144m for specific activity carried over from the prior year which was not included within the Road Investment Strategy funding (such as the completion of the Pinch Point Programme, a number of small improvement schemes and the implementation of free flow charging at the Dartford Crossings). The total capital budget for the year was therefore £1,926m.

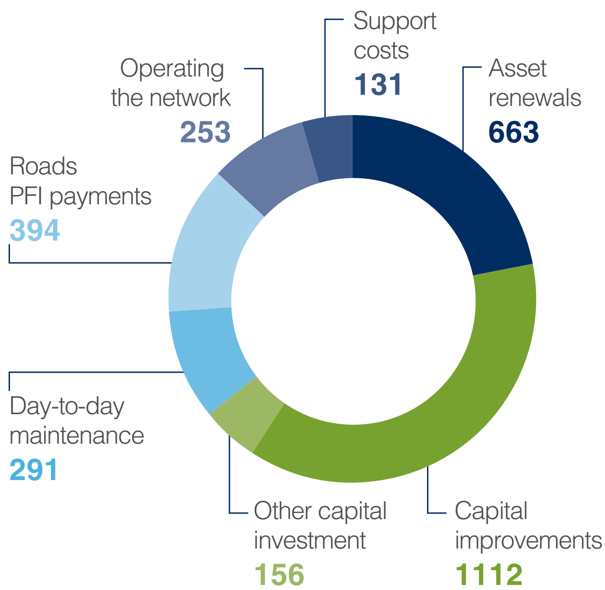
During the year the company invested £663m on asset renewals (mainly resurfacing and maintenance on structures) and £1,112m on asset improvements (a mixture of schemes, from small junction improvements to new smart motorways). The remainder of the investment was on a mixture of other capital investments, as well as the capitalisation of certain internal staff costs. Our outturn of £1,931m is in line with the budget, and in line with the company's forecast outturn position from the middle of the year.

Operational expenditure (Resource DEL excluding depreciation)	Budget £m	Outturn £m	Variance £m
	1,072	**1,069**	**3**

Our resource funding was £1,072m and we outturned at £1,069m. Within this we have managed various pressures during the year, including additional costs arising from the operation of Operation Stack and Dart Charge.

In 2015-16, the company spent £10m across resource and capital budgets on innovation and research. Our Delivery Plan makes a commitment to deliver £150m of innovation capital projects by 2021 and the company is developing an Innovation, Technology and Research Strategy.

Expenditure 2015-16
£m



Our full year cash outturn was £3.12bn against a forecast of £3.15bn, a variance of 0.96%. This is well within our 5% target, and monthly forecasting performance across the year has been accurate, contributing to DfT's overall cash forecasting performance.

Comparison with Highways Agency

This being the first year of Highways England, the accounts do not include any comparative information. Whilst the figures for Highways England are not directly comparable with the Highways Agency, the table below provides an indication.

Description	Highways England 2015-16 £000	Highways Agency 2014-15 £000
Capital		
Asset renewals	663	706
Improvements	1,112	1,105
Other	156	49
Total	**1,931**	**1,860**
Resource		
Roads PFI	394	391
Maintenance	291	275
Customer Operations/ Traffic Management	253	210
Support*	131	125
Total	**1,069**	**1,001**

* Within Support in 2014-15 is interest income on loans which were held by Highways Agency but which were not transferred to Highways England.

Valuation of the Strategic Road Network (SRN)

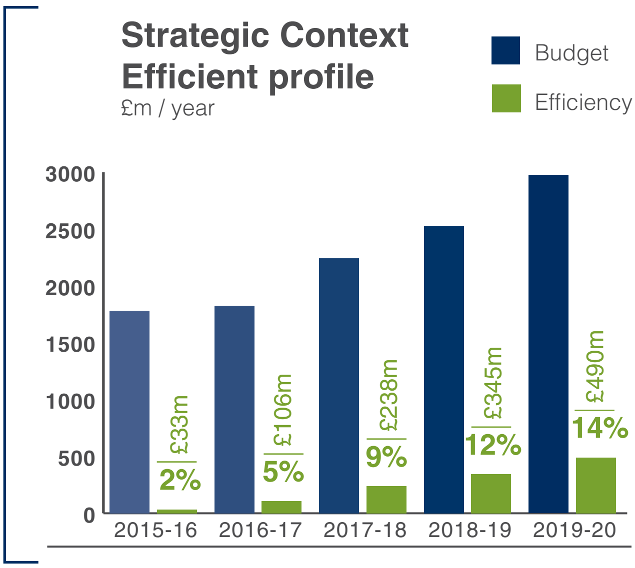
The SRN consists of carriageways, structures, land and communication equipment that forms a single integrated network. It is a specialised asset, with valuation based on a standard cost, less depreciation. Data from the operational asset databases are used to generate a quarterly valuation. New assets are added to the SRN based on a standard cost. Any difference between the actual cost of construction and the standard cost valuation is classified as an impairment. The SRN valuation at the end of the year was £107.9bn, a reduction during the year of 1.6% which reflects a fall in the ROCOS index.

HM Treasury recently revised its interpretation of the accounting for such impairment of assets resulting in a change to their Financial Reporting Manual. Impairment of assets under construction is charged to the revaluation reserve rather than the statement of comprehensive expenditure, thereby reducing the net operating cost of the company. Given the methodology used in the valuation, which creates this impairment, this treatment seems appropriate.

The company continually reviews its methodology for network valuation, including the method for calculating the most appropriate depreciation charge. One improvement introduced in the year has been the use of additional data on pavement (surface) condition. Previously, road condition was measured by establishing the level of wear on the inside lane of carriageways only, with an extrapolation for other lanes. The revised method provides a more reliable estimate of wear by using data for all lanes.

Efficiency

As noted above, the new financial framework for the company was set to allow for a more efficient delivery. The Road Investment Strategy sets a challenging efficiency target for the company with an assumption that £1.2bn of efficiencies will be delivered over the investment period.



Whilst the 2015-16 target of £33m has been met, with specific efficiencies identified across improvement schemes and the asset renewals programme, the real challenges lie ahead.

Our corporate level initiatives that have driven efficiencies include the improved annual programming of renewals, re-profiling as a result of capital certainty, a review of standards, lean initiatives and procurement models (including category management). Programme level initiatives capture higher level efficiencies such as the ongoing improvement in delivery of the smart motorway programme through experience and through improving design standards.

Following consultation with the Highways Monitor and DfT, the company published its efficiency and inflation monitoring manual (EIMM) in September 2015. This defines our approach to the measuring, recording and monitoring of efficiencies. A process for identification, capture and recording of efficiency initiatives (ensuring all declared efficiencies are underpinned by robust evidence) has been embedded across the business.

We have put in place a process to capture, record, evaluate and approve efficiencies using project, programme and area efficiency registers and are reporting those captured through these registers on a monthly basis. We have formed a cross-directorate Efficiency Steering Group to ensure business changes leading to efficiency generation have sufficient scope, pace and momentum to deliver the KPI target.

Further work, overseen by an Efficiency Programme Board, is ongoing to embed efficiency processes and increase our maturity in aligning cost variances and unit costs to reported efficiencies. Capital programmes have clear annualised targets defining the proportion of the overall target which they are expected to deliver. During 2016-17 we will finalise a detailed plan which will show how initiatives will contribute towards the overall target at programme and corporate levels.

Benchmarking

Our approach to both internal and external benchmarking has developed during the year with various initiatives aimed at identifying ways to deliver improved value.

Case Study

Asset Renewals

For optimising the working window the plans for activities that are included within a closure are reviewed to maximise the period in which pavement is able to be laid during that closure. A number of successful pilots of the new approach have been carried out and shown that delivery within a closure can be increased from an average of 240 tonnes of material per night to up to 1,300 tonnes per night (in ideal conditions).

For running on a planed surface, the utilisation of plant for planing and laying pavement is maximised through using the equipment for longer shifts and allowing traffic to temporarily run on the planed surface. The resurfacing plant is then used to deliver longer runs the following night and so working to its optimum performance, rather than having to work alongside the planer. This activity ensures better utilisation of plant and, as a result, allows an increase in amount of pavement that can be laid in a shift.

Specific activity has included:

- active membership of the infrastructure benchmarking group, which was set up in collaboration with Network Rail, the Environment Agency and Transport for London, (with IUK undertaking an advisory role). This group has an active programme centred on benchmarking process and approach, with unit cost comparison in the development phase
- close working with the Highways Monitor to develop a comprehensive and focussed benchmarking programme going forward. A joint steering group has undertaken an initial review of methodology, scope and timescale, with a future programme designed to inform the next investment period.

Relationship with suppliers

During the year 97.1% of payments were made to suppliers within five days of receipt of a valid invoice, and 99.8% within 30 days or contract terms. The five day target was introduced by Government to help reduce financial pressures on companies by improving cash flows.

Highways England is widely regarded as the leading public sector client on Project Bank Accounts (PBAs), chairing the Cabinet Office Co-ordination Group. Paying our suppliers via PBAs is now a standard contract condition. It has proved effective in protecting and accelerating payment to the 2nd and 3rd tiers of the supply chain, many of whom are small/medium enterprises (SMEs). Over £10bn of awarded contracts now incorporate PBAs covering all areas of spend, particularly maintenance and improvement.

The company estimates that at least 27% of its expenditure is with SMEs, the majority of which sit below main contractor level. A careful balance is maintained between maximising value for money and engagement with our SMEs. They are actively encouraged to bid for work through a range of schemes including the Collaborative Delivery Framework. This breaks large tasks into multiple lots based on value enabling smaller suppliers to bid for work that would traditionally have been part of larger contracts.

Events after the year end

As the company delivers the largest roads investment programme for a generation, our delivery arrangements are evolving. The company is piloting an asset-led delivery model (ALDM) which will, if successful, enable it, as asset operator to directly undertake asset management functions, to own key investment and maintenance decisions including the planning and sequencing of network occupancy. This approach will help drive down cost, waste and provide the best possible value for money. The new approach involves bringing the investment and operational decision making in-house. July 2016 will see the first Area (in the Midlands) to adopt the new model.

On 1st April 2016, a number of organisational changes were made to align the company with the challenges it faces. These changes included the creation of an operations directorate which brings together all customer facing operational functions under 6 regional directors. The re-organisation is aimed at positively impacting the experience of our road users in real time, so that activities can be co-ordinated and managed locally.

British Railways Board (Residuary) Ltd - BRB(R)

The BRB(R) was wound-up on 30 September 2013. Its ongoing functions were subsequently dispersed to a number of successor bodies, including the company's predecessor organisation - the Highways Agency. The company is managing the BRB(R) Historic Estate on behalf of the Secretary of State. This includes inspection and maintenance 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, which are held by the Secretary of State for Transport, together with any related contingent liabilities, are included in the DfT's accounts.

Future viability

Through the Road Investment Strategy, the Government has committed funding to Highways England up to 2019-20. For 2016-17, funding in line with this investment has been included in the DfT's Main Estimate, which has been approved by Parliament. Whilst Government plans can change, the company is working on the basis that funding at the level included in the Road Investment Strategy will be forthcoming up to 2019-20.

The company is managing an increasing road investment programme, and has a demanding set of performance targets to deliver over the investment period. Section 9 summarises the company's risk management framework and articulates the principal risks and uncertainties being managed.

For the period beyond 2020, we are initiating work to consider the future needs of the strategic road network. Under our licence, we are required to prepare a Strategic Road Network Initial Report. This is designed to inform the preparation of a second Road Investment Strategy by the Secretary of State. Whilst use of the network is growing, the long term trend for traffic growth is difficult to predict, especially with the rapidly changing vehicle technology environment. The formal process in place between us and the DfT will deliver a clear plan for the second investment period starting from 2020-21. The Government has also proposed that investment in the network is funded from Vehicle Excise Duty from 2020-21. The mechanism for this has yet to be agreed.

Principal risks and uncertainties

We cannot eliminate risk altogether but we can identify and manage it. This section outlines how we do this.

Risk management

Our Delivery Plan identified a number of key risks and uncertainties, which are in line with conducting business as the strategic highways authority. While we manage those risks that are within our control, there are, inevitably, some risks over which we do not have control. As such, we work closely with our partners and stakeholders to mitigate the impact of all risk on our operations.

Early identification and mitigation

Our risk management process is aimed at early identification and mitigation. Our framework gives us the structure through which we consistently identify, prioritise, manage, monitor and report risks.

Key elements of our risk management framework

The Board has overall responsibility for determining the nature and extent of the significant risks it is willing to take in achieving our strategic objectives. The Chief Executive (as Accounting Officer) is responsible to Parliament for the stewardship of public money and delegations are exercised in line with the Finance and Reporting letter and Accounting Officer letter issued to Highways England and the Chief Executive by the Shareholder.

The Audit and Risk Committee reviews the effectiveness of our internal controls and procedures to identify, assess and report risk. Safety risks are reviewed separately by the Safety Committee and feed into the wider Board discussions.

Reporting of any risk issues is structured so that key issues are escalated through the company to the management team and, where appropriate, on to the Board.

Our underlying principles are that:

- risks are monitored continuously
- any associated action plans are reviewed alongside the appropriate contingency plans
- the information is reported through our established procedures.

How we evaluate and manage risk

Each year the Executive team uses the strategic objectives supporting the current investment period to identify potential risk and uncertainty. Similar exercises are carried out across all key business areas.

Any risks that present the potential for materially jeopardising our business activity are escalated to the Board and added to the corporate risk register. Board-level risks are subject to review at least once a year.

All risk is evaluated using a matrix. The matrix recognises that any risk has the potential for multiple impacts and encourages the 'risk owner' to determine which impact is the most important. This helps plan the required mitigation required.

We take a thematic approach risk reporting. We identified nine themes linked to our Delivery Plan and the Performance Specification within the Road Investment Strategy (as detailed in the table on page 64) to create a reporting dashboard. The purpose of the dashboard is to provide useful commentary on the status of the theme (and the risks within it).

Risk assurance is provided using a 'four lines of defence' model:

- **line one** - day-to-day management activity and reporting
- **line two** - executive oversight and periodic review

- **line three** - activity carried out by parties with operational independence, such as internal audit
- **line four** - activity completed by independent parties, such as the National Audit Office or the Highways Monitor.

Anti-bribery and corruption

We have reviewed our arrangements to minimise the risk of fraud and malpractice. Stronger governance, including a proactive Counter-fraud Committee is now in place. We have enhanced the role of the team that manages the risk of malpractice in the supply chain and appointed a specialist Corporate Counter-fraud Manager to support our proactive approach in this area. During the year we investigated a number of alleged cases identified through a combination of our own assurance processes and "speak out" contacts. The results were discussed by the Counter-fraud Committee and the Audit and Risk Committee, who were satisfied that appropriate action had been taken.

Our principal risks

Over the year we have revised our approach to reporting risk to recognise the change in our risk profile. We included key factors such as:

- becoming a separate legal entity
- the increase in our capital investment for the strategic road network (including numbers of schemes and volume of procurement)
- staff changes (e.g. capability, capacity and maintaining the corporate memory) have been considered and form part of the network of identified risk across the organisation.

The Board and Executive team reviewed the new risk reporting system, our risk appetite and the effectiveness of our risk management and internal control systems, covering all principal risks and material controls (including financial, operational and compliance with key processes).

The Board identified the principal risks to our performance. These are set out below with examples of the controls and mitigating actions we are taking.

Key Risk	Summary of Current Mitigation
Safety	
Ineffective control over safety and health risks a greater number of staff, road workers and road users being harmed	▪ H&S Management System with embedded monitoring system established ▪ strong relationships with supply chain (including application of CDM 2015 regulations) ▪ monthly reporting of performance and visibility of incidents and near misses ▪ regular site inspections (allocated on risk basis) ▪ requirements to provide safety information as part of tender process and monitoring of compliance as part of contract management activity ▪ established Traffic Officer process, procedures and compliance regime.
Delivering services to customers and communities	
The organisation fails to fully understand customer requirements or sets a level of expectation it cannot meet	▪ NRUSS survey in place and conducted through Transport Focus to aid transparency ▪ continued sharing of customer insight including National Insight report and customer research between appropriate bodies to share and understand perspectives arising from research ▪ Customer Panel providing oversight and direction (including activity to support the delivery of the Customer Service Strategy (published in January 2016) ▪ Customers and Communities Equality and Diversity group set up to monitor actions.

Key Risk	Summary of Current Mitigation
Delivering Performance and efficiency	
The organisation may experience an unclear or changing statement of need and value (as set out in its RIS and performance specification), which undermines: ▪ the business case for efficiencies and savings ▪ Shareholder and Customer perception and damages the organisation's credibility as a new company	▪ internal accountabilities and processes established to ensure that the planning process supports concise and clear agreement of the plan ▪ sole interface identified within the business for ongoing engagement with the ORR and Transport Focus. This interface also provides support to Finance in liaising with the shareholder ▪ change control process designed with ongoing development to ensure change to the RIS is managed in a controlled way ▪ new statement of commitments (from Delivery Plan / RIS / SBP / Framework / Licence) analysed for gaps, finalised and agreed.
A failure to deliver pace, cultural and performance change within the business may undermine the shareholder's confidence in our delivery capability	▪ existing planning processes employed to ensure that the Delivery Plan remains robust ▪ underpinning internal change plan established ▪ Management Plan (containing 2015-16 activity) agreed and activity monitored against ▪ 'Review team' reports progress and delivery confidence quarterly to the Board.
Supply chain capacity and capability does not meet the business need due to either failure to prepare or business failure, which critically impacts on the organisation's ability to deliver the plan at a rate that meets commitments	▪ Supply Chain Group (Exec sub group) co-ordinates the ongoing monitoring and intervention around supplier stability ▪ standard procurement evaluations deployed as part of tendering process and contract management arrangements in place ▪ Supply Chain strategy published September 2015 and progress is monitored against ▪ Procurement Plan published September 2015 and progress is monitored against.
Efficiency savings may not be captured accurately, leading to the company failing to demonstrate delivery of value for money, which undermines shareholder confidence in our delivery capability	▪ the Delivery Plan planning cycle ensures that the efficiencies planning supports commitments ▪ level of efficiencies to be delivered as part of RIS agreed with the shareholder ▪ industry standard assumptions developed, agreed and utilised as baseline for decision making and incorporated into delivery plan ▪ Efficiency Manual published and disseminated and Efficiency Managers identified and in place ▪ framework for reporting efficiencies to DfT and ORR in place ▪ monitoring of efficiencies built into corporate performance monitoring process.

Key Risk	Summary of Current Mitigation
People and company	
The business is unable to articulate the skills and capability, recruit and retain capable staff or sufficiently define, monitor and communicate performance requirements necessary, which may reduce the organisation's ability to deliver the RIS (causing reputational damage if prolonged)	▪ regular Directorate/ Team skills and capability planning in place ▪ job cluster information from workforce plan provides insight into growth areas ▪ new advertising partner in place to increase effectiveness of adverts and drive attraction ▪ use of recruitment consultants where needed, to supplement the recruitment efforts of the in-house team ▪ recruitment planning in line with workforce plan and bulk campaigns launched for multiple roles ▪ communication of in year targets aligned to corporate KPIs ▪ cascade approach to objective setting, starting with Executive team objectives throughout the business.
An over-reliance on poor or inadequate ITC legacy system solutions to support core process and data requirements (while appropriate alternative solutions are determined) may impact on our ability to deliver our services efficiently or effectively	▪ Chief Information Officer in place, delivering an IT strategy ▪ current IT/IT platform service providers committed to providing legacy systems in the interim period ▪ requirements definition completed and now being deployed.
Improving the environment	
Government efforts to improve air quality are insufficient and may impact on the ability to achieve our licence obligations, internal performance indicators and successfully deliver our capital programme	▪ strategy for supporting wider air quality risk in place, which takes account of the Government AQ plan, and delivery supported by AQ Programme Office ▪ research to explore new and innovative approaches to supporting improvements in AQ is established and is ongoing ▪ clear strategies in place (and mitigation regularly evaluated) to manage AQ for schemes on A556 and M1. New approach to mitigating AQ on A63 Castle Street being progressed. ▪ engagement in place with Defra and DfT on a weekly basis to help support the Government's AQ plan.
Asset stewardship	
Funding or management systems are insufficient to assure the design, delivery and maintenance of the SRN	▪ outline funding agreement over RIS period informing the regional 5 year Statement of Funds Available ▪ carriageway and structures inspections included in current contractual arrangements ▪ existing Asset Management Information Systems in place and monitored ▪ 5 year initial draft regional renewal programmes in place ▪ action list developed to deliver targeted maintenance efficiencies.

Key Risk	Summary of Current Mitigation
Licence to operate	
Inability to develop positive working relationships with statutory and other key stakeholders leads to a loss of goodwill that undermines the confidence in the company's ability to deliver effectively	▪ engagement activity established ▪ organisational accountability defined and understood ▪ corporate performance reported monthly (to ensure poor performance is addressed early) ▪ regular liaison with shareholder and monitor to discuss results and potential actions to address performance.
Supporting economic growth	
Lack of understanding/inability to demonstrate the impacts that our interventions have on the wider economy may lead to a mismatch between our performance and the expectation of our shareholder	▪ investment decisions informed by evaluation of economic benefits ▪ engagement with local enterprise partnerships through strategic development and delivery ▪ alignment of performance metrics with deliverables within the delivery plan.
Strategic Network Planning	
The company may not be seen as the authoritative voice on the strategic plan for the network	▪ Board oversight and contributions ▪ stakeholder engagement on future network plan as part of delivery of route strategies.

Our governance

This section outlines how our arrangements align with the principles and provisions set out in the UK Corporate Governance Code and public sector governance codes.

Colin Matthews,
Chairman

‘In our first year, the Board has focused on our three imperatives: to make the roads safer; improve customer service and strengthen our capability to deliver the increased five-year investment.’

Highways England was established on 1 April 2015 under the Infrastructure Act 2015, and appointed and licensed as a strategic highways company by the Secretary of State for Transport. It is the highway authority, traffic authority and street authority for England’s motorways and major A-roads that together are known as the strategic road network.

Leadership

Establishing the company

From December 2014 until the new company started operating, the Board worked with the Highways Agency and officials from the Department for Transport to establish Highways England as a company incorporated under the Companies Act limited by shares. A new governance structure and working relationship with its sole shareholder, the Secretary of State for Transport and the Department for Transport, was established.

Role of the Board

The Board is accountable to the Secretary of State for Transport as shareholder for all aspects of Highways England's activities and performance, including the fulfilment of our role and responsibilities as a strategic highways company. The Board is the primary governance arm of Highways England in line with its fiduciary and other duties under company law. Our governance activities include setting strategy, overseeing performance, reviewing risks and appointing senior leaders. The Board delegates responsibility for the day-to-day running of Highways England's operations to the Chief Executive Officer (CEO).

Board members and Committee membership

Name	Role		Term of office ends	Audit and risk	Nominations	Remuneration	Safety
Colin Matthews	Non-executive Director	Chairman and Chairman Nominations Committee	31/08/2017	-	●	●	●
Jim O'Sullivan	Executive Director	CEO from 1 July 2015	N/A	- A	- A	- A	●
Graham Dalton	Executive Director	CEO to 30 June 2015	30/06/2015	- A	-	-	-
Ginny Clarke	Executive Director	Strategy & Planning Director to 27 November 2015	27/11/2015	-	-	-	- A
Stephen Dauncey	Executive Director	Chief Financial Officer to 29 February 2016	29/02/2016	A	-	-	-
David Hughes	Non-executive Director	Chairman Audit and Risk Committee	31/03/2018	●	●	●	●
Simon Murray	Non-executive Director	Investment Decision Committee (as an attendee of an executive Committee)	31/03/2018	●	●	-	●
Elaine Holt	Non-executive Director	Chairman, Safety Committee	31/03/2018	-	●	-	●
Tom Smith	Non-executive Director	Chairman, Remuneration Committee	31/03/2018	●	●	●	●
Elizabeth Perelman	Non-executive Director	Shareholder appointed NED	31/03/2018	●	●	●	●

Code: ● Member **A** Attendee **-** Not a member

Composition of the Board

The Board is expected to have no more than 10 and no fewer than 5 members, with a balance in favour of independent non-executive directors.

The Chair is appointed by the Secretary of State for Transport who may also appoint a further non-executive director as their company representative. Other non-executive and executive director appointments must also be approved by the Secretary of State.

The CEO must be appointed to the Board together with up to two further executive directors of whom one should be the Chief Financial Officer (CFO).

The members of the Board and their length of service, together with the committees on which they serve, are shown in the table above. Their roles and activities are discussed in more detail on the following pages.

During the year Graham Dalton, who had steered the organisation through the transition from Highways Agency to the establishment of Highways England, stepped down as CEO and Jim O'Sullivan became CEO on 1 July 2015.

Ginny Clarke retired from her role as the Strategy and Planning director and from the Board at the end of November 2015 and Steve Dauncey, CFO, stepped down from his role at the end of February 2016.

A new CFO, Vanessa Howlison, has been appointed and has taken up post on the 20 June 2016. In the interim, Nick Sharman, Financial Controller and an experienced senior finance manager, acted as interim CFO, although not as a full Board member.

Role of non-executive chairman

The Chairman leads our Board. He is responsible for ensuring that Highways England conducts its affairs openly, transparently and with probity. He is also responsible for ensuring the company's policies and actions are appropriate to those of an arm's-length body, support those of the Secretary of State for Transport and escalate risks to the Department for Transport as appropriate. The role of Chairman is non-executive and part-time at one and a half days a week.

Role of chief executive

The CEO has day-to-day responsibility for running operations and the performance of executive management. He leads the development of strategy and makes recommendations to the Board. He also provides leadership and promotes the company's culture and standards. The CEO is the Accounting Officer responsible for the stewardship of public funds.

Role of non-executive directors

Our non-executive directors are appointed to the Board to contribute their independent external expertise and experience in areas of importance to the company. They also provide independent challenge and rigour to the Board's deliberations.

Role of executive directors

The executive directors support the CEO in effectively leading the company towards the achievement of its strategic objectives and implement the strategic decisions taken by the Board. They are committed to doing this in a responsible way that takes account of our three key imperatives: making the roads safer for everyone; strengthening Highways England's capability to deliver the Government's increased investment in its five-year road investment plan and improve the experience of road users.

Our committees

A number of strategic, financial or other significant matters are reserved to the Board for decision.

The Board committees are:

- Audit and Risk Committee
- Nominations Committee
- Remuneration Committee
- Safety Committee.

All are mandatory under the Framework Document, except for the Safety Committee, established by the Board to provide appropriate focus on this key matter. The role of each committee is described in its own committee report below.

In addition to the CEO's Executive Committee, the executive governance structure includes the:

- Investment Decision Committee (with a non-executive director attendee), which plays a key role in capital investment decision-making
- Executive Safety Committee
- Counter-Fraud Committee as part of our risk management arrangements.

Governance bodies - Board and Committees framework

Board

Governance Committees

Board Safety Committee	Safety ambition and leadership, strategy, performance review and compliance
Audit and Risk Committee	Oversight of financial and internal control; risk; and governance; financial reporting; internal audit and assurance programme and external audit
Remuneration Committee	Oversight of Remuneration Framework, including performance related pay, Board and senior pay decisions
Nominations Committee	Board and Executive Appointments

Executive Committee

Executive Committees and groups

Safety	Safety management and leadership, strategy development performance monitoring and compliance
Counter-fraud Committee	Ensuring systems, measures and culture that counters the risk of economic crime
Community and Customers	Oversight of the development of an effective relationship with customers and communities
Network Performance Group	Drives improvements in the performance of the strategic road network
Supply Chain Group	Oversight of work to develop and manage an effective supply chain
Resourcing Sub-Group	Workforce planning, including decisions under the Remuneration Framework
Future Investment Programme	Ongoing review and assurance of the capital investment and efficiency programme

Decides or recommends direct to board

Investment Decision Committee	Authority to make decisions on capital and non capital expenditure

Effectiveness

In addition to establishing the procedures through which the new company is governed, the Board has focused on three imperatives to:

- make the roads safer for everyone
- strengthen Highways England's capability to deliver the Government's increased investment in its five-year road investment plan
- improve the experience of road users.

We have appointed a new Chief Executive, and made other organisational changes to put these plans into action.

The Board also approved the Delivery Plan developed by senior executives from the Highways Agency and Highways England, to deliver the Government's five-year Road Investment Strategy.

In order to deliver this and our other plans, we need to pay salaries that are competitive and appropriate to the market sectors in which we operate. Accordingly, the Board has reviewed the remuneration arrangements with our shareholder and gained approval for the company's own remuneration framework.

Highways England invests significant amounts of public money and the Board is acutely aware of the importance of delivering good value for money and adopting the highest standards of governance and probity. Supported by the Audit and Risk Committee, we have concentrated on establishing robust investment decision-making processes and reviewed individual investment decisions. We have also reviewed our approach to asset management, the supply chain strategy and the IT that supports all of our business.

Board and Committee evaluation

The Board carried out an evaluation of the effectiveness of its collective and individual performance, based on UK Corporate Governance Code Board Effectiveness guidance in May 2015. The evaluation also included the Committees. A further detailed evaluation of the Audit and Risk Committee performance was carried out in March 2016 in line with best practice as supported by the National Audit Office.

The Chairman led the process, supported by the Company Secretary, with the assistance of a non-executive director to provide objective feedback on the Board's performance.

Some key actions were agreed to improve the Board's effectiveness. These were:

- to improve the quality of board papers to enable better decision making
- formal and informal board development activities (to include members of the executive team)

Activities carried out included:

- an informal discussion between the non-executive directors and the new CEO, facilitated by an outside speaker
- Remuneration Committee training
- Safety workshop with the Executive Committee.

The Board's effectiveness in decision making is often improved as a result of engagement outside of the more formal board meetings, through developing a director's understanding about the specifics of our work and the operational demands that are made on the executive leadership.

Safety visits have also played a key part in helping executive and non-executive directors familiarise themselves with our operations. As a result of these activities and the quality of Board packs the effectiveness of the new Board has improved throughout the year. We will continue to work with the Executive, to build on these activities over the coming year.

The next evaluation is scheduled for November 2016, and will result in a report and agreed actions by January 2017. Actions will be carried out and the subsequent results reported as part of the year-end exercise. The Chairman will lead the exercise and include the Board's committees in the evaluation scope. An external facilitator will also be used from time to time, (this is usually every three years).

In practice, the development of an effective Board is a continuing exercise and our evaluation and actions will take account of this point.

Accountability

Our governance framework

Highways England is an arm's-length, Government-owned company delivering, and contributing to, the Government's long-term plan for the strategic road network. We are monitored by the Office of Rail and Road (ORR) and Transport Focus, a consumer watchdog body, and these organisations both advise the Secretary of State for Transport.

Setting out roles and accountabilities

A Framework Document sets out the respective roles and accountabilities of the Secretary of State, the Department for Transport, and Highways England as we work to achieve the common objective of delivering a network that meets the country's needs efficiently and provides the best possible service for road users and other stakeholders. The framework also:

- recognises the functional and day-to-day operational independence of Highways England
- sets out how financial control and accountability is achieved, including through a finance and reporting letter
- recognises the governance and decision-making arrangements that are appropriate to Highways England as a corporate, legal entity with its Board, and with executives reporting to that Board.

Highways England's governance system overview

The Infrastructure Act 2015 sets out the overall framework for Highways England including Licence, Road Investment Strategy, Office of Rail and Road and Transport Focus

Parliament

CEO, as Accounting Officer (AO) for the company, is accountable to the Department for Transport's Principal Accounting Officer (PAO) for the day-to-day management of public funds. Both the AO and PAO are accountable to Parliament

SofS remains accountable to Parliament for the activities and performance of the company

Legislation

Empowers SofS to appoint a Strategic Highways Company set a RIS and issue directions via a Licence

Secretary of State

SofS

SofS, as sole shareholder, oversees the company

Board is accountable to the SofS for all activities and performance

Articles of Association — Set by SofS, as shareholder, in consultation with the company, and sets the internal rules for governing the company

Licence — SofS sets directions and guidance for the company about how it must act, and defines the process for setting and changing the RIS

Framework Document — Defines governance, decision-making roles and working arrangements between the company, SofS and DfT

Road Investment Strategy (RIS) — SofS sets strategic direction, delivery requirements and funding for the company. The company feeds into setting the RIS

Office of Rail and Road — The Office of Rail and Road reviews company performance and advises the SofS on whether obligations have been met and can impose sanctions

Transport Focus — Transport Focus gathers road user views and advises Ministers on users'interests and priorities

Chief Executive Officer and Board

Highways England

Operates, manages, maintains and improves the strategic road network, delivers requirements set through the Road Investment Strategy and provides services to road users. In doing so, we comply with our legal duties, licence conditions, other statutory guidance and relevant standards

Road Users

Our Delivery Plan

One of our first actions was to publish the Delivery Plan that explains how we will meet the specific requirements of the Government's strategy within the context in which we will work. The Board reviews the plan each year and refines the strategy accordingly. The Board also reviewed other strategies, including our approach to safety – our number one priority.

Relationship with our shareholder and statutory stakeholders

The company's Framework Document also includes arrangements for regular formal meetings with the shareholder (the Secretary of State for Transport and ministers) and his officials. These took place throughout the year, supplemented by informal meetings, as necessary.

There are also arrangements for regular meetings with the ORR, who monitors our performance through regular reviews, which are published on their website.

We have also established arrangements for regular meetings with customer groups including Transport Focus, the consumer watchdog, who is now responsible for the National Roads User Survey, and is key to helping us improve customer service.

Composition, attendance and advice

The composition of our committees is shown in the table on page 76.

All directors have access to the advice and services of the Company Secretary and their team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the governance framework that it has adopted and that there is an effective flow of information to the Board and its committees and between senior management and the non-executive directors.

The company's General Counsel attends Board meetings, the Safety Committee and the Audit and Risk Committee. The Chief Highways Engineer (the executive director for the Professional and Technical Solutions directorate) champions safety on behalf of the Executive team and regularly attends the Safety Committee, together with other executive team members and members of the safety team, by invitation.

The CEO and director of Human Resources and Organisational Development attend for all, or part, of the meetings of the Nominations and Remuneration Committee, and the Head of Reward attends meetings of the Remuneration Committee by invitation as and when appropriate.

Board and Committee attendance

Name	Role	Board	Audit and Risk Committee	Nominations Committee	Remuneration Committee	Safety Committee
Colin Matthews	Non- executive Director	13(13)	N/A	2(2)	9(9)	8(8)
Jim O'Sullivan	Executive Director	8(8)	2(2) In Attendance	1(1) In Attendance	3(4) In Attendance	5(6)**
Graham Dalton	Executive Director	4(5)	2(2) In Attendance	N/A	4(4) In Attendance	2(2) In Attendance
Ginny Clarke	Executive Director	8(9)	N/A	1(1) In Attendance	N/A	N/A
Stephen Dauncey	Executive Director	11(12)	4(4) In Attendance	N/A	N/A	N/A
David Hughes	Non- executive Director	13(13)	4(4)	2(2)	9(9)	8(8)
Simon Murray	Non- executive Director	13(13)	4(4)	2(2)	N/A	8(8)
Elaine Holt	Non- executive Director	11(13)	N/A	1(2)	N/A	8(8)
Tom Smith	Non- executive Director	12(13)	4(4)	2(2)	9(9)	7(8)
Elizabeth Perelman	Shareholder appointed Non- executive Director	12(13)	3(4)	2(2)	7(9)	7(8)

** Member from 25 September 2015

Nominations Committee

Chair: Colin Matthews (Chairman of the Board)

Committee Chairman overview

Role

In our first year as a company, the Nominations Committee met twice before Board meetings to fulfil its responsibilities regarding senior appointments, in particular the appointment of our new Chief Executive. The Chair, Chief Executive and Company Secretary also provided updates by email on relevant issues.

Composition

The Chairman is a non-executive director and the Committee is composed of five other non-executive directors who bring the relevant skills and impartiality to assist with the recruitment of senior appointments. The Committee expects to meet regularly to discuss succession plans for senior managers and on a flexible ad hoc basis, when required.

Work

The main business of the Committee was the appointment of Jim O'Sullivan as Chief Executive. His predecessor, Graham Dalton, had successfully led Highways Agency in the years leading up to its transformation into Highways England. Following that notable achievement, Graham left the company and Jim O'Sullivan succeeded him as Chief Executive in July 2015.

Ginny Clarke's retirement at the end of November from her role as Strategy and Planning Director reduced the number of Board Executive Directors to two. The Committee decided not to make another Executive director appointment immediately, and to keep the number under review over the coming year. Members of the Executive team will attend Board meetings (as required) in the meantime.

Steve Dauncey, Chief Financial Officer (CFO) left the company at the end of February and Nick Sharman (the Financial Controller) was appointed interim CFO and participated fully in all Board meetings and business to ensure effective company decision-making until the new CFO was appointed.

Safety Committee

Elaine Holt, Chairman

"Safety is our first imperative. Our goal is that no one should be harmed when travelling or working on the strategic road network."

Committee Chairman overview

Role

The Safety Committee works closely with the Executive team to maintain and reinforce a robust safety culture across the company and its supply chain to ensure that road safety is everyone's responsibility. The Board's expectation is that this will also improve service standards overall.

Composition

The Safety Committee includes all of the non-executive directors and the Chief Executive. Importantly, the Committee is attended by those with operational responsibility and leadership, including members of the Executive team and health and safety team.

Work

In addition to giving formal approval to the five-year Safety Action Plan, required by the Licence and company Safety Policy, the Committee monitors the performance of road-user safety and those who work for Highways England, including supplier safety performance and the effectiveness of safety policies.

The key issue for the new Board Safety Committee was the development, approval and implementation of our five-year Safety Action Plan. Strong health and safety performance is based around the following five elements:

- leadership and performance
- competent people
- managing risks
- measuring performance
- engaging stakeholders.

We have identified four groups of people to focus on in order to deliver the aims of our five-year Safety Action Plan. These are:

- road users
- customer operations staff (most of whom are in our Traffic Officer Service)
- road workers and other supply chain employees
- employees who work in and away from our offices.

We are pleased that we have made some progress, but the Board and Executive team know that there is more to be done and that it will take continuing drive and commitment to achieve our goals.

Our plans are ambitious, as they rightly should be, to ensure we achieve our safety goals. Section 4 gives an overview of our safety activities during the year.

Audit and Risk Committee

David Hughes, Chairman

"We gave careful consideration to the new financial reporting and control environment for Highways England and expect to keep this under review as the company develops its corporate assurance, investment, performance monitoring and portfolio management functions."

Committee Chairman overview

Role

The Committee's principal role is to assist the Board in carrying out its oversight responsibilities in relation to financial reporting, internal controls and risk management and in maintaining an appropriate relationship with our external auditor. We are also responsible for providing advice to the CEO, in his capacity as Accounting Officer.

The Committee was established in April 2015 when the company began operating, built on the foundations of the Highways Agency Audit Committee. During the transition period before April 2015 we completed a significant amount of work to put in place accounting policies, control systems and investment and other decision-making frameworks for the new company. These areas have remained a major focus for the Committee over the course of the year and it is expected that they will be kept under review as we develop our corporate assurance, investment performance monitoring and portfolio management functions further against a backdrop of a management re-organisation.

We now hold a broader scope in relation to risk and probity than our previous forum. This is exercised through conducting a number of "deep dives" into key risk areas throughout the year to challenge management's perception of control and advise the CEO and Board, should any additional resources be allocated to manage the risk to an appropriate level. To date, the Committee has focussed on asset management, IT (including legacy systems) and supply chain capacity and capability and the ensuing discussions has touched on a number of the 'Board Level' risks as contained on pages 64 to 67. Whilst safety risk is reviewed by the Committee, a much broader discussion is conducted by the Safety Committee of the Board.

Composition

The Committee members (shown in the chart on page 76) are all non-executive directors, including the shareholder appointed non-executive director (as required by the Framework Document). I hold the Chair as a Chartered Accountant. Together, we bring a wide range of financial and commercial experience across various industries and service on Audit and Risk Committees in private and public sector contexts. This collective experience enables us to probe and challenge management and fulfils the Committee's responsibilities.

The CEO, CFO, Financial Controller, Divisional Director Corporate Assurance, Head of Internal Audit, the National Audit Office (NAO) Financial Audit Director (and other NAO representatives) regularly attend our meetings. Other senior management may be asked to attend, as appropriate.

We meet with the NAO Financial Audit Director and their team, and the Divisional Director Corporate Assurance in camera at least once a year to give them the opportunity to discuss any matters without the executive management being present. I hold separate and regular one-to-one meetings with the CFO and Divisional Director Corporate Assurance and communicate regularly with other senior managers, the Company Secretary and the NAO, as required. In my role as Chair I am also a member of the Department for Transport Group Audit and Risk Assurance Committee, representing Highways England as well as performing a similar check and challenge role to the department's senior management.

Work

Monitoring the requirements of financial reporting

During the financial year (and before under the Highways Agency) we gave careful consideration to the requirements of the financial reporting environment for the company. This included Companies Act and public money reporting requirements (within the context of a Government company whose accounts are consolidated into the Department for Transport's group accounts). In particular we reviewed:

- accounting for the assets transferred and shareholder's funds
- valuation of the asset
- depreciation of the asset
- the company's tax strategy and policy
- policy in relation to Highways England as a 'going concern' in the context of a Government company
- general accounting policies and judgements
- the basis on which management gave assurance that the Annual Report and Accounts, taken as a whole, was fair balanced and understandable and provided the necessary information for shareholders to assess the company's performance, business model and strategy.

Ensuring integrity of the accounts

Ensuring the integrity of the accounts is fundamental to our remit. Significant issues considered by the Committee, in addition to the appropriate approach for a newly established

Government company, were:

- asset valuation and depreciation, in particular in respect of the carriageway (referred to as the 'pavement')
- taxation, in particular the VAT treatment in respect of the technology integral to smart motorways
- management of sections of the network under Public Finance Initiative contracts.

Internal controls and risk management

The system of internal control is based on a continuous process of identifying, evaluating and managing risks, including the risk management processes outlined in Section 9. The Board has overall responsibility for the company's internal control framework and for reviewing its effectiveness. Internal control systems are recognised by the Board as being designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable, and not absolute assurance against material misstatements, losses or the breech of laws or regulation.

We have an internal audit function (which is incorporated within our Corporate Assurance Division) and it is the role of the Committee to ensure that it is resourced appropriately with the right skills and experience to be able to deliver its work. Each year we agree a programme of assurance activity for our internal audit function to deliver. This programme covers key areas of risk, emerging/developing business activities, assurance over key operational contracts and key financial, HR and procurement controls. Regular reports from the Head of Internal Audit on the progress of the internal audit programme, which includes a summary of the effectiveness of the areas under review, are regularly received and discussed by the Committee. A wider assurance report, which incorporates the risk management, internal audit and counter fraud activity, is supplied periodically throughout the year and at year-end by the Divisional Director, Corporate Assurance, which is helpful to provide context against the overall assurance environment.

In line with a requirement in our Framework Document, management conduct a self-assessment exercise to provide assurance over key control and governance areas, such as finance, procurement, contract management and security. The result of this activity is reviewed by the Committee, prior to its submission to the Department for Transport. This year's results provided a reasonable level of assurance that core controls across the organisation were working effectively, but did highlight the need for some areas of the business to improve. As such, action plans have been drawn up and will be closely monitored by the Committee to ensure the anticipated improvement is achieved.

The Chief Executive, in his role as Accounting Officer, is informed on the adequacy and effectiveness of the company's framework of risk management, internal control and governance arrangements through the Divisional Director, Corporate Assurance's annual assurance statement. This statement is a key element of the assurance framework, timed to support this Governance Statement. It can only be reasonable in the sense that no opinion can ever be absolute and is a reflection of the evidence available. This statement does not detract from the Chief Executive's personal responsibility for risk management, governance and control. The statement takes into consideration separate reports provided by the Head of Internal Audit, the Head of Corporate Risk Assurance and the work overseen by the Counter-fraud Committee and draws from the results of other assurance activity across the company including the attendance of the Divisional Director, Corporate Assurance on key boards and committees within the business throughout the year. As such, and based on the work detailed above, an overall 'reasonable' assurance rating was applied.

Risk

How we manage risk is described in Section 9. In addition to our risk deep dives, the Committee also discussed the changes to the risk profile and new strategic risks to the company in the context of a separate legal entity with a major investment programme. The Strategic Report provides more information about our risk management arrangements.

Our discussion of risk and, in particular, arrangements to manage the risk of fraud and corruption and promote a culture of probity across the company and our supply chain included the programme of risk "deep dives", as mentioned earlier, and regular reports on anti-bribery and anti-corruption activity across the company to enhance controls to minimise the risk of fraud and malpractice occurring.

The strategic report (Section 9) provides more information about our risk management arrangements.

External Auditor and policy on provision of non-audit services

The Framework Document requires us to appoint the Comptroller and Auditor General (C&AG) as our external auditor. This work is carried out by the National Audit Office (NAO) on the C&AG's behalf. This means that Highways England has the same external auditor as other members of the consolidated Department for Transport group.

The NAO does not provide non-audit services but is responsible for carrying out value-for-money reviews according to their statutory responsibilities. The company uses professional firms (who provide audit services where it requires non-audit specialist advice, such as tax compliance and accounting) as required. In these cases the firms are engaged through our established procurement framework. In year, the business engaged the services of a tax compliance specialist to help implement HMRC decisions into business as usual activity and embed our new policy and strategy in this area across the company.

Remuneration Committee

Tom Smith, Chairman

"Our challenge is to make use of the flexibilities and freedoms we have under our Remuneration Framework to attract and retain the right blend of skilled, dedicated and motivated staff."

This remuneration report is in three sections:

- Committee chairman's overview
- Remuneration Policy
- Directors' remuneration.

Committee chairman's overview

Role

The Committee's role is to establish a robust, transparent and formal procedure for developing and implementing policy on executive remuneration. Within that the focus is on the CEO and his direct reports (together referred to as the "Executive team"). Only those members of the Executive team who are (or were) also members of the Highways England Board have their remuneration reported in the final section of this report.

The Committee also takes an overview of reward, performance and incentivisation at the level immediately below the Executive team (the "senior grades"). The Committee similarly takes a broad overview of reward and incentivisation across the rest of the company, but without involvement in individual cases.

The Committee is responsible for ensuring that the company adheres to the requirements and limits of authority set out in the Remuneration Framework. This formal document is described briefly below.

The Committee is also responsible for the company-wide scheme of Performance Related Pay. This includes setting corporate performance targets and determining payments under the scheme to the Executive team and senior grades.

Composition

The membership is set out in the table on page 76. The shareholder is represented at committee meetings by the DfT Director General Resources and Strategy, who attends as an observer. The Committee is advised by the Executive Director Human Resources and Organisational Development; and for relevant agenda items, the Head of Reward also attends. The CEO attends all meetings. None of these executives takes part in discussions about their own remuneration. The Assistant Company Secretary supports the Committee.

Ernst & Young have been appointed as advisers on a call-off basis. They were not used during 2015-16.

Work

2015-16 was Highways England's first year of operation and, in consequence, it was a busy and active one for the Committee. There were two particularly important building blocks that we put in place with the formal agreement and approval of the shareholder and HM Treasury:

- the Remuneration Framework
- the Performance Related Pay (PRP) scheme.

The Remuneration Framework outlines the company's approach in relation to all elements of remuneration. We operate within the public sector and are subject to public sector pay disciplines. In recognition of the importance and scale of our role in delivering the Government's 5-year Road Investment Strategy, the Framework provides certain freedoms and flexibilities to match appropriately benchmarked private sector salaries. This enables the company to secure and retain particular skills and expertise. The Framework will be subject to review at the end of 2016-17.

The PRP scheme is a company-wide system, which gives all staff the opportunity to earn additional pay at the end of the year, according to corporate and personal performance. Its core is a set of annual corporate targets, approved by the shareholder, that are aligned with the 5-year outputs required of the company under the Road Investment Strategy. Given 2015-16 was Highways England's first year in operation, payments earned under the scheme will be paid in the current year and reported in 12 months' time. Further information about the scheme is available on the company's website.

Other matters considered by the Committee in 2015-16 included:

- impact of remuneration on recruitment and retention strategy
- the terms and package for the new CEO
- individual remuneration packages for joiners/promotions to the Executive team and some senior grades
- the total pay-bill cap that applies for five years by agreement with the shareholder and HM Treasury
- procedures for exercising freedoms under the Remuneration Framework
- initiation of a project to develop a new system of job scopes and grading across the company
- reward and benefits policy
- staff pension arrangements
- remuneration consequences of implementing the asset led delivery model.

Shareholder views

Shareholder views are provided to the Committee by the DfT observer referred to above. In addition, the shareholder appointed non-executive director is a also a member of the Committee. The Committee must obtain formal shareholder approval for:

- the remuneration package for new members of the Executive team

- setting any base salary, whether for new or existing members of staff, greater than £142,500
- the corporate targets, weightings and individual mulitpliers (reflecting personal performance) used each year in the PRP scheme.

Remuneration Policy

Developing the remuneration policy

To a large extent the development of our remuneration policy has been driven and set through discussions with the shareholder around the Remuneration Framework, leading to its formal adoption.

The objective behind the Framework is that, while acknowledging the public sector nature of the company and the need for affordability, Highways England is in a position to recruit, retain and motivate people of the right calibre to deliver its mission. To do this the Committee keeps the market context under review. In particular, public sector pay trends and benchmarks against similar organisation are reviewed and considered as part of our decision-making.

Successful delivery of the Road Investment Strategy will require the company to work more efficiently, at greater pace and in higher volumes than it did as the Highways Agency. In turn, that requires enhanced capability, skills and experience within the workforce. In recognition of this, the company also uses private sector benchmark data, within the infrastructure sector, to develop remuneration policy for employees, existing and new, who bring the requisite skills and experience (one of the flexibilities available under the Remuneration Framework).

Statement of policy

Independent non-executive directors

The fees paid to the Chairman and independent non-executive directors (NEDs) are determined by the shareholder with the agreement of HM Treasury and Cabinet Office.

The fee of £129,999 paid to the Chairman was decided on his appointment to the Board of the Highways Agency in September 2014, in the expectation that he would become the Chairman of Highways England. The independent NEDs are paid a fee of £25,000 per annum (as disclosed in the table on page 85). No additional fee is payable for chairing committees but reasonable expenses incurred in carrying out their duties are reimbursed. Independent NEDs are not involved in decisions relating to their remuneration, which are outside the scope of responsibility of the Remuneration Committee.

Executive directors

Members of the Executive team, including the CEO, are paid a base salary, are entitled to earn Performance Related Pay (PRP) and receive pension payments. The policy rationale for each of these is as follows:

- **Base salary.** This is particular to each role and reflects: scale and responsibility of the role; comparators internally and externally across the public and private sectors; and affordability. The strategic objective of this element of remuneration is to attract and retain individuals of the right quality, skills and experience. Base salary is reviewed annually and any adjustment reflects performance over the year. No-one may be offered a base salary greater than £142,500 without shareholder approval
- **Performance Related Pay (PRP).** This is assessed against a basket of annual corporate targets that reflect the key outputs the company is required to deliver over the 5-year road investment period. It is also subject to a multiplier that reflects personal performance (the multiplier in 2015-16 ranged from 0 to 1.3). The key objective is to motivate individuals to align their efforts to the company's strategic objectives and to provide reward for corporate and personal success. The maximum payment that can be earned in PRP is 20% of base salary. The details of the scheme are approved each year by the shareholder.
- **Pension payments.** Members of the Executive team who transferred from the Highways Agency remain part of, and subject to, the rules of the Principal Civil Service Pension Scheme. New employees are offered a maximum payment of 10% of salary, which if they elect, may be paid into the company's newly established defined contribution pension plan

(to which employees make a 5% contribution). New employees also receive life cover at four times salary. The key objective of the pension arrangements is to support the attraction and retention of individuals.

Directors' remuneration report (audited)

This table shows the remuneration paid to Executive directors on the Board.

Directors' remuneration report

Name	Year	Salary	PRP	Pension related	Other	Total
Graham Dalton	2015-16	£48,354 (£148,038)	-	£26,327	£175,516	£250,197
Ginny Clarke	2015-16	£71,498 (£108,604)	£12,000	£23,121	-	£106,619
Stephen Dauncey	2015-16	£114,964 (£117,822)	-	£10,635	£102,769	£228,368
Jim O'Sullivan	2015-16	£248,594 (£330,000)	-	-	-	£248,594

Note: 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.

Notes

1. This is the first year of reporting – there is no comparator figures provided.The salary amounts in brackets illustrate the full year equivalents, where directors have left or joined Highways England Company Ltd part way through the year.
2. The pension related benefit for members of civil service pension schemes has been calculated and provided by MyCSP.
3. From 1 April until 30 June 2015, Graham Dalton was seconded from the Department for Transport to Highways England in the role of CEO to oversee the transition from the Highways Agency to Highways England. During this period he was a member of the Board. The salary above includes an element of untaken leave. He received an additional compensation payment of £175,516 through the Civil Service Pension Scheme, which is included in the 'Other' column above. This payment was approved by the Remuneration Committee and the Department for Transport.
4. Ginny Clarke retired and left Highways England Company Ltd as Strategy and Planning Director on 27 November 2015. The PRP paid to Ginny related to performance within the financial year 2014-15.
5. Stephen Dauncey left Highways England Company Ltd as Chief Financial Officer on 28 February 2016. The salary above includes an element of untaken leave. The 'Other' amount above includes a compensation payment of £95,000, in respect of voluntary redundancy in accordance with the terms set out in the Civil Service Compensation Scheme. £65,000 was subject to taxation and NI and £30,000 was a non-taxable element. The 'Other' amount also includes an additional housing allowance of £7,769.
6. Jim O'Sullivan became Chief Executive 1 July 2015, having joined on 22 June 2015. The search for a new Chief Executive and an appropriate package was the subject of external advice and the remuneration package was approved by the Department for Transport and HM Treasury. His salary includes £22,600 in lieu of pension payment, the full year equivalent of which is £30,000.
7. The 2015-16 performance process is being finalised and the value of payments have yet to be determined. Payments will be made in 2016-17.

Independent non-executive directors (audited)

Independent non-executive directors		
Member	**Year**	**Fee**
Colin Matthews (Chairman)	2015-16	£129,999
Elaine Holt	2015-16	£25,000
David Hughes	2015-16	£25,000
Simon Murray	2015-16	£25,000
Elizabeth Perelman	2015-16	-
Tom Smith	2015-16	£25,000

Notes

1. Service details for directors are shown on page 69 [earlier in the in the governance section].
2. No additional fee is paid for serving as a Committee Chairman.
3. David Hughes serves as a member of the Department for Transport's Group Audit and Risk Assurance Committee (GARAC). He was re-appointed to GARAC for a third term, having been appointed the Chair of Highways' England Audit and Risk Committee (and previously acting as Chair to the Highways Agency's Audit Committee). This was done to provide continuity during the transition from Government Agency to Government-owned company. He was paid a fee of £1,458 for that service for 2015-16 and £860 for the financial year 2014-15.
4. Tom Smith serves as a member of the Nuclear Decommissioning Authority and is paid a fee by that organisation.
5. Elizabeth Perelman was a civil servant in Shareholder Executive in 2015-16. On 1 April 2016, the Shareholder Executive became part of UK Government Investments Limited (UKGI), a Government company wholly owned by HM Treasury. Elizabeth is now serving as a public servant. She is not paid a fee for serving as a the Shareholder's appointed non-executive director for Highways England and did not receive any fees in the 2015-16 financial year

Pay multiples (audited)

The table below shows the comparison between median earnings and earnings of highest paid director against the company.

Pay multiples	
Name	**Year**
Remuneration	£330,000.00
No of Staff	3877
Median Point	1938.5
Median Remuneration	£27,395.60
Ratio	12.046

The median remuneration of the company's staff in 2015-16 as shown in the above table, based on full time equivalents, is £27,395, which has increased from the previous year due to natural pay progression.

The ratio between the median remuneration and the remuneration of the highest paid director is 12.05. This has increased due to the transition from a Government agency to a Government owned company.

In 2015-16, no employees received remuneration in excess of the highest-paid director. Full time equivalent remuneration ranged from £19,868 to £330,000.

The Chief Executive (in his role as Accounting Officer) on behalf of the Board
6 July 2016

The Directors' report for the year ended 2015-16

The directors of Highways England present their annual report on the affairs of the company, together with the financial statements and the Auditors' Report for the period from the establishment of the company on to the end of the financial year on 31 March 2016. Highways England was established on 8 December 2014 and appointed and licensed as a strategic highways company by the Secretary of State for Transport, who is the sole shareholder. Highways England is the highway authority, traffic authority and street authority for England's motorways and major A-roads, which together are known as the strategic road network. The company's registered number is 09346363.

The Highways England Board

The Board is responsible for the overall strategy and direction of the company. Details of the Board's role, composition and responsibilities are set out in Section 10.

Directors and corporate governance

Full details of the company directors and corporate governance requirements are also set out in Section 10.

Employees

The company recognises that the commitment of a skilled and experienced workforce is key to the efficient and effective delivery of our objective to operate, maintain and modernise the strategic road network.

Further information about the company's employment strategy, including our diversity and employee engagement policies, is in Section 7.

The number of the company's employees as at 31 March 2016 was 3,621. This figure includes secondees and Executive directors, but excludes interims, contractors and independent non-executive directors.

Sustainability, Corporate Responsibility and Environment

We are committed to ensuring that activity on our network is delivered in a manner that does not harm the environment. Details on the measures we are taking to reduce impacts on both the built and natural environment are set out in Section 6.

Human Rights in the Supply Chain

The company is not a commercial organisation as defined in the Modern Slavery Act 2015, which covers how companies need to be aware of modern slavery practices in their supply chain. However, our supply chain is required to comply with all legal requirements and we use our contractual arrangements and regular meetings with our contractors to remind them of the need to comply with all legislation including the Modern Slavery Act.

Payment to suppliers

Our payment systems will ensure that suppliers to Highways England are paid promptly and that 25% of suppliers are from small and medium-sized enterprises. More detail is provided within the Finance Director's report in Section 8.

Charitable and political contributions

During the year the company made no charitable or political contributions.

Results, going concern, share capital and dividend

The company has prepared its financial statements for the reporting period in accordance with International Financial Reporting Standards (IFRS) rules. The audited financial statements for the reporting period ending 31 March 2016 are set out in Section 13.

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements have therefore been prepared on a going concern basis. The basis of this view is outlined in more detail in note 2.6 to the financial statements. The company does not pay a dividend.

The company is a Government not-for-profit company incorporated by shares and funded by grant-in-aid. The sole shareholder is the Secretary of State for Transport and the authorised and paid-up share capital is £10. The way in which the company's short-term and long-term funding needs are met, including by the funding commitment from the Government through the Road Investment Strategy, are set out in note 16 to the financial statements.

Directors' third party indemnity provisions

The company has appropriate directors' and officers' liability insurance in place in respect of legal action against, among others, its executive and independent non-executive directors.

Conflicts of interest

The company has established procedures in place in accordance with its Articles of Association to ensure we comply with the directors' conflicts of interest duties under the 2006 Companies Act; and for dealing with any situation in which a director may have a direct or indirect interest that conflicts with, or may conflict with, the interests of the company.

In 2016, the Board carried out an annual review of previously approved conflict or potential conflict matters and to the extent that these were still relevant, agreed that they should continue to be authorised on the terms previously set out. In each case the review was carried out by directors who were genuinely independent of the matter. Details of any new conflicts are reported to the Board for consideration. The Board will continue to review authorised conflict or potential conflict matters annually.

Directors' responsibilities statement

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year and in the case of the company's first reporting period, the report is made from the period of incorporation to the end of the first operating year concluding 31 March 2016. Under that law the directors have elected to prepare the company financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and in accordance with applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company for that period.

In preparing the financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and accounting estimates that are reasonable and prudent
- state whether applicable IFRS have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are described in this annual report, confirms that to the best of his or her knowledge:

- the financial statements, which have been prepared in accordance with IFRS rules, as adopted by the EU, give a true and fair view of the assets and liabilities, financial position and the profit and loss of the company
- the Directors Report and Strategic Report include a review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. The directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholder to assess the company's position, performance, business model and strategy.

Accounting Officer's responsibilities statement

The Permanent Secretary of the Department for Transport has appointed Jim O'Sullivan as Accounting Officer for the company. The Accounting Officer shares – on an individual basis – many of the directors' responsibilities listed above as well as having responsibility for the propriety and regularity of the public finances for which they are answerable, for keeping proper records and for safeguarding the company's assets. These responsibilities are set out in full in Managing Public Money, published by HM Treasury.

Compliance with the UK Corporate Code

The company is required to comply with the UK Corporate Governance Code 2014 or specify and explain any non-compliance in its annual report. The company believes that the adoption of the principles of the UK Corporate Governance Code is a means of recognising and embedding best practice in corporate governance. The Board considers that for the financial year ending 31 March 2016, Highways England was fully compliant, except for those areas that it cannot comply with, which include:

- provision A4.1 – the Board has not appointed a senior independent non-executive director as the company has a single shareholder, the Board is small and there are a number of arrangements in place which provide for the non-executive directors and the shareholder to raise concerns should they think it necessary

- provision C3.2, C3.7 and C3.8 – the company is unable to appoint, reappoint or remove our external auditors. The requirements reflected within the Framework Document agreed between the Department for Transport and the company requires the National Audit Office to act as the Comptroller and Auditor General and independent auditor for the company.
- Section E – insofar as it requires the company to maintain a dialogue with shareholders based on a mutual understanding of objectives. Highways England has built and maintains its relationship with its single shareholder, the Secretary of State for Transport, and is based on frequent contact with the Department for Transport as their representative. The Board recognises that this sits outside of the corporate norms contained within the Code.

Compliance with other Government best practice codes

David Hughes has served as a non-executive director (and Chair of the Highways Agency and Highways England Audit and Risk Committees) for a period of six years. He was re-appointed for a third term on 1 April 2015 by the Board to provide continuity during the transition from Government Agency to Government-owned company.

Disclosure of information to auditors

The auditor of the company is the Comptroller and Auditor General.

Insofar as each person serving as a director of the company at the date this Directors' Report was approved by the Board is aware, there is no relevant audit information (that is information needed by the auditor in connection with preparing their report) of which the company's auditor is unaware.

Each such director confirms that he or she has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report and its contents is to be taken as the Board's statement of compliance with our Licence and Framework Document obligations. The Board is not aware of any material non-compliance. This document and the accompanying performance statements also constitute our annual progress report under clause 6.26 of the Licence.

The Directors' Report was approved by the Board on 6 July 2016 and **is signed** on its behalf by:

Jim O'Sullivan

The Chief Executive (in his role as Accounting Officer) on behalf of the Board

Auditors' report

Independent Auditor's report to the sole shareholder of Highways England Company Ltd

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

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.

Basis of opinions

I have audited the financial statements of Highways England Company Ltd for the year ended 31 March 2016 which comprise:

- Statement of Comprehensive Net Expenditure;
- Statement of Financial Position;
- Statement of Cash Flows;
- Statement of Changes in Taxpayers' Equity; and
- the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

The regularity framework that has been applied is the Companies Act 2006, the Highways England Company Limited articles of association, the Framework Document between the Department for Transport and Highways England Company Limited and the Strategic Licence Document issued by the Secretary of State for Transport, and HM Treasury authorities and the relevant legislation to the extent it is applicable to the Highways England Company Limited.

Overview of my audit approach

Risks significant to my audit

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole and any comments I make on the results of my procedures should be read in this context.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not, for example, included information relating to the work I have performed around the presumed risk of management override of controls under International Standard on Auditing (UK & Ireland) 240, the Auditor's Responsibility Relating to Fraud in Financial Statements, an area where my work has not identified any matters to report.

Risk	My response
Transition to being a new company	
Under the Companies Act 2006, the Board has elected to comply with International Financial Reporting Standards (IFRS). In applying IFRS, there are several areas where the accounting requirements differ to the financial framework previously adopted by the predecessor body, the Highways Agency, which followed IFRS as adapted by the government Financial Reporting Manual (FReM). This has resulted in the need to amend the recognition, measurement and disclosure of transactions and balances included in the financial statements, such as impairment charges. Management need to ensure that recognition, measurement and disclosure requirements of IFRS are fully met and any departure could result in a material misstatement. This includes the appropriate accounting treatments in respect of the one-off transfer of assets from the predecessor organisation.	I reviewed all material elements of management's response to the transition, including their application of advice from an external accounting firm, as well as considering the completeness of the adjustments identified. In a large number of cases management argued, and I was content, that accounting policies brought forward from the predecessor organisation were correct. Following my challenge, management looked specifically at the treatment of write downs of assets under construction to their estimated replacement cost. In full compliance with IAS 36, these are now charged against the revaluation reserve to the extent possible, where in the Highways Agency these costs had been charged to net expenditure. This change in accounting policy also resulted in an adjustment to the analysis of opening reserves to reflect the retrospective impact of the change, in the spirit of IAS 8. I also focused on the completeness and clarity of management's disclosures in this first year of operation as a limited company; management have made a number of improvements in response to my comments.
Strategic Road Network (SRN) Valuation	
The SRN is the dominant component of the accounts (£108 billion as at March 2016). The valuation comprises a depreciated replacement cost of the SRN using accounting estimates based on the best information available and reflect the actual cost of recent schemes, together with records about the number, type, and condition of physical assets. A number of accounting assumptions are implicit in determining the SRN valuation, the validity of which needs keeping under review; for example, the rate of indexation for standard costings. This is a significant area of judgement and therefore any incorrect or inappropriate assumptions used in deriving a valuation could result in a material misstatement of the balance reported in the accounts.	I performed a number of procedures on the SRN valuation to assess: the quality of source data in the underlying databases; the reasonableness of cost indexation factors applied in-year; the adjustments made in respect of the network's condition; and the other key assumptions inherent in the valuation, including on the continuing validity of recently revised costing rates and methods for depreciating structures. I also considered whether any of my findings were indicative of management bias. While I identified small misstatements in relation to the treatment of assets under construction, on the basis of these procedures I am content that management's valuation represents a reasonable accounting estimate in respect of this cost-based fair value estimate for the SRN.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement or irregularity. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the company's financial statements at £1.2bn, which is approximately 1% of the value of Strategic Road Network (SRN) asset. I chose this benchmark given users' interest in the company's performance in managing and enhancing the SRN.

I have determined that for financial statement components unconnected with the SRN, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the additional user interest in the cost of the company's activities. I have therefore determined that the level to be applied to these components is £60m, being approximately 2% of the company's total expenditure, excluding non-cash costs, such as depreciation and impairment, but including capital additions.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in Directors' Remuneration. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I applied the same concept of materiality to my audit of regularity. In planning and performing audit work in support of my opinion on regularity and evaluating the impact of any irregular transactions, I took into account both quantitative and qualitative aspects that I consider would reasonably influence the decisions of users of the financial statements.

I agreed with the Audit and Risk Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £250,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit and Risk Committee would have increased net assets and net expenditure by £72m and £4m respectively.

Scope of my audit

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 group and parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

In addition I read all the information and non-financial information in the Strategic 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 report.

I am also 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.

Other matters on which I report under the Companies Act

Directors' remuneration

In my opinion, the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act.

I also report to you if, in my opinion, certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year are consistent with the financial statements and have been prepared in accordance with applicable law.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in these reports.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit, the information given in the corporate governance report in respect of internal control and risk management systems in relation to financial reporting processes is consistent with the accounts and has been prepared in accordance with applicable law.

In my opinion, based on the work undertaken in the course of the audit, rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority have been complied with.

Based on my knowledge and understanding of the company and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

- adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;
- the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

I have nothing to report arising from this duty.

Consistency of information in the Annual Report

Under International Standards on Auditing (UK & Ireland), I am required to report to you if, in my opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, the knowledge of the company that I acquired in the course of performing my audit; or
- otherwise misleading.
- In particular, I am required to consider:
- whether I have identified any inconsistencies between the knowledge that I acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable; and
- whether the annual report appropriately discloses those matters that I communicated to the Audit and Risk Committee which I consider should have been disclosed.

I have nothing to report arising from this duty.

The directors' assessment of principal risks and future prospects

Under International Standards on Auditing (UK & Ireland), I am required to report to you if I have anything material to add, or to draw attention to, in relation to the directors' disclosures in the annual report and financial statements:

- confirming that they have carried out a robust assessment of principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity;
- describing those risks and explaining how they are being managed or mitigated;
- on whether they considered it appropriate to adopt the going concern basis, and their identification of any material uncertainties to the entity's ability to continue over a period of at least twelve months from the date of approval of the financial statements; and
- explaining how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

I have nothing material to add, or to draw attention to, on these matters.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities the directors are responsible for the preparation of the financial statements and for being satisfied that they give a trues and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and with ISAs (UK & Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Matt Kay
Senior Statutory Auditor

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
London, SW1W 9SP

8 July 2016

Financial Statements

Statement of Comprehensive Net Expenditure for the period ended 31 March 2016

	Note	Period to 31 March 2016 £000
Staff costs	5	112,855
Maintenance and similar activities		446,691
Interest on PFI finance leases	19	127,618
PFI service charges	19	318,459
Depreciation and amortisation	8 & 9	912,736
Derecognition of SRN assets	8	13,394
Impairment	8 & 10	2,722
Other expenditure	6	98,275
Operating income	4	(36,799)
Net expenditure before taxation		**1,995,951**
Taxation	7	570
Net expenditure after taxation		**1,996,521**
Other comprehensive net expenditure		
Items that will not be reclassified to net expenditure		
Net loss on remeasurement of property, plant and equipment	8.4(c)	2,498,818
Total comprehensive net expenditure for the period ended 31 March 2016		**4,495,339**

Highways England Company Ltd was incorporated on 8 December 2014 and commenced trading on 1 April 2015. These are the first set of accounts produced for the company, reflecting the period to 31 March 2016. Further detail on the accounting period is described in note 1.

The accounting policies and notes on pages 99 to 134 form part of these accounts.

Statement of Financial Position as at 31 March 2016

	Note	31 March 2016 £000
Non-current assets		
Property, plant & equipment	8	108,782,333
Intangible assets	9	2,014
Trade and other receivables	12	9,784
Total non-current assets		**108,794,131**
Current assets		
Assets classified as held for sale	10	8,955
Inventories	11	31,598
Trade and other receivables	12	179,622
Cash and cash equivalents	13	22,922
Total current assets		**243,097**
Total assets		**109,037,228**
Current liabilities		
Trade and other payables	14	651,724
Provisions	15	37,137
Total current liabilities		**688,861**
Non-current assets less net current liabilities		**108,348,367**
Non-current liabilities		
Provisions	15	91,964
Other payables	14	1,612,253
Total non-current liabilities		**1,704,217**
Assets less liabilites		**106,644,150**
Taxpayers' equity		
Share capital	22	-
Capital contributions		49,204,761
Retained earnings		1,130,079
Revaluation reserve		56,309,310
Total taxpayers' equity		**106,644,150**

Highways England Company Ltd was incorporated on 8 December 2014 and commenced trading on 1 April 2015. Further detail on the accounting period is described in note 1.

The accounting policies and notes on pages 99 to 134 form part of these accounts.
The issued share capital of the company is £10, as detailed in note 22.
These financial statements were approved and authorised for issue by the board of directors on 6 July 2016, and were signed on its behalf by:

Jim O'Sullivan, Chief Executive Officer

Company registered number: 9346363

Statement of Cash Flows for the period ended 31 March 2016

	Note	Period to 31 March 2016 £000
Cash flows from operating activities		
Net operating cost		(1,996,521)
Adjustment for non-cash transactions		928,611
(Increase)/decrease in inventories		(2,034)
(Increase)/decrease in trade and other receivables		(10,690)
(Decrease)/increase in trade and other payables		(96,993)
less movement in payables relating to items not passing through the SoCNE		2,669
Use of provisions	15	(51,049)
Adjustment for capital element of PFI payments		69,972
Net cash outflow from operating activities		**(1,156,035)**
Cash flows from investing activities		
Purchase of property, plant and equipment	8	(1,917,628)
Purchase of intangible assets	9	(2,512)
Proceeds of disposal of assets		10,926
Capital element of movement in provisions	15	22,985
Net cash outflow from investing activities		**(1,886,229)**
Cash flows from financing activities		
Capital contribution from shareholder: current year		3,126,600
Capital contribution from shareholder: initial transfer		8,558
Capital element of payments in respect of on balance sheet PFI contracts		(69,972)
Net financing		**3,065,186**
Net increase/(decrease) in cash in the period		**22,922**
Cash at the beginning of the period		**-**
Cash at the end of the period	13	**22,922**

Highways England Company Ltd was incorporated on 8 December 2014 and commenced trading on 1 April 2015. These are the first set of accounts produced for the company, reflecting the period to 31 March 2016. Further detail on the accounting period is described in note 1.

Statement of Changes in Taxpayers' Equity for the period ended 31 March 2016

	Note	Capital contributions £000	Retained earnings £000	Revaluation reserve £000	Total equity £000
Balance transferred in 1 April 2015	3	**49,084,434**	**-**	**58,928,455**	**108,012,889**
Changes in Taxpayers' equity for 2015-16					
Net loss on revaluation of property, plant and equipment		-	-	(2,498,818)	(2,498,818)
Transfers between reserves		120,327	-	(120,327)	-
Net comprehensive (expenditure) for the period		-	(1,996,521)	-	(1,996,521)
Total recognised income and expenses for period ended 31 March 2016		**49,204,761**	**(1,996,521)**	**56,309,310**	**103,517,550**
Funding from shareholder		-	3,126,600	-	3,126,600
Balance at 31 March 2016		**49,204,761**	**1,130,079**	**56,309,310**	**106,644,150**

Highways England Company Ltd was incorporated on 8 December 2014 and commenced trading on 1 April 2015. These are the first set of accounts produced for the company, reflecting the period to 31 March 2016. Further detail on the accounting period is described in note 1.

The issued share capital of the company is £10, consisting of ten shares of £1. This small amount is included in the "Funding from shareholder" line.

Notes to the financial statements for the period ended 31 March 2016

1. General information

Highways England Company Limited ("Highways England" or "the company") is a private company limited by shares and domiciled in the United Kingdom and registered in England and Wales under the Companies Act 2006. The company is wholly owned by the Secretary of State for Transport and the company registration number is 9346363. The registered office of the company is situated at Bridge House, 1 Walnut Tree Close, Guildford, Surrey GU1 4LZ, and the company's principal activities are to operate, maintain and modernise the strategic road network (SRN) in the interests of its customers.

Highways England was incorporated on 8 December 2014 and commenced trading on 1 April 2015, following the transfer of assets and liabilities from the Highways Agency. The period covered by these accounts is therefore 15 months and 24 days, however no economic activity took place at Highways England until 1 April 2015, as a result the period of economic activity described in the SoCNE is 12 months. These are the first set of accounts produced, reflecting the period to 31 March 2016.

2. Accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applied in accordance with the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

Where IFRS permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the company for the purpose of giving a true and fair view has been selected. The particular accounting policies adopted are described below. They have been consistently applied in dealing with items considered material in relation to the accounts.

2.2. Measurement convention

These financial statements have been prepared on the historical cost basis, except where specific departures (including fair value approaches) are described elsewhere in these policies.

2.3. Prior year comparatives

As a newly formed company these are the first set of accounts published by Highways England and therefore there are no prior year comparatives. However, some of the notes do show the opening balances transferred to the company as at 1 April 2015. The assets transferred are shown in Note 3.

The annual report and accounts of the Highways Agency's prior year activities can be found at https://www.gov.uk/government/publications/highways-agency-annual-report-and-accounts-2014-to-2015.

2.4. New or amended accounting standards and interpretations

The company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the period ending 31 March 2016 to determine the impact on the company's financial statements. The company has changed its accounting policy on the interpretation of IAS 36 with regard to the impairment of assets under construction. Further details and the impact of this change can be found in notes 2.7, 3 and 8.1.

2.5. New or amended accounting standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended 31 March 2016, 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 impairment on the company's financial assets, because the expected credit losses on those assets are considered to be immaterial.

- IFRS 15 Revenue from Contracts with Customers is expected to come into effect from 1 January 2018, 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 company.

- IFRS 16 covering Leases was issued in January 2016 and will be effective from January 2019. It 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 Highways England 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. The service charge element of the Private Finance Initiatives will also be reviewed to assess impact in due course.

Other changes due to come into effect after 31 December 2018, are considered to have no material impact on the company.

2.6. Going concern

The Statement of Financial Position (SoFP) as at 31 March 2016 shows net current liabilities of £445.8m. This reflects the inclusion of current liabilities that will be settled post 31 March 2016; largely from grant in aid funding from the company's sponsoring department – Department for Transport (DfT). The 2016-17 grant in aid funding has been included in the Estimates, which have been approved by Parliament.

The directors have a reasonable expectation that the company has adequate resources to continue to operate for the foreseeable future. The financial statements are therefore prepared on a going concern basis. In forming this view the directors/management have:

a) reviewed the company's future funding commitments received from the Government through the publication of the Road Investment Strategy, which sets out capital funding for the company through to 2020-21;

b) kept the DfT fully aware of commitments made which stretch beyond the period covered by the Roads Investment Strategy;

c) reviewed the company's budgets, plans and cash flow forecasts;

d) reviewed the DfT's main estimate for 2016-17.

2.7. Critical accounting judgements and key sources of uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities (including contingent), income and expenditure. Actual results may differ from those estimates.

The major accounting considerations for Highways England as a result of the transition from a Government agency to a Government owned company, around the full adoption of IFRS included:

- Treatment of the asset revaluation reserve: Under IFRS there is no clear guidance as to whether the asset revaluation reserve and accumulated depreciation can be brought forward into Highways England's opening Statement of Finance Position. Following advice the company decided it was correct to bring the balances forward.
- Detrunking: Under the FReM, detrunkings have historically been treated as prior period adjustments, on the basis they were a transfer of function. They were treated as a disposal for nil consideration, with the loss going against reserves rather than being charged to the SOCNE. Under IFRS detrunkings are reflected in the current year as a disposal for nil consideration, with the loss being charged to the SoCNE. Detrunkings will therefore represent a reconciling item between the company's IFRS financial statements and DfT's consolidated FReM financial statements.
- Initial recognition: Under IFRS the initial transfer of assets from the Highways Agency to Highways England will be accounted for as a non-reciprocal capital contribution, rather than going through the SoCNE.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting 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 (P,P&E) – The Strategic Road Network (SRN) is valued using an approach to determine depreciated replacement cost, which is described more fully in note 2.8. The valuation is built up using, principally: an understanding of the extent of the network and its component parts on a modern equivalent basis; the application of a number of costing rates for those component parts, by type; and the condition of the network. In this context, it is sensitive to a number of significant areas of estimation, including:

- **Indices** – between full valuation years, the company applies a number of construction related indices to the costing rates for various elements of the SRN. The company chooses the indices which in its view are most relevant to the replacement costs for the SRN's component parts, and the extrapolation of data to ascertain an estimated standard cost valuation. Information on specific indices is provided in note 2.8.
- **Costing rates** – costings used to inform the valuation of the road and structures elements of the SRN are based on schemes constructed by the company (and, formerly, the Highways Agency) over the past 5 years. In some areas, due to the balance of construction projects completed over this period, there may be a limited number of suitable construction schemes providing a direct costing comparator. The company therefore bases costing rates initially on actual scheme data, but makes adjustments to its extrapolation based on reasonable construction assumptions, such as when and how to extrapolate from small schemes to large ones, in order to ensure that each population of SRN elements is valued in a way that represents its overall composition. Where necessary, the company also draws on the work of professional cost estimators in determining rates.

- **Road condition analysis** – this is determined by surveys carried out across all lanes of the SRN that measure, at 10 metre intervals, the level of rutting (depressions/grooves in the road surface caused by wear or deformation over time). Rutting measures only the 'black top' of the road surface. However, the company uses the rutting level to determine when a road surface requires maintenance intervention, and has therefore determined that this provides a fair approximation for the overall condition of the road surface. The company currently estimates that the level of rutting that is acceptable before intervention is 15.5mm. At this level it is considered there is no further service potential in the road surface and this then triggers the renewals programme.

  Rutting data is used to generate the depreciation charge which is the rutting percentage multiplied by the depreciable element of the road. The company has calculated that the depreciable element of roads is 17.55% of the total road valuation based on the proportion of cost related to the elements regularly renewed. The company judges that the balance of the valuation relates to elements (including sublayers) with useful lives long enough, subject to regular renewal of the top layer, as to require no depreciation charge. If this depreciable element was alternatively estimated as 18.55% of the gross replacement cost of the roads, the net book value of roads as at 31 March 2016 would reduce by £116.1m.

  During 2015-16 there was a change to the algorithms used to process rutting data to generate the depreciation charge. An increase in the rutting results in an increase in the road depreciation charge. The impact of this change to valuation is explained in Note 8.4. Any change in the acceptable level of rutting of 15.5mm will impact the SRN valuation. An increase or decrease of 1mm would result in the valuation increasing by £131.4m and reducing by £131.4m respectively.

- **Structures** (e.g. bridges) are subject to a depreciation charge based on the an asset valuation model reflecting both the impact of deterioration over time, and periodic renewal, as described in note 2.8. The company keeps information on the condition of its structures under regular review to assess whether an adjustment is required for depreciation. The company judges that no such adjustment was required for the current year.

- **Impairment of Assets Under Construction (AUC)** – For the 2015-16 Highways England accounts there has been an accounting policy change where, instead of charging the write down to the SoCNE, the write down has been charged against the SRN revaluation reserve to the extent there is a reserve. This accounting treatment adopts the interpretation of IAS 36, Impairment of Assets, by making no distinction between asset 'constructed' and asset 'under construction'. In compliance with IAS 36 and the Companies Act 2006, the company is treating its constructed and under construction SRN projects as one asset for the purpose of revaluation. This change in policy is also in line with HM Treasury's recent guidance that any impairment loss that arises on the initial capitalisation of infrastructure assets will be offset against existing revaluation reserves.

- **Useful economic life (UEL)** – the company 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, roads and technology equipment, which are based on historic trends and expert knowledge.

b) **PFI** – All PFI contracts are recognised on the company's balance sheet and the following IFRS accounting standards are applied:

- IAS 16 Property, Plant and Equipment
- IAS 17 Leases
- IFRIC 12 Service Concessions.

A PFI property is recognised as a fixed asset and the liability to pay for it accounted for as a finance lease. The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies in note 2.8.

The capital value of the earlier PFI schemes was estimated using the public sector comparator (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means). From 2005-06, the capital value has been based upon the company's best estimate of capital cost at the time the contract was awarded.

The yearly unitary charge payable under PFI contracts is split to allocate payments between the cost of services under the contract and the interest element on the liability.

2.8. Non-Current assets: property, plant and equipment

Property, plant and equipment is sub-categorised into:

- **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.
- **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 company 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 & structures renewals	No minimum value

Expenditure falling below these values is charged as an expense in the Statement of Comprehensive Net Expenditure (SoCNE).

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

- Fixtures and fittings and plant and machinery resulting from office refurbishments; and
- IT assets resulting from major IT upgrades.

SRN

Expenditure on construction schemes in the course of design or construction is capitalised when it is included in the Road Investment Strategy (RIS) and 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 to the construction of an asset, including capital renewal schemes, are capitalised. Staff costs are capitalised by taking the ratio of capital spend to total programme spend for each division.

The SRN is inspected regularly to enable maintenance to be planned on a priority basis and ensure the continued use of the road. Work on the SRN is capitalised only for projects which extend the network's service potential, either through enhancement (e.g. road widening schemes, smart motorway upgrades, new roads or structures) or renewal (e.g. surface replacement works which provide additional years of useful life, major bridge refurbishments). Maintenance expenditure which represents day to day servicing such as, pothole repairs or drainage clearance is charged to the SoCNE as incurred.

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 with its hardware under property, plant and equipment.

Valuation

SRN

The SRN consists of road, structures, land and technology 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 company has chosen to value the network at fair value. The SRN is a specialised asset and as such neither a market approach nor an income approach is available. The company has therefore derived the fair value of the SRN using the depreciated replacement cost approach, which determines the value to a theoretical buyer on the basis of how much it would cost to construct a network of equivalent service potential. Consistent with IFRS 13, this basis represents a reasonable method of estimating fair value, in the absence of other possibilities, since in acquiring the existing network a buyer wishing to acquire equivalent service potential would avoid these replacement costs. At a high level, a depreciated replacement cost estimate involves first creating a gross (‘as new’) replacement cost based on a modern equivalent asset offering the same function (which the company takes to include identical routing and capacity) and on a ‘green-field’ site, before applying depreciation to reflect the current condition of the network.

Highways England surveyors undertake a full valuation of the SRN at intervals not exceeding five years with support from professional cost estimators and surveyors on a rolling basis. Costing rates are kept up to date in intervening years using indexation, as described below. 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). The road, technology and land elements of the SRN were subject to a valuation at 31 March 2015 as part of the rolling five year programme. These valuations are not based on the historic actual cost of construction for individual elements of the SRN. Rather, the company 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. The next structures revaluation will be carried out during 2017-18 as part of the rolling programme.

The SRN valuation is based on a standard cost model, using accounting estimates to determine the valuation. 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 company 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 data, which are triangulated from a number of sources, including historic construction costs, engineering data, regional location data and indexation 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, e.g. the Dartford River Crossing. The valuation for special structures is based on unit rates and actual cost data.
Land	Land is an integral part of the 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 company, e.g. Crown land, it is considered that, as the company has 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. 3. Land rates in England from the Valuation Office Agency (VOA).
Technology	Technology equipment comprises; Variable Message Signs, CCTV, Automatic Number Plater Recognition cameras, cabling, telephones and signal power supplies etc. Unit costs are developed by Highways England commercial team, using rates from technology frameworks currently in place between the company and its contractors and bulk purchase prices for materials procured directly by the company. 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 consistent application of professional judgement by engineers may impact the variability of dimensional data which in turn will impact the valuation of the SRN. Dimensional variance arises as a result of re-measuring the length, width and height etc. of the road and structures by utilising more up to date measuring technology than previously used. Dimensional variance adjustments are charged directly to the revaluation reserve, whereas other revaluations are reflected in the Statement of Comprehensive Net Expenditure (SoCNE) as a net (gain)/loss on revaluation of property, plant and equipment.

Indexation

Various indices are applied in year between full year valuations of the SRN to ensure the final valuation is at current replacement cost. Indexation of the SRN valuation is applied as follows:

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 company 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 replacement will be on a 'greenfield site'. Currently VAT is non-recoverable on 'greenfield site' expenditure. 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)

Highways England accounts for all new projects in the course of design or construction 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). Any impairment loss that arises on the initial capitalisation of the asset will be offset against any existing revaluation reserve. Since there is no distinction between asset 'constructed' and asset 'under construction' for the SRN, there will also be no distinction in the revaluation reserve.

Write-downs

The company writes-down the difference between the cost of construction and the current replacement standard costs.

There are a number of reasons for this difference including:

- 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
- 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.

The company uses standard write-down percentages for construction projects lasting more than one year. These percentages are based on projects constructed over the previous ten years. This ensures the company 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.

Depreciation

SRN

Depreciation is a measure of the book value of an asset that has been consumed during the accounting period. It allocates the cost of utilising 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). 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 renewable road element subject to depreciation comprises:

- Surface layer
- Sub pavement layer
- Drainage, lighting, signage, kerbs, footways
- Road markings and studs
- Rigid concrete roads.

For the purpose of depreciation, the road surface is recognised as a single asset and depreciation on these elements (which are estimated to comprise 17.55% of the gross replacement cost) is calculated in two parts:

1. Capital renewal expenditure on the SRN surface is capitalised, to the extent that it restores the service potential of the asset that has previously been consumed. The company performs renewals so as to maintain the road surface in a steady state and therefore uses the renewals charge as an initial basis for the depreciation charge in the SoCNE.

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 thereby updating the initial depreciation charge based on renewals levels described above to take account of actual changes in condition.

For the balance of road elements not within the 17.55% subject to depreciation, the company judges that these elements (including sublayers) have useful lives sufficiently long, subject to regular renewal of the top layer, as to require no depreciation charge. Renewals for these elements are minimal, but when incurred are capitalised then immediately charged to the SoCNE via the first element of the depreciation policy reflected above.

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	Design Life in Years	Percentage	Description
Bridges and Culverts	20-120	20%	Non-renewable elements not depreciated
		12%	Cyclically renewable elements which are depreciated over 20 years
		68%	Non-cyclically renewable elements that are depreciated over the design life of the structure
Gantries	20-120	100%	The non-renewable elements of a gantry are considered to be negligible therefore a straight line depreciation of 100%
Retaining walls	20-120	100%	The non-renewable elements of retaining walls are considered to be negligible therefore a straight line depreciation of 100%

Cyclical renewable elements are assets which are renewed at the end of their 20 year design life. As the service potential of the asset is replaced by the subsequent renewal the original cost is derecognised with its associated depreciation credited.

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

- Freehold land
- Sub pavement layer of long life pavements and earthworks - the rate of deterioration on this element of the road takes such a long time that is considered infinite.

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. The life span of the majority of technology equipment is 15 years. There are a few technology assets with a life of 25 years, technology assets with a life of 50 years are typically structures built for the asset i.e. MS4 mast.

Derecognition and impairment

Elements of the SRN removed from service during the year are treated as derecognitions under IAS 16 and charged to net expenditure. Additionally, the road surface and other SRN components are subject to an annual impairment review. Impairments are recognised as required by IAS 36, Impairment of Assets. IAS 36 states that a revalued asset is recognised in the SoCNE to the extent that the impairment loss exceeds the amount in the revaluation surplus for that particular asset.

Non-network assets

Land and buildings, including dwellings

Freehold land and buildings have been valued on the basis of open market value for existing use. External professional surveyors, in accordance with the RICS Appraisal and Valuation Manual, undertake a full valuation of these assets at intervals not exceeding five years. Between valuations values are adjusted with regional land and building indices calculated by Atkins using RICS Rural Land Market Survey and average house price changes per the Land Registry Office House Price Survey.

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

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

Asset:	Valuation date	Undertaken by
Motorway maintenance compounds	31 March 2016	VOA
Motorway service areas	31 March 2015	VOA
Surplus properties (including dwellings)	31 December 2013	VOA
Regional control centres	31 March 2016	VOA
National traffic operations centre	31 March 2016	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 yearly plant and equipment indices supplied by the Office for National Statistics (ONS).

Information technology

Information Technology consists of IT hardware and database development. Other information technology assets are stated at fair value using yearly plant and equipment indices supplied by the ONS.

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	15 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 (1)
Assets held for sale	no depreciation

(1) Capital spares (e.g. 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.

2.9. Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5 and comprise surplus land, buildings and dwellings (being land and property released from road schemes), plant and equipment and other assets no longer used. Assets classified as held for sale are available for sale within 1 year, in their present condition, and are being actively marketed. These assets are valued at the lower of carrying amount and fair value (market value) less selling costs where material.

2.10. 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:

- The software or databases are technically feasible;
- There is an identifiable asset that will produce future benefits; and
- 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.

2.11. Inventories

Inventories are valued at the lower of cost and net realisable value. The cost of inventories is computed based on the weighted average cost of items acquired over different periods. 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 its estimated net realisable value.

2.12. 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 for capitalisation. 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.

2.13. Operating income

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

It principally comprises fees and charges for services provided on a full-cost basis to external customers in both the public and private sectors. Operating income is stated net of VAT, and is measured at the fair value of the consideration received or receivable.

2.14. Reserves

As the company generates minimal income, the Department for Transport provides an equity injection in the form of a capital contribution, on behalf of the Secretary of State for Transport in his capacity as the sole shareholder. The funds received are used to finance expenditure that supports the objectives of the company in accordance with the general service expectation contained in the company's licensing terms. These capital contributions are credited to a capital contributions reserve separately within equity as they represent contributions from a controlling party. All reserves are non-distributable as defined by section 829 of the Companies Act 2006 as the company is wholly owned by the Secretary of State for Transport.

2.15. 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 company. In making the classification, the company does not separate the land and buildings elements of arrangements which cover both elements. Where the company is the lessor (when all risk and reward has been transferred to the lessee), the company 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 related benefits are deferred over the full term of the lease. Where the company bears substantially the risks and benefits of owning a leased item it is accounted for as a finance lease. The asset is recorded as property, plant and equipment and a liability to the lessor is recorded of the minimum lease payments discounted by the interest rate implicit in the lease. The interest element of the finance lease payment is charged to the SoCNE over the period of the lease at a constant rate in relation to the balance outstanding.

2.16. 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 company 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.

The company currently has twelve PFI properties in service that are recognised as being assets of the company.

The asset and liability are both initially recorded at the fair value of the property and the asset is subsequently revalued and depreciated in accordance with accounting policies. PFI are first recognised once the property comes into use, for example when a road is ready to open for traffic. The capital value of the earlier PFI schemes was estimated using the public sector comparator (the net present value of cash flows that the public sector would pay to construct, operate and maintain the scheme by traditional means). From 2005-06, the capital value has been based upon the best estimate of capital cost at the time the contract was awarded.

2.17. Provisions and financial liabilities

In accordance with IAS 37 the company provides for legal and constructive present obligations where a probable outflow of resources, embodying economic benefits, will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where appropriate, this is supported by independent professional advice. Provisions are charged to the SoCNE unless they relate to capital projects, in which case the provision is added to the asset's carrying amount. The company has not discounted its provisions to present value using appropriate discount rates, as discounting is considered immaterial to the company's financial statements.

2.18. Contingent liabilities

In accordance with IAS 37, the company 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 company's control, and,
- present obligations arising from past events that are not recognised because it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability;

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.

2.19. Contingent assets

A contingent asset arises where an event has taken place that gives the company a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the company.

Contingent assets are not recognised in the SoFP but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits.

2.20. 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.

2.20.1. Financial assets and liabilities

The company 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.

2.20.2. Cash and cash equivalents

Cash and cash equivalents comprise cash and bank deposits and deposits with corporations. The company considers all highly liquid investments with a remaining maturity at the date of purchase of three months or less, and that are readily convertible to known amounts of cash to be cash equivalents.

2.20.3. 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.

2.20.4. Available for sale financial assets

Non-derivative financial assets other than cash, and assets designated as loans and receivables are designated as available for sale financial assets. They are initially recognised at fair value and subsequently re-measured to fair value at each SoFP date. Any increase due to changes in fair value is recognised in reserves.

2.20.5. Financial liabilities

The company 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.

2.20.6. Embedded derivatives

The company has carried out a review of its contracts and has determined that it has no embedded derivatives.

2.20.7. Determining fair value

Fair value is determined by reference to a quoted market price for an 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.

2.20.8. Impairment of financial assets

The company 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 SoFP 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.

2.21. **Trunking/detrunking**

The company has responsibility for the maintenance, management and enhancement of the SRN.

Detrunking – when the company 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 company to local authorities and treated accordingly as a partial disposal of the SRN for nil consideration.

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

2.22. Employee benefits

Short-term employee benefits

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees. Where considered material, the cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period. In practice, all material short-term employee benefits are settled during the period in which they are earned.

Pensions

Employees transferring from the Highways Agency, as at 31 March 2015, in accordance with the New Fair Deal regulations retained access to continued participation in the Principal Civil Service Pension Scheme (PCSPS), on exactly the same Terms and Conditions as other members of the scheme. The PCSPS is an unfunded multi-employer defined benefit scheme. The company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19, accounts for the scheme as if it were a defined contribution scheme.

Employees who joined the company with effect from 1 April 2015 were eligible to participate in a Group Personal Pension (Defined Contribution) Scheme, under which the company contributes 10% into an employee's pension plan, and the employee contributes a further 5%. The pension scheme came into effect on 1 April 2015 and is managed on the company's behalf by Legal & General Ltd.

Under the PCSPS and the Highways England Pension Plan, pension liabilities do not rest with the company. For both schemes, employer pension contributions are recognised as they become payable following qualifying service by employees.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the company to terminate employment before the normal retirement date, or a decision by an employee to accept voluntary redundancy. Amounts payable are charged on an accruals basis to staff costs in the SoCNE when the company is demonstrably committed to the termination of the employment of an employee, or group of employees; or when an employee accepts an offer of voluntary redundancy.

2.23. Taxation

VAT

Most of the activities of the company 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 company 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.

Corporation Tax

The company is liable for Corporation Tax in relation to income earned from business activities. The vast majority of the company activity is non-business as it has a statutory obligation to operate and maintain the SRN and is not in competition with the private sector in carrying out this activity, as no one else has a right to maintain the SRN. Non-business activity is further characterised by the fact the company does not receive any payment in consideration for operating the SRN; instead it is funded from contribution. Non-business activities are not subject to corporation tax.

Business activities for the company are non-statutory obligations where the company is in competition with other providers, income from business activities includes interest income, rental income and income from sale of properties.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the SoCNE except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. The company is unlikely to have deferred tax as business activity is minimal.

2.24. Financing expenses

Financing expenses comprise interest payable on PFI liabilities.

3. Transfer of assets to the company

On 1 April 2015, the majority of the property, rights and liabilities, including the SRN, of the Highways Agency ('the Agency') were transferred to Highways England Company Limited (the company) under the Infrastructure Act 2015. The transfer of assets resulted in a corresponding transfer of the responsibility to manage the SRN in pursuance of the objectives laid down by the Government's roads reform program. The transfer of assets to the company was for nil consideration. The Transfer Scheme between the Secretary of State for Transport to the company was made under section 15 of the Infrastructure Act 2015. Assets and liabilities that did not transfer to the company, but remained with the Secretary of State for Transport include the Severn River Crossing and Midland Expressway Limited. Also, on formation of the Driver and Vehicle Standards Agency (DVSA), several properties previously held in the books of Vehicle and Operator Services Agency (VOSA) have had title pass from the Secretary of State to the company for nil consideration.

The transfer of assets and liabilities from the Highways Agency and VOSA to Highways England and those assets retained by DfT on 1 April 2015 is as follows:

	Highways Agency 31 March 2015 £000	Dept. for Transport 1 April 2015 £000	DVSA 1 April 2015 £000	Highways England 1 April 2015 £000
Non-current assets				
Property, plant & equipment	112,809,801	(2,517,923)	3,570	110,295,448
Intangible assets	-	-	-	-
Trade and other receivables	307,967	(298,008)	-	9,959
Total non-current assets	**113,117,768**	**(2,815,931)**	**3,570**	**110,305,407**
Current assets				
Assets classified as held for sale	14,636	-	-	14,636
Inventories	29,564	-	-	29,564
Trade and other receivables	182,326	(12,164)	-	170,162
Cash	8,558	-	-	8,558
Total current assets	**235,084**	**(12,164)**	**-**	**222,920**
Total assets	**113,352,852**	**(2,828,095)**	**3,570**	**110,528,327**
Current liabilities				
Trade and other payables	735,134	(56,296)	-	678,838
Provisions	51,631	-	-	51,631
Total current liabilities	**786,765**	**(56,296)**	**-**	**730,469**
Non-current assets less net current liabilities	**112,566,087**	**(2,771,799)**	**3,570**	**109,797,858**
Non-current liabilities				
Provisions	101,432	-	-	101,432
Other payables	1,841,449	(157,912)	-	1,683,537
Total non-current liabilities	**1,942,881**	**(157,912)**	**-**	**1,784,969**
Assets less liabilites	**110,623,206**	**2,613,887**	**3,570**	**108,012,889**

The assets and liabilities transferred to the company are measured at the carrying value at 31 March 2015 in the Highways Agency's financial statements. This is consistent with current accounting policies and standards and did not require adjustment on transfer to Highways England.

The company has evaluated the above transfer and concluded that since the transfer was effected by the DfT which is a controlling party of both the Agency and the company, the transfer represents a capital contribution under IFRS. Accordingly, the company has recorded the various assets and liabilities transferred from the Agency at their existing book values in the financial statements of the company in accordance with the guidance for common control transactions with the corresponding credit recorded in equity separately split between capital contributions and the transferred asset revaluation reserve. Due to the new policy of writing off impairments of assets under construction (see note 2.8) to the revaluation reserve, the company has adjusted the opening balance of the revaluation reserve transferred by £6.8bn so that the new policy is effectively applied to the reserve from inception. £1.9bn of the revaluation reserve opening balance has also been transferred to DfT relating to the net assets transferred to DfT in the table above. A liability of £56.3m recognised in the Highways Agency's accounts at 31 March 2015 has not transferred to the company since it is no longer payable to the

Department for Transport under the company's new financing arrangements. The adjusted opening balance for the revaluation reserve is therefore £58.9bn with the opening balance of capital contributions being adjusted to £49.1bn. The initial value at which the assets are recognized in the books of the company on the date of transfer is considered as the deemed cost.

4. Operating income

Operating income principally arises from:

- 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.

Operating income analysed by classification and activity is as follows:

	31 March 2016 Total £000
Recoveries from third parties for damage to the strategic road network	10,252
Fees and charges to external customers	12,436
Other income	14,111
Total	**36,799**

Further information and disclosure under HM Treasury Managing public money can be found at Annex 1 (ii) of the accounts.

5. Staff numbers and related costs

5.1. Staff costs

	Permanent staff £000	Other £000	Total £000
Wages and salaries	125,829	12,143	137,972
Social security costs	10,774	-	10,774
Other pension costs	24,704	-	24,704
Total gross costs	**161,307**	**12,143**	**173,450**
Capitalised staff costs	(56,822)	(3,693)	(60,515)
Less recoveries in respect of outward secondments	(80)	-	(80)
Total net costs	**104,405**	**8,450**	**112,855**

Permanent staff, are those staff with a permanent employment contract with the company. Wages and salaries includes gross salaries, performance pay or bonuses, overtime, recruitment and retention 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 company on a contract to undertake a project or task.

Staff costs for the period ending 31 March 2016 include backdated salaries as well as lump sum payments, the obligation for which arose in the period.

Pensions

The company makes contributions under the Civil Service Pension arrangements and its own Highways England Pension Plan (see also note 2.22):

a) The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi-employer defined benefit scheme. The company 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 2015-16, employers' contributions of £23,934,214 were payable to the PCSPS at one of four rates in the range 20.0% to 24.5% of pensionable earnings, based on salary bands. The Scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £191,720 were payable to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3% to 12.5% of pensionable earnings up to 30 September 2015 and from 8% to 14.75% of pensionable earning from 1 October 2015. Employers also match employee contributions up to 3% of pensionable earnings. In addition, employer contributions of £6,914, 0.8% of pensionable pay up to 30 September 2015 and 0.5% of pensionable pay from 1 October 2015, 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 £15,854. Contributions prepaid at that date were £nil.

b) Employees joining Highways England on or after 1 April 2015 were offered membership of the **Highways England Pension Plan** on an opt out basis. The Highways England Pension Plan is a defined contribution Group Personal Pension Plan administered by a third party provider. Highways England matches employee contributions to personal pension plans on a 2:1 basis, up to a maximum of 10% of gross salary. The default contributions are 5% (employee) and 10% (employer). In addition, life insurance cover is provided for members of the Plan at an average cost of 0.55% of gross salary). This meets our statutory obligation to provide a workplace pension under current legislation.

As this is a defined contribution scheme, Highways England incurs no liability for future pension costs of members of the Pension Plan. For 2015-2016, employers' contributions of £571,646 were payable to the plan.

5.2. Average number of persons employed

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

	Permanent staff	Other	Total
Staff funded from administration budget	235	36	271
Staff funded from programme budget			
Traffic officer staff	1,643	5	1,648
Direct support to front line projects and service delivery	686	43	729
Staff engaged on capital projects	1,112	71	1,183
Average FTE persons employed	**3,676**	**155**	**3,831**

During the period ending 31 March 2016 the actual full time equivalents (FTE) increased from 3,647 to 3,878.

6. Other expenses

	Note	31 March 2016 £000
Information technology		30,242
Research and development expenditure		11,292
Rent, rates and building costs		9,701
Provisions provided for in year	15	9,058
Rentals under operating leases		7,629
Travel and subsistence		6,226
Traffic management vehicle costs		6,050
Recruitment and training		3,392
Consultancy		1,870
Maintenance		1,534
Communication		1,039
Stationery		929
Professional fees		675
Other		8,638
Total		**98,275**

The amount paid or payable to the company's auditors the National Audit Office for the period ending 31 March 2016 was £225,000 and was in relation to the audit of the 2015-16 financial statements. This amount is included in "Other" above.

7. Taxation

	31 March 2016 £000
a) Analysis of the tax charge	
Current taxation UK Corporation tax	570
	570
b) Factors affecting the tax charge for the period	
The effective rate of tax for the period is equal to the standard rate of Corporation tax in the UK of 20%	
The differences are explained below Net expenditure on ordinary activities	(1,996,521)
Net expenditure on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 20%	(399,304)
Effect of: Incomes and expenditure not subject to Corporation tax	399,874
	570

From a corporation tax perspective, the company is not trading with a view to a profit and the contributions received from DfT in relation to the company's principal activity of managing the UK road network are not chargeable to corporation tax. The company's tax liability for the period arises in respect of taxable profit attributable to capital disposals, rental income and interest income received.

At Summer Budget 2015, the Government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020.

These changes were enacted at March 2016 and represent the rates expected by the company to apply to its future taxable profits. Further changes announced at Budget 2016, if enacted, would reduce the same rate, for the year starting 1 April 2020, to 17%.

8. Property, plant and equipment

8.1. Cost or valuation

	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								
Balance transferred in 1 April 2015	**123,393,543**	**379,323**	**163,062**	**179,143**	**48,964**	**121,178**	**96**	**124,285,309**
Capital additions	576,574	1,341,054	-	-	-	-	-	1,917,628
Write down	-	(857,250)	-	-	-	-	-	(857,250)
Disposals	-	-	(1,148)	(5,177)	481	(1,312)	-	(7,156)
Revaluation	(2,456,130)	-	10,809	16,684	5,846	4,517	-	(2,418,274)
Valuation adjustments	(576,574)	-	(177)	-	-	(2,107)	-	(578,858)
Derecognition	(17,668)	-	-	-	-	-	-	(17,668)
Impairment - charged to SoCNE	-	-	(636)	(6,084)	(209)	(45)	-	(6,974)
Impairment - charged to revaluation reserve	(7,655)	-	-	(1,832)	-	-	-	(9,487)
Transfers	244,122	(267,198)	228	6,276	-	11,200	2,860	(2,512)
Reclassifications to assets held for sale	-	-	4,956	(679)	(3,625)	-	-	652
At 31 March 2016	**121,156,212**	**595,929**	**177,094**	**188,331**	**51,457**	**133,431**	**2,956**	**122,305,410**

8.2. Accumulated depreciation and impairment

	Strategic road network £000	Assets under construction £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information technology £000	Total £000
Depreciation and impairment								
Balance transferred in 1 April 2015	**13,804,616**	**-**	**-**	**103,095**	**-**	**82,054**	**96**	**13,989,861**
Disposals	-	-	-	(3,134)	-	(1,282)	-	(4,416)
Impairment	-	-	-	(5,456)	-	(1)	-	(5,457)
Charged in year	897,941	-	-	5,220	-	8,510	567	912,238
Valuation adjustments	(576,574)	-	-	-	-	(2,107)	-	(578,681)
Derecognition	(4,274)	-	-	-	-	-	-	(4,274)
Revaluation	(794,373)	-	-	5,393	-	2,786	-	(786,194)
At 31 March 2016	**13,327,336**	**-**	**-**	**105,118**	**-**	**89,960**	**663**	**13,523,077**

8.3. Net book value

	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 2015	**109,588,927**	**379,323**	**163,062**	**76,048**	**48,964**	**39,124**	**-**	**110,295,448**
At 31 March 2016	**107,828,876**	**595,929**	**177,094**	**83,213**	**51,457**	**43,471**	**2,293**	**108,782,333**

8.4. Strategic road network (SRN)

The SRN consists of roads, land, structures, and technology which form a single integrated network. The SRN is unique and a market value is not available, therefore it is valued using depreciated replacement cost.

	Roads £000	Land £000	Structures £000	Technology £000	Total £000
Gross cost					
Balance transferred in 1 April 2015	**70,129,095**	**11,050,801**	**39,295,322**	**2,918,325**	**123,393,543**
Capital additions - renewals	421,716	-	154,858	-	576,574
Valuation adjustments	(421,716)	-	(154,858)	-	(576,574)
Revaluation	(2,136,614)	580,965	(864,087)	(36,394)	(2,456,130)
Derecognition	-	-	(9,394)	(8,274)	(17,668)
Impairment - charged to revaluation reserve	-	-	(7,655)	-	(7,655)
Transfers	152,585	11,072	15,414	65,051	244,122
At 31 March 2016	**68,145,066**	**11,642,838**	**38,429,600**	**2,938,708**	**121,156,212**
Accumulated depreciation					
Balance transferred in 1 April 2015	2,660,139	-	9,889,242	1,255,235	13,804,616
Full year charge	364,514	-	410,661	122,766	897,941
Valuation adjustments	(421,716)	-	(154,858)	-	(576,574)
Revaluation	(565,043)	-	(232,267)	2,937	(794,373)
Derecognition	-	-	(2,279)	(1,995)	(4,274)
At 31 March 2016	**2,037,894**	**-**	**9,910,499**	**1,378,943**	**13,327,336**
Net book value at 1 April 2015	**67,468,956**	**11,050,801**	**29,406,080**	**1,663,090**	**109,588,927**
Net book value at 31 March 2016	**66,107,172**	**11,642,838**	**28,519,101**	**1,559,765**	**107,828,876**

Gross cost

a) Capital additions

The company invested £576.6m during the year on capital renewal schemes. Renewal schemes replace the service potential of the SRN and is therefore deemed capital expenditure. Renewal schemes are usually small (less than £10m) and usually completed within 6 to 18 months. Significant additions during the year include the following: M3 J2-4a £30.2m, A12 Chelmer Viaduct £19.1m, M54 J3-5 £7.7m, M1 J15-16 £7.6m.

b) Valuation adjustments

The valuation adjustments reduction of £576.6m within gross cost and accumulated depreciation is the value of materials that is removed from the SRN when they are replaced as a result of the capital renewal programme. These materials are accordingly derecognised from the gross cost and the accumulated depreciation of the roads and structures elements of the SRN.

c) Revaluation

The SRN was revalued downwards by £1.7bn. This comprises:

- ROCOS indexation for the year moved downwards from 244 to 238, a reduction of 2.46%. As a result, there was a £2.7bn downward movement in roads, structures and technology valuations. This was reduced by an upwards movement in the lands indices which resulted in an upward revaluation of land amounting to £788.1m;
- Revaluation includes an increase of £219.6m due to changes in the measurement of elements of the SRN, this is identified as dimensional variance; and
- During the year there was a modification to the methodology used to calculate rutting depth as outlined in section 2.7. This modification resulted in a £499.8m improvement in the road valuation.

This combines with other items, including writedown of AUC, to create a net remeasurement through Other Comprehensive Expenditure of £2.5bn.

Net gain/(loss) on remeasurement of PPE recognised in Other Comprehensive Expenditure	Network £000	AUC £000	Non network £000	Total £000
Revaluation - indexation	(1,941,999)	-	29,677	(1,912,322)
AUC writedown	-	(857,250)	-	(857,250)
Impairment charged to revaluation reserve	-	-	(1,832)	(1,832)
Revaluation - dimensional variance - changes to methodology	499,873	-	-	499,873
Revaluation - dimensional variance - other	(219,632)	-	-	(219,632)
Impairment charged to revaluation reserve	(7,655)	-	-	(7,655)
	(1,669,413)	**(857,250)**	**27,845**	**(2,498,818)**

d) Derecognition

Disposal and derecognition for the year was £13.4m. This relates to portal gantries removed as part of the ongoing Smart motorway scheme upgrade and a number of technology equipment removed from the SRN as being beyond economic repair. Highways England is a company and its accounts must reflect the requirements of international accounting standards (IAS). IAS 16 provides the accounting principle for disposal and derecognition of SRN assets. This states that the gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in SoCNE when the item is derecognised.

Accumulated depreciation

The depreciation charge over the period to 31 March 2016 was £897.9m. This consists of:

- Road depreciation for the period of £364.5m. This is made up of the following:
  - Due to the Gross Replacement Cost methodology, the total road renewals spend is deemed to be a proxy for the depreciation charge. There was a depreciation charge of £421.7m for renewal activity during 2015-16; and
  - A credit of £57.2m for road condition, reflecting the improvement in the overall condition of the road element of the SRN. Condition variance also reflects the change in methodology in calculating the variance since the 2014-15 quinquennial review. In previous years only lane 1 survey data was used and extrapolated across other lanes. Highways England now survey all running lanes and therefore all lane survey data is included in the condition variance calculation.
- The structures element of the SRN depreciation charge for the period was £410.7m which consists of:
  - A charge of £255.8m (this figure is stated net of a credit of £184.2m reflecting the positive impact of asset maintenance over a 20 year cycle,

as per note 2.8) for the straight-line depreciation of the structures element of the SRN; and

- A charge of £154.9m that reflects the structures renewal spend which is a proxy for the depreciation charge for structures.

- Technology depreciation for the period of £122.8m.

8.5. Assets under construction (AUC)

Capital expenditure in relation to partly built improvements in the SRN is classified as assets under construction.

a) Capital additions

During the period, the company invested £1,341.0m in a number of ongoing road schemes. This includes £435.8m relating to improvement schemes, £305.1m relating to Smart motorway schemes, £201.5m relating to smaller projects, £130.4m on Bypass schemes, £94m relating to Pipeline schemes and £61.1m for widening schemes.

During the period, the company spent money on preparing a number of renewal schemes for later works. These renewal schemes are classified as capital renewal ‘Pipeline schemes’ as the start of works date will not take place until after 1 April 2016. Pipeline scheme expenditure is reported as asset under construction (AUC) and not as an addition to in-year SRN valuation. Cumulative pipeline scheme expenditure in AUC is £140m

b) AUC transfers

The company transferred £267.2m of completed roads, structures and technology equipment from AUC to the SRN at standard cost during the period.

c) Write-downs

The SRN valuation is based on standard cost and all additions are added at standard cost. The difference between the actual cost of construction and the standard cost valuation of the SRN is defined as write-down. For the period, the write-down was £857.2m which represents 66% of the amount invested for the full year. This includes £267.5m relating to improvement schemes, £278.9m relating to managed motorway schemes, £202.6m relating to smaller projects and £40.5m for widening schemes. This write down has been charged against the revaluation reserve. (Also refer to 2.8 of the accounting policies)

8.6. Other property plant and equipment

a) Land

Land consists of surplus land and land reserved for future road schemes. As at 31 March 2016 this includes commercial land (£38.0m); motorway service areas land (£77.9m) and motorway maintenance compounds land (£26.4m).

b) Buildings

As at 31 March 2016 the value of buildings includes motorway maintenance compounds (£40.4m), regional control centres (£14.5m), and commercial buildings at Dartford (£26.4m).

c) Dwellings

As at 31 March 2016 the value of dwellings is £43.5m, which are classified as either:

- Surplus – awaiting sale or disposal; or
- Non – Surplus – the property retained for a future scheme.

This includes dwellings relating to the following schemes:

	31 March 2016 £m
M42 J3A7 Widening	8.2
Dev A57/A628 Mottram, Hollingworth & Tintwhistle	5.7
Con A3 Hindhead Improvement	5.5
A21 Flimwell To Robertsbridge Imp (Pre)	4.3
M4 J4B-8/9 Widening	3.6

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

	31 March 2016 £000
Freehold land and buildings	251,895
Short leasehold buildings (less than 50 years)	8,412
Total	**260,307**

9. Intangible assets

	Software licences £000	Development expenditure £000	Total £000
Cost or valuation			
Balance transferred in 1 April 2015	6,417	75,574	81,991
Additions	2,471	41	2,512
At 31 March 2016	**8,888**	**75,615**	**84,503**
Amortisation			
Balance transferred in 1 April 2015	6,417	75,574	81,991
Charged in year	494	4	498
At 31 March 2016	**6,911**	**75,578**	**82,489**
Net book value at 31 March 2016	**1,977**	**37**	**2,014**

The company has a number of bespoke databases that are fully amortised but continues to provide economic benefits. The databases will be updated or replaced at a future date.

The significant in-house databases by value are; ERP system (based on Oracle) - £26m, ESDAL (abnormal loads management software) - £10m and HAPMS (pavement management system) – £10m.

10. Assets classified as held for sale

	Land and buildings £000	Dwellings £000	Total £000
Balance transferred in 1 April 2015	**10,900**	**3,737**	**14,637**
Disposals	(1,394)	(2,431)	(3,825)
Impairment - charged to SOCNE	(698)	(507)	(1,205)
Reclassifications from property, plant and equipment	(4,277)	3,625	(652)
At 31 March 2016	**4,531**	**4,424**	**8,955**

Disposals include the following sales:

- Land at Southampton Parkway Station Wide Lane, Southampton, Hampshire;
- The Cottage, Hazel Grove, Hindhead, Surrey County;
- Federated House – Land and building, Dorking; and
- Case House Rest Home, Hindhead Road, Hindhead.

11. Inventories

	31 March 2016 £000
Communication/electrical equipment for the strategic road network	20,064
Salt	10,566
Other	968
	31,598

The communication/electrical equipment inventory include variable messaging signs which are extensively used in the ongoing roll-out of Smart motorway schemes across the strategic road network.

The company's salt stock includes reserves held for the 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 deteriorates and therefore the company's policy is to reduce the holding by 3% per annum to reflect the loss from deterioration during the period.

12. Trade and other receivables

	31 March 2016 £000
Amounts falling due within one year	
Trade receivables	41,995
Deposits and advances	8,825
VAT	120,038
Prepayments and accrued income	7,506
Other receivables	1,258
	179,622
Amounts falling due after more than one year	
Prepayments and accrued income	9,784
	9,784
Total receivables	**189,406**

13. Cash

	31 March 2016 £000
Balance transferred at 1 April 2015	**-**
Net change in cash	22,922
Balance at 31 March 2016	**22,922**
The following balances at 31 March 2016 were held at:	
Commercial banks	781
Government Banking Service	22,141
Balance at 31 March 2016	**22,922**

The company does not hold any cash equivalent balances.

14. Trade and other payables

	Note	31 March 2016 £000
Amounts falling due within one year		
Taxation and social security		6,402
Trade payables		45,704
Accruals and deferred income		495,817
Current part of imputed finance lease element of on balance sheet PFI contracts	19	74,410
Other payables		29,391
		651,724
Amounts falling after more than one year		
Imputed finance lease element of on balance sheet PFI contracts	19	1,596,635
Other		15,618
		1,612,253
Total payables		**2,263,977**

15. Provisions

	Land and property acquisition £000	Bridge strengthening £000	Tunnels £000	Early retirement pension £000	Other £000	Total £000
Balance transferred in 1 April 2015	**121,180**	**23,139**	**2,487**	**1,051**	**5,205**	**153,062**
Provided in the year	34,265	50	-	600	3,701	38,616
Provisions not required written back	(11,038)	-	-	(266)	(224)	(11,528)
Provisions utilised in the year	(27,559)	(19,074)	(1,145)	(528)	(2,743)	(51,049)
Balance at 31 March 2016	**116,848**	**4,115**	**1,342**	**857**	**5,939**	**129,101**
Analysis of expected timing of flows:						
Not later than one year	27,158	4,115	1,342	703	3,819	37,137
Later than one year and not later than five years	89,690	-	-	154	1,785	91,629
Later than five years	-	-	-	-	335	335
	116,848	**4,115**	**1,342**	**857**	**5,939**	**129,101**

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

	Note	2015-16 £000
Provisions provided in year		38,616
Less provisions written back		(11,528)
Net provisions expenditure		**27,088**
Split as follows		
Administration expenditure		-
Programme expenditure		4,103
Capitalised expenditure		22,985
		27,088
Provisions provided for in year		4,103
Provision for doubtful debt		2,929
Provision for slow moving stock		2,026
Total provision charge to the SoCNE	6	**9,058**

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.

Other

Other liabilities include those to third parties who have suffered damage or injury as a result of the road network being damaged and are entitled to submit a claim to Highways England for compensation. A provision is made which estimates the value of claims received as at 31 March 2016 that will require settlement by Highways England.

This also includes pension liabilities which relate to former staff that left employment before the formal retirement age of 60. Highways England is responsible for making payments to the pension plan until their retirement age.

16. Financial instruments

IFRS7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the company faces in undertaking its activities. Due to the largely non-trading nature of its activities and the way in which Government entities are financed, the company 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 company 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 company in undertaking its activities. Nevertheless, the company's Board of directors has overall responsibility for the establishment and oversight of the company's risk management framework. The core operations of the company are resourced largely from funds voted by Parliament and so has limited dependency on revenues from customers. This substantially reduces many financial risks.

16.1. Credit risk

Credit risk is the risk of suffering financial loss, should any of the company's customers or counterparties fail to fulfil their contractual obligations to the company. Some of the company's customers and counterparties are other public sector organisations. No credit risk arises from these organisations since the receivables are backed by the Government. For those customers and counterparties that are not public sector organisations, the company has policies and procedures in place to ensure credit risk is kept to a minimum.

The carrying amount of financial assets represents the maximum credit risk exposure. Receivables are impaired on the basis of either ageing by receivable type or where a specific receivable is deemed to be recoverable or irrecoverable, based on the information available.

The following table provides an overview of the ageing profile of the financial assets comprising trade and other receivables.

	31 March 2016 £000
Ageing of financial assets	
Neither past due nor impaired	186,607
Past due 1-30 days	272
Past due 31-60 days	340
Past due 61-90 days	243
Past due >90 days	1,944
	189,406

16.2. Liquidity risk

Liquidity risk is the risk that the company is unable to meet its obligations when they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed condition. The company's policy is to determine its liquidity requirements by the use of short-term cash flow forecasts. These forecasts are supplemented by the Government's long term funding commitment under the Road Investment Strategy (RIS).

The company believes that its contractual obligations, including those shown in commitments and contingencies in notes 17,18, 19 and 20, can be met in the short term from existing cash and other current assets, and the funding it receives annually that is voted by Parliament. The longer term needs are met from the funding commitment provided by the Government through the Road Investment Strategy.

Contractual cash flows as at 31 March 2016	No later than one year £000	Later than one year and not later than five £000	Later than five years £000	Total £000
Non-derivative financial liabilities				
Trade payables	547,923	-	-	547,923
Finance lease liabilities (PFI's)	74,410	305,025	1,291,610	1,671,045
Other non-interest bearing liabilities	29,391	15,618	-	45,009
	651,724	**320,643**	**1,291,610**	**2,263,977**

16.3. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the company'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 company.

16.3.1. Interest rate risk

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

16.3.2. Exchange rate risk

This is the risk that the company will suffer financial loss due to changes in exchange rates. The company undertakes a small number of foreign currency transactions primarily in Euro and is not exposed to significant exchange risk. Given the quantum of transactions in foreign currency, the company has assessed that a strengthening or weakening of Euro will not have any significant impact on the financial statements.

16.3.3. 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 company 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.

	Loans and receivables £000	Other financial assets and liabilities £000	Total £000
Trade and other receivables	-	189,406	189,406
Cash	-	22,922	22,922
Trade and other payables	-	(2,263,977)	(2,263,977)
As at 31 March 2016	**-**	**(2,051,649)**	**(2,051,649)**

17. Capital commitments

	31 March 2016 £000
Contracted capital commitments not otherwise included in these accounts	
Property, plant and equipment	**1,149,454**

The company's capital commitments as at 31 March 2016 include the following significant project commitments:

- £110.0m 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;
- £109.6m 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;
- £79.4m relating to the A556 Knutsford to Bowden upgrade; the company 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;
- £73.6m 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; and
- £54.5m 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.

18. Commitments under leases

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

	Land and buildings 31 March 2016 £000
Obligations under operating leases comprise	
Not later than one year	7,386
Later than one year and no later than five years	29,169
Later than five years	30,834
	67,389

19. Commitments under Private Finance Initiatives

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

	Contract start date	Duration Years	Initial capital value £m	Closing balance obligation £m	Service charge commitment £m
M40 Denham to Warwick	06-01-1997	30	71.2	38.0	428.7
A19 Dishforth to Tyne Tunnel DBFO	24-02-1997	30	47.8	24.6	421.1
A30/A35 Exeter to Bere Regis	01-10-1996	30	135.1	70.7	11.5
A1 (M) Alconbury to Peterborough	01-04-1996	30	192.3	91.8	112.3
A419/A417 Swindon to Gloucester	01-04-1996	30	104.6	53.1	151.9
A50/A564 Stoke to Derby link	01-07-1996	30	37.3	18.9	131.6
M1-A1 Yorkshire link	01-07-1996	30	395.4	200.6	24.6
A69 Carlisle to Newcastle	01-04-1996	30	19.6	9.9	117.6
A1(M) Darrington to Dishforth	07-05-2003	33	236.4	196.0	603.3
A249 Iwade to Queenborough	01-04-2004	30	92.8	75.0	132.5
M25 London Orbital Motorway contract	01-05-2009	30	906.0	883.0	6,260.4
National Roads Telecommunications Services	16-09-2005	11	27.2	9.4	43.4
			2,265.7	**1,671.0**	**8,438.9**

The substance of the PFI contract under IFRIC 12 is that the company has a finance lease, with the asset being recognised as a non-current asset of the company. Payments under on balance sheet PFI contracts comprise; a capital element, imputed finance lease charge and service charges.

The total payments under on balance sheet PFI contracts for which the company is committed are given in the tables below, analysed according to the period in which the commitment expires.

19.1. Imputed finance lease charges under on balance sheet PFI contracts comprise:

	31 March 2016 £000
Not later than one year	197,590
Later than one year and not later than five years	750,745
Later than five years	2,421,124
	3,369,459
Less interest element	(1,698,414)
	1,671,045

19.2. Capital element under on balance sheet PFI contracts comprise:

	31 March 2016 £000
Not later than one year	74,410
Later than one year and not later than five years	305,025
Later than five years	1,291,610
	1,671,045

19.3. Interest element under on balance sheet PFI contracts comprise:

	31 March 2016 £000
Interest commitments	
Not later than one year	123,180
Later than one year and not later than five years	445,720
Later than five years	1,129,514
	1,698,414

The total amount charged in the SoCNE in respect of interest on balance sheet PFI transactions for 2015-16 was £127.6m.

19.4. Details of the minimum service charge analysed according to the period in which the commitment expires:

	31 March 2016 £000
Not later than one year	327,294
Later than one year and not later than five years	1,366,311
Later than five years	6,745,260
	8,438,865

The total amount charged in the SoCNE in respect of the service element of on balance sheet PFI transactions for 2015-16 was £318.5m.

20. Contingent liabilities and assets

2.1. Contingent liabilities disclosed under IAS 37

	31 March 2016 £000
The company has the following quantifiable contingent liabilities:	
Land and property acquisition	278,754
Engineering & construction services	3,400
Other	8,423
	290,577

20.1.1. Land and property acquisition

Contingent liabilities relating to land and property acquisitions arise from the following sources:

Acquisition and blight

The construction of any major road construction scheme invariably requires the acquisition of property. The Highways Act 1980 gives the Secretary of State the power to make compulsory purchases. Possible purchases for schemes in the 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 under Part 1 of The Land Compensation 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 company accounts for the constructive obligation as a provision. A legal obligation crystallises one year after the road has opened for traffic when homeowners are entitled to lodge claims that are normally settled in less than a year. Such obligations are treated as contingent liabilities until the start of construction work.

Claims in dispute

As at the SoFP date, the company is involved in a number of property cases that have been referred to the Lands Tribunal for resolution or are otherwise in dispute. The company 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.

20.1.2. Engineering and construction services

The company 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.

20.1.3. Other

Other contingent liabilities includes partial claims from third parties who have suffered damage or injury as a result of the SRN being damaged, and a number of arbitration cases in respect of contractual claims for engineering and construction services. These claims are estimated based on prior years' experience.

The Historic Estate assets which are held by the Secretary of State for Transport, together with any related contingent liabilities, are included in the DfT's accounts.

20.1.4. Contingent assets

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

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

As it is not known for some years after the initial disposal whether any further income will arise the company has a contingent asset relating to future values.

The company also 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 link between the M54 to the M6 Toll. The commitment amount is indexed according to the Road and Construction Tender Index from May 2006.

21. Related party transactions

The company is an arm's length body of the Department for Transport. The Department is regarded as a controlling related party. The company's primary source of funding is through the DfT based on approved expenditure that is voted on by Parliament. The total amount of funding received from the DfT for the period ended 31 March 2016 amounted to £3.1bn. During the year the company had a significant number of other transactions with the Department (£113.1m). In addition the company had transactions with other Government departments and agencies, principally HM Treasury (£8.0m), HM Revenue and Customs (£6.6m), Government Legal Department (£1.3m), Valuation Office Agency (£1.1m), and a number of Local Authorities. The company has a contract with Lex Autolease Ltd whose ultimate parent company is Lloyds Banking Group, in which the Government holds an interest. As per Note 23, the company 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 company during the year. There are no conflicts of interest to report.

22. Equity shares

	31 March 2016 £
Authorised	
10 Ordinary shares at £1 each	10
Allotted, called up and fully Paid	
10 Ordinary shares at £1 each	10

23. Third party assets

The company, 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 company as work progresses.

These bank accounts are not company assets and therefore are not included in the company's SoFP.

	31 March 2016 £000
Lloyds Escrow Bank Accounts	1,143
Lloyds Euro Bank Account	63
	1,206

24. Events after the reporting period

There have been no events since the 31 March 2016 to the date the accounts were authorised for issue which would affect the understanding of these accounts. The result of the referendum held on 23 June was in favour of the UK leaving the European Union. A reasonable estimate of the financial effect of this event cannot be made.

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

Annexe 1

Highways England Company Limited Government Financial Reporting Manual (FReM) disclosures for the period ending 31 March 2016

(i) 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 Highways England 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.

2015-16	Number of compulsory redundancies	Number of other departures agreed
<£10,000	-	5
£10,000 - £25,000	2	5
£25,000 - £50,000	1	6
£50,000 - £100,000	1	4
£100,000 - £150,000	-	-
£150,000 - £200,000	-	-
£200,000 plus	-	-
Total number of packages / cost £	4	20
Total Resource cost (£)	**145,359**	**656,360**

(ii) Operating income

Disclosure under HM Treasury Managing public money

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

31 March 2016	Income £000	Full Cost £000	Surplus/ (deficit) £000
Recoveries from third parties for damage to the strategic road network	10,252	12,202	(1,950)
Fees and charges for third party schemes	12,436	12,436	-
National vehicle recovery	4,205	4,655	(450)
Rental income from properties	4,174	2,697	1,477
Other income	2,295	2,294	1
	33,362	**34,284**	**(922)**

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 SRN has not been possible due to value for money considerations.

Operating income analysed by classification and activity is as follows:

	31 March 2016 £000
Administration income	
Cost recoveries/rental income	1,774
Other income	855
	2,629
Programme Income	
Fees and charges to external customers	12,436
Rental income from properties	4,174
Recoveries from third parties for damage to the strategic road network	10,252
Interest receivable	13
Recovery of costs incurred on M6 toll scheme	17
National vehicle recovery	4,205
Other	3,073
	34,170
Income Totals	**36,799**

(iii) Intra-Government receivables

	Amounts falling due within one year 31 March 2016 £000	Amounts falling due after more than one year 31 March 2016 £000
Balances with:		
Other central Government bodies	120,985	-
Local authorities	3,478	-
Public corporations and trading funds	14	-
Total intra-government balances	**124,477**	**-**
Balances with bodies external to Government	55,145	9,784
Total receivables	**179,622**	**9,784**

(iv) Intra-Government payables

	Amounts falling due within one year 31 March 2016 £000	Amounts falling due after more than one year 31 March 2016 £000
Balances with:		
Other central Government bodies	19,055	298
Local authorities	7,536	2,044
NHS Trusts	-	-
Public corporations and trading funds	188	-
Total intra-government balances	**26,799**	**2,342**
Balances with bodies external to Government	624,945	1,609,911
Total payables	**651,724**	**1,612,253**

(v) 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

	2015 - 2016
Total number of losses	
Bookkeeping/cash losses	9
Claims abandoned	826
Fruitless payments	-
Store losses	448
Total	**1,283**
	2015 - 2016 £000
Total value of losses	
Bookkeeping/cash losses	3
Claims abandoned	6,201
Fruitless payments	-
Store losses	2,222
Total	**8,426**

Details of cases over £300,000

Claims abandoned

These losses largely relate to damage to the road network and traffic management clean-up costs, where the culprit is unknown and it is not viable to pursue the claim.

The total includes two reportable cases greater than £300,000. £1,044,629, which relates to unrecovered payments from road users whose vehicles have been removed, stored or disposed under the national vehicle recovery contract arrangements. Recovery of such debts is improbable and not considered value for money to pursue. Also, £515,170, which relates to the damage to the bridge, concrete barrier and road surface of the M42 after a traffic accident in July 2009, where legal advice is that any claim is not likely to succeed.

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. There are no cases of theft or vandalism greater that £300,000.

The only store loss greater than £300,000 during the period relates to a natural deterioration of strategic salt stocks of £565,028.

b) Special payments

	2015 - 2016
Total number of special payments	
Ex-gratia compensation	6
Total	**6**

	2015 - 2016 £000
Total value of special payments	
Ex-gratia compensation	9
Total	**9**

(vi) Segmental reporting

	Resource Expenditure £000	Resource Income £000	Resource Total £000	Capital Expenditure £000	Capital Income* £000	Capital Total £000
Total by segment						
Asset Renewals	-	-	-	663,313	-	663,313
Asset Improvements	-	-	-	1,112,459	(5,000)	1,107,459
Traffic Management	-	-	-	6,918	-	6,918
Other	-	-	-	111,954	-	111,954
Maintenance	277,531	(11,372)	266,159	-	-	-
Renewals	25,031	-	25,031	-	-	-
Operate: Roads PFI	393,512	-	393,512	-	-	-
Operate: General	82,059	(8,278)	73,780	-	-	-
Operate: Cust Ops /Traffic Man	183,955	(5,088)	178,866	-	-	-
Support General	134,425	(6,088)	128,336	-	-	-
	1,096,513	**(30,826)**	**1,065,684**	**1,894,644**	**(5,000)**	**1,889,644**
Unallocated costs						
Depreciation & impairment	928,852	-	928,852	-	-	-
Other	6,985	-	6,985	22,984	-	22,984
	2,032,350	**(30,826)**	**2,001,521**	**1,917,628**	**(5,000)**	**1,912,628**
Budget to accounts reconciliation						
Capital income in resource accounts*	-	(5,000)	(5,000)	-	5,000	5,000
Segmental total per accounts	**2,032,350**	**(35,826)**	**1,996,521**	**1,917,628**	**-**	**1,917,628**

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

Segmental expenditure

- The operating segments are business activities that are regularly reviewed by the company's Board and senior management for decision making purposes.
- Expenditure in the financial statements is split between capital and resource expenditure.
- Assets renewals are a programme of SRN renewals expenditure to ensure the infrastructure continues to deliver according to the service potential, including a significant resurfacing programme.
- Asset improvements include an agreed programme of major improvements expenditure which contributes significantly to increasing capacity and removing bottlenecks.
- Maintenance expenditure relates to lump sum duties including winter maintenance, pot hole repairs, drainage clearing and grass cutting.
- Operate expenditure includes the costs of strengthening the company's SRN management function, maximising SRN availability and reducing the impact of incidents and recurrent congestion.
- Support expenditure includes the resources to help deliver the programme; including staff costs, IT and research and development.

(vii) Highways England off payroll appointees, consultancy and temporary staff

a) 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 their off payroll engagements and related tax arrangements for the periods and scope outlined by HM Treasury. This data is shown in the following tables.

For all off payroll engagements as of 31 March 2016, for more than £220 per day and that last for longer than six months

No. of existing engagements as of 31 March 2016	53
Of which:	
No. that have existed for less than one year at time of reporting	18
No. that have existed for between one and two years at time of reporting	24
No. that have existed for between two and three years at time of reporting	9
No. that have existed for between three and four years at time of reporting	2
No. that have existed for four or more years at time of reporting	0

b) Highways England confirms that all existing off payroll engagements, outlined above, have at some point 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 further evidence has been sought.

For all new off payroll engagements, or those that reached six months in duration, between 1 April 2015 and 31 March 2016, for more than £220 per day and that lasted for longer than six months

No. of new engagements, and/or those that reached six months in duration, between 1 April 2015 and 31 March 2016	131
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	128
No. for whom assurance has been requested	131
Of which:	
No. for whom assurance has been received	114
No. for whom required assurance has not been received	17
No. of those in the line above, who have now left the department	13
No. for whom engagements were terminated as a result of assurance not being received	0
Remaining cases (All in the final stages of review)	4

c) All contracts, apart from 3, included contractual clauses giving the company and the Department the right to request assurance. All engagements were ones where the Department requested tax compliance evidence and there were no contracts where an individual was exempt from this requirement. For the 3 contracts without tax compliance clauses, the individuals engaged were still served with tax compliance letters, evidence of tax compliance was still received, and the engagement would have ceased if the required evidence had not been received. Work is being done to ensure all new engagements have the appropriate contractual clauses. For the remaining 4 outstanding cases, we are in the final stages of review where assurance is being sought. The company has ensured its contractors provide the required assurance to DfT when requested.

For any off payroll engagements of board members, and/or, senior officials with significant financial responsibility, between 1 April 2015 and 31 March 2016

No. of off-payroll engagements of board members, and/or, senior officials with significant financial responsibility, during the financial year	0
Total no. of individuals on payroll and off-payroll that have been deemed "board members, and/or, senior officials with significant financial responsibility", during the financial year. This figure should include both on payroll and off-payroll engagements	7

d) During the year 2015-16 the company employed a number of consultancy and temporary staff.

Expenditure on consultancy and temporary staff in 2015-16 is shown in the table below.

Expenditure on consultancy and temporary staff

	Consultancy £m	Temporary staff £m	Total £m
Highways England	1.87	12.14	**14.01**

Consultancy here is the provision of objective advice relating to strategy, structure, management or operations of an organisation, in pursuit of its purposes and objectives. Such advice will be provided outside the 'business-as-usual' environment when in-house skills are not available and will be time-limited.

Consultancy may include the identification of options with recommendations, or assistance with (but not the delivery of) the implementation of solutions.

This document is also available on our website at **www.gov.uk/highways**

If you have any enquiries about this publication email **info@highwaysengland.co.uk**
or call **0300 123 5000***. Please quote the Highways England publications code **PR54/16**

Highways England, Creative S150670

*Calls to 03 numbers cost no more than a national rate call to an 01 or 02 number and must count towards any inclusive minutes in the same way as 01 and 02 calls. These rules apply to calls from any type of line including mobile, BT, other fixed line or payphone. Calls may be recorded or monitored.

Registered office Bridge House, 1 Walnut Tree Close, Guildford GU1 4LZ
Highways England Company Limited registered in England and Wales number 09346363

ISBN 978-1-4741-3427-9

9 781474 134279