Severn Bridges Act 1992 Account 2014-15

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Foreword and Management Commentary

Background Information

The road across the Rivers Severn and Wye was opened to traffic on 9 September 1966. Under the Severn Bridge Tolls Act 1965 ("the 1965 Act") the Secretary of State for the Department for Transport (DfT) had powers to levy tolls for the use of this road on a scale which would be sufficient, but not more than sufficient, over a period of 40 years from the date of opening to provide for the purposes defined in the 1965 Act.

The 1965 Act was repealed by the Severn Bridges Act 1992 ("the 1992 Act") which provided for the Secretary of State to procure, using private funds, the construction of a second tolled road crossing of the Severn Estuary and to operate a new tolling regime on both crossings.

The new tolling regime came into effect on 26 April 1992, operated by the private sector concessionaire, Severn River Crossing plc (SRC), under a concession agreement with the Secretary of State. SRC designed, constructed and built the second crossing, and operates and maintains both crossings. SRC retains revenues from tolls during the concession period.

Under Section 6 (4) of the 1992 Act, the concession period will run for a maximum of 30 years from 26 April 1992. During that period, SRC is responsible, among other aspects, for levying tolls and for preparing annual statements of accounts of revenue and associated costs. These accounts are independently audited by a firm of chartered accountants and laid before Parliament by the Secretary of State for the DfT in accordance with Section 27 of the 1992 Act.

Under section 5.1.1 of the concession agreement, as amended by the supplemental agreements (detailed below), the concession period will end when SRC achieves a cumulative revenue of £1,028,910,000, expressed in July 1989 prices. The Highways Agency (Agency) reviews the projected concession end date every six months using data supplied by SRC to gain assurance that the revenue target will be recovered within the concession period. The Agency also obtains assurance on the cumulative level of tolls from SRC's annual financial statements.

Financing

Under the concession agreement, SRC assumed responsibility for £122 million of the £126 million outstanding debt on the existing bridge. Of that debt, £62 million was paid by SRC on 26 April 1992, and the balance of £60 million was subordinated (meaning that the loan ranks below other loans with regard to claims on assets or earnings) to lending banks and to stockholders under the terms of an Inter-creditor Agreement[1] until the end of the concession period. There is no further debt committed and so this loan is now the prime debt. The amount of the subordinated debt due to the Consolidated Fund is increased annually in line with the Retail Price Index. Interest at a rate of 2.956% per half annum on the indexed amount was originally payable by SRC by equal half yearly instalments.

Under the 2003 refinancing package, described below, interest payable is now rolled up and added to the subordinated debt to be paid by SRC to the Consolidated Fund at the end of the concession period. The remaining £4 million balance due to the Consolidated Fund is the responsibility of the Secretary of State. On the 31 December 2013, SRC made the first repayment against the principal debt of the Subordinated Loan. As at the 31 March 2015, the total principal repayment made against the loan was £92 million (in cash prices). The concessionaire will pay the accumulated interest amount to the Secretary of State once the principle has been repaid and before the end of the concession period, currently predicted to be mid 2018.

1 Inter-creditor agreement made between the concessionaire, Bank of America International Limited as Agent Bank, Bank of America International Limited as trustee for EIB and the banks providing the Senior Bank Facility, BZW, EIB, The Prudential Assurance Company Limited and the Secretary of State in his capacity as lender.

Relevant events

Value Added Tax

On 12 September 2000, the European Court of Justice ruled that Value Added Tax (VAT) should be applied to tolls levied by private operators. The ruling included those undertakings operated by private companies under a PFI concession agreement with the Secretary of State. VAT was applied to the Severn bridges tolls on 1 February 2003.

The Government gave a commitment to offset the cost of VAT and protect the motorist from the impact of the ruling, and agreed to re-finance the SRC concession. This was formalised in the second Supplemental Agreement that was signed in December 2002. This increased the revenue target from £976,834,740 to £995,830,000; expressed in July 1989 prices to fully compensate SRC for the loss of VAT related revenue.

Industrial Buildings Allowance

The Finance Act 2007 contained provisions to abolish Industrial Buildings Allowances (IBAs) over a phased period between 2008 and 2011. Under the terms of the concession agreement SRC notified the Agency on 22 February 2010 that it considered this change to be an Adverse Relevant Event (ARE) which significantly affected the financial viability of the concession.

The Agency also identified the corporation tax rate reductions over the concession period as a Beneficial Relevant Event (BRE). The Finance (No2) Act 2010 increased the rate of VAT to 20% with effect from 4 January 2011. On 27 August 2010, SRC gave notice of this tax change as a further ARE. The Agency proposed a settlement with SRC in September 2011 as a remedy to these relevant events to enable SRC to complete its obligations under the Concession Agreement. Following detailed negotiations, a Third Supplemental Agreement was signed in June 2012 that increased the value of the cumulative real revenue target by £33.08 million to £1,028,910,000 (all in July 1989 prices). This increase comprised of £23.72 million for the tax changes and £9.36 million for the additional cost associated with toll card payments.

Toll payment methods

On 19 March 2010 The Severn Bridges (Amendment) Regulations 2010 came in to force and permitted the Severn tolls to be paid by "a recognised means of payment" rather than the previous requirement for payment "in cash". SRC introduced facilities for card payments of the tolls in September 2010 and phased in, lane by lane, a system for faster card transactions. The additional costs of implementing and operating the card payment system were included within the settlement outlined above at a value of £9.36 million (in July 1989 prices).

New Facility

To enable SRC to deal with the cash flow changes brought about by the ARE described above and the agreed remedy, a New Facility Consent Letter was agreed pursuant to the Subordinated Loan Agreement between the Secretary of State and SRC. This allowed SRC to obtain a new short term working capital facility to enable the full repayment of debentures when due. In December 2012 SRC obtained a new £30 million working capital facility and a new Intercreditor Agreement was put in place.

If SRC went into administration or if the contract was terminated for any other reason, the Secretary of State would assume full responsibility for the assets and liabilities of SRC. On the basis of SRC's audited accounts as at 31 December 2014 and SRC's latest cash flow forecast, the Agency's own review concludes that SRC is likely to have sufficient funds to be able to meet its liabilities as they fall due. Therefore, the Agency's considered view is that there is no significant risk of SRC not being able to meet its liabilities as they fall due.

Financial Implications of cable corrosions

Significant corrosion of the main suspension cables of the M48 Severn Bridge was identified during an intrusive inspection programme that started in April 2006. Following completion of the special investigations, and the subsequent laboratory wire testing, structural assessment certificates for the Severn Bridge, were signed on 1 April 2008. A monitoring specification was also agreed by the Agency's Technical Approval Authority. The assessment certificates have been recertified annually since 2008.

As part of work to monitor and address the corrosion problem, the Agency has implemented measures to slow down further corrosion by providing a system of dehumidification to dry out the cables. This first stage system, for the most severe location, became operational in February 2008. A second phase of work to install the dehumidification system to the entire length of the cables became operational on 17 December 2008. The system monitoring data shows that the cables are being successfully dehumidified. The relative humidity at all 16 exhaust points reduced to about 20%. The corrosion processes are normally considered to have ceased at levels below 40% relative humidity.

Acoustic monitoring equipment that will help inform on the ongoing rate of cable deterioration, has been installed and is fully operational. A second routine intrusive cable inspection was carried out in 2010 and the results of these inspections confirmed that, although there had been some deterioration within the main cable, the bridge remains in a safe and serviceable condition. Further regular intrusive inspections are likely to be needed at intervals of 4 to 5 years. A third routine intrusive investigation will take place in 2016. This is a routine inspection to confirm that the corrosion issue has stabilised.

The bridge remains safe for use but, as a precautionary measure, vehicles over 7.5 tonnes are currently restricted to lane one in each direction. This is to reduce the risk of the bridge being heavily loaded during an exceptional event, such as an unplanned closure of the M4 Second Severn Crossing.

The M48 Severn Crossing provides a key transportation link supporting the surrounding local economies in England and Wales and the Agency recognises the importance of keeping this route safe and open to traffic. The Agency continues to review the long term traffic management strategy for the M48 and has developed scenario plans, including traffic management measures and repair options with cost ranges.

The costs of dealing with this corrosion, defined as a latent defect, are borne by the Secretary of State and, therefore, shown in these accounts. Cumulative costs incurred up to 31 March 2015 are £21.5 million. These costs form part of the accumulated deficit and will be recovered from tolls to be levied by the Secretary of State during the period between the end of the concession period and the date on which the power to levy tolls will cease, being 25 April 2027 or such earlier date as may be determined under section 7 of the Severn Bridges Act 1992.

Accounts of the Secretary of State

Under Section 28 (1) (b) of the 1992 Act the Secretary of State is required to prepare a statement of accounts in respect of each financial year, or part thereof, up to the last day on which tolls may be levied.

The accounts deal with the subordinated debt due to the Consolidated Fund, the debt balance of £4 million due to the Consolidated Fund which remains the responsibility of the Secretary of State and any other expenditure arising on either of the bridges which does not fall under SRC's remit. The Severn Bridges Act 1992 Accounts record the cumulative net deficit due to the Exchequer. At the end of the concession period this deficit will be recovered from tolls levied by the Secretary of State. Under Section 5 (4) of the 1992 Act the power to levy tolls will cease on 25 April 2027 or such earlier date as may be determined under Section 7 of the 1992 Act when the total receipts accruing to the Secretary of State equal or exceed the cumulative net deficit owed to the Exchequer at the end of the concession period.

Expenditure shown in these accounts and interest receivable on the Subordinated Debt is reflected in the Agency's resource accounts.

These accounts have been prepared in accordance with a Direction given by HM Treasury in 1994 in pursuance of Section 28 (2) (a) of the 1992 Act. The Direction is reproduced as Appendix A to the Accounts. The Rates of Interest Direction given by HM Treasury is provided at Appendix B.

The accounts have been audited by the Comptroller and Auditor General (C&AG) under the Severn Bridges Act 1992. His audit certificate and report are at pages 10 and 11.

Assurances over the Concession Agreement

I am content that the cumulative revenue target will be reached within the concession period.

Statement regarding Disclosure of Information to the Auditors

So far as I am aware, there is no relevant audit information of which the auditors are unaware and I have taken all reasonable steps to make myself aware of any relevant audit information and to establish that the auditors are aware of that information

Events After the Reporting Period

On 1 April 2015, the vast majority of the net assets of the Agency were transferred to Highways England Company Limited under the Road Investment Strategy Infrastructure Act 2015. Further details are provided in note 13 of the Accounts.

Date of Issue

The Account has been authorised for issue on 9 October 2015 by the Accounting Officer.

Jim O'Sullivan
Accounting Officer
9 October 2015

Stephen Dauncey
Finance and Business Services Director
21 September 2015

Statement of Secretary of State and Accounting Officer responsibilities

Under Section 28 of the Severn Bridges Act 1992, the Secretary of State is required to prepare a statement of accounts for each financial year in the form and on the basis directed by HM Treasury. The accounts are prepared on an accruals basis and must present fairly the income and expenditure for the financial year and the assets and liabilities at year-end.

HM Treasury has appointed the Chief Executive of the Agency as the Accounting Officer for the account. His relevant responsibilities as Accounting Officer, including his responsibility for the propriety and regularity of the public finances for which he is answerable and for the keeping of proper records, are set out in HM Treasury's *Managing Public Money*.

Governance Statement

Introduction

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

HM Treasury introduced a new Corporate Governance Code for central government departments in July 2011 focusing on the role of the board in providing leadership. I have provided details below of how the Agency's system of corporate governance has operated during 2014-15, including any areas where the system has not operated in line with the code.

Role of the Accounting Officer

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

Governance

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

The Severn River Crossing governance framework is largely reliant on the Agency's governance arrangement. Both the Agency's and the Severn Bridges Act 1992 governance arrangements are set out below:

Severn River Crossing Governance Framework

The Concession Agreement allows for the appointment of a Government's Representative to act as the Secretary of State's agent in connection with the operation and maintenance of the Crossings. The role of the Government's Representative (GR) is to safeguard the Secretary of State's interests in the Crossings during the concession period; this role is being undertaken by Atkins Skanska.

The Agency has a team of people who monitor and manage the relationship with SRC and the GR. Regular meetings take place with SRC with additional meetings taking place specifically to plan for the end of the concession agreement.

Twice a year the Agency's finance team undertakes a review of SRC's cash flow forecasts to make an assessment of, and gain assurance that SRC will be able to meet its liabilities as they fall due. In addition, SRC engages independent auditors to confirm that the cash flow forecast is consistent with the accounting records and that it has been prepared in accordance with the Inter-Creditor Agreement. This audit report is submitted to the Secretary of State for DfT.

SRC's independent internal auditors carry out an annual programme of reviews to provide assurance on the management of key risks. For the year ended 31 March 2015, the internal auditors reviewed the processes and controls relating to toll revenues, non-payment of tolls, toll violations and payroll. The internal audit opinion indicates that no significant weaknesses were identified as part of these reviews.

The Agency's Governance Framework

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

- the Board, Executive Committee and Sub-Committees;
- the Agency Audit Committee and its Counter-Fraud Sub-Committee; and
- a sound system of internal control, including audit and assurance activity and formal risk management processes.

Board and Executive Committee

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

Board

From April 2014, the Agency's Board changed to become smaller and moved towards more conventional corporate lines. The new Board sharpened its focus onto governance and strategic oversight of the process to transition into a Government-owned company,

The Board comprises the Chairman, Chief Executive, the four non-executive directors, and executive directors for Finance and for Strategy and Planning. The objective of the Board is to advise the accounting officer and to ensure that the Agency is organised, resourced and motivated to deliver its objectives efficiently and effectively, giving leadership to the Agency by:

- providing strategic direction to the Agency;
- ensuring that the Agency has sufficient resources and staff;
- ensuring appropriate standards of corporate governance;
- listening to, and tackling, the concerns of staff;
- communicating with staff; and
- representing the Agency's interests to the outside world.

Risk management

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

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

Internal control framework

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

Financial management

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

- a mandatory Investment Control Framework to test whether proposed a project or expenditure offers value for money. The arrangements complement larger value approvals required from DfT or Ministers;
- financial propriety and other requirements from HM Treasury's *Managing Public Money*;
- an Oracle financial accounting system with embedded controls;
- asset management procedures to record and account for all assets;
- a Counter-Fraud Sub-Committee to oversee the handling of any significant issues or allegations; and
- Investors in People accreditation; a proven business improvement framework that significantly improves financial performance.

Management Assurance Reporting

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

Jim O'Sullivan
Accounting Officer
9 October 2015

Stephen Dauncey
Finance and Business Services Director
21 September 2015

Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the Severn Bridges Accounts for the year ended 31 March 2015 under the Seven Bridges Act 1992. These comprise the income and expenditure account, the statement of assets and liabilities and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Secretary of State, Accounting Officer and Auditor

As explained more fully in the Statement of Secretary of State and Accounting Officer's responsibilities, the Board and the Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Severn Bridges Act 1992. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements present fairly the assets and liabilities of the Highways Agency in relation to its responsibilities under the Severn Bridge Act 1992 as at 31 March 2015 and the income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Seven Bridges Act 1992 and HM Treasury Directions issued thereunder.

Opinion on other matters

In my opinion the information given in the Foreword and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

15 October 2015

National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

Income and Expenditure Account for the year ended 31 March 2015

	Note	**2014-15**	2013-14
		£000	£000
Income and indexation Gain arising from subordinated debt due to the consolidated fund			
Interest income	3	**8,320**	10,868
Indexation gain/(loss)	4	**1,579**	3,395
Total income and gain		**9,899**	14,263
Expenditure			
Capital	1c & 5	**514**	–
Operations	6	**508**	800
Administration	7	**179**	141
Notional Interest	8	**7,606**	8,977
Total Expenditure		**8,807**	9,918
Deficit/(surplus) for the year		**(1,092)**	(4,345)
Deficit brought forward		**102,305**	106,650
Accumulated deficit to be recovered through tolling		**101,213**	102,305

The accumulated deficit represents the cumulative net costs to the Exchequer in relation to the operation and maintenance of the Severn crossing, not borne by the Concessionaire. These are recoverable from tolls to be levied by the Secretary of State during the period between the end of the concession period and the date on which the power to levy tolls will cease, being 25 April 2027 or such earlier date as may be determined under section 7 of the Severn Bridges Act 1992.

The notes on pages 14 to 18 form part of these accounts.

Statement of Assets and Liabilities as at 31 March 2015

	Note	**2014-15** £000	2013-14 £000
Non-current assets			
Subordinated debt	4	**21,296**	84,717
Accumulated interest receivable	3	**93,134**	85,589
Accumulated deficit recoverable through tolling		**101,213**	102,305
		215,643	272,611
Current liabilities			
Trade and other payables	9	**(44)**	(51)
Assets less liabilities		**215,599**	272,560
Total due to the Consolidated Fund	10	**(215,599)**	(272,560)

Jim O'Sullivan
Accounting Officer
9 October 2015

Stephen Dauncey
Finance and Business Services Director
21 September 2015

The notes on pages 14 to 18 form part of these accounts

Notes to the Accounts

1 Statement of Accounting Policies

a Accounting Convention

The Accounts are prepared under the historical cost convention on an accruals basis.

These accounts have been prepared in accordance with the 2014-15 Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

An Accounts Direction has been given by HM Treasury and is reproduced in Appendix A.

b Notional Interest

Notional Interest is calculated at National Loans Fund rates prescribed by HM Treasury and is charged on:

i the subordinated debt and the amount owed to the Consolidated Fund at the commencement of the concession;

ii balances derived from the receipt and payment transactions undertaken in the financial year; and

iii the annual deficits brought forward from previous years, as if each were financed by a term loan.

An interest rate direction has been given by HM Treasury and is reproduced in Appendix B.

c Capital Expenditure

Expenditure on capital items is charged to the Income and Expenditure Account in the year of acquisition, in order that the accumulated deficit fully represents the amount recoverable from tolling by the Secretary of State.

2 Claims

Claims by the Concessionaires and contractors have arisen in the normal course of operation of the concession agreement. To the extent that it is judged that unmet claims will become payable, such amounts have been included as expenditure and accrued as current liabilities.

3 Interest Income

	2014-15	2013-14
	£000	£000
Interest receivable	**7,545**	10,868
Interest received	**775**	–
	8,320	10,868

Accumulated Interest Receivable

	2014-15	2013-14
	£000	£000
Opening balance as at 1 April	**85,589**	74,721
In year interest accrued	**7,545**	10,868
Closing Balance as at 31 March	**93,134**	85,589

With effect from 1 January 2003, interest receivable on the subordinated debt was added to the accumulated interest amount in accordance with clause 4.1 of the Loan Agreement. The Concessionaire will pay the accumulated interest to the Secretary of State at the end of the concession period, currently predicted to be mid 2018.

4 Subordinated Debt

Subordinated Debt of £60 million due to the Consolidated Fund was assumed by SRC on 26 April 1992. The debt is indexed by reference to the Retail Price Index, and carried an interest rate of 6% per annum as described in the Foreword and Management Commentary. The debt is repayable at the end of the concession period, which is the earlier of 2022 and SRC achieving a pre-determined cumulative revenue target from tolls. The Concessionaire is entitled, at any time after it has repaid the Debenture Stock in full, to repay the subordinated debt, together with accrued interest subject to giving the Secretary of State not less than 30 days' notice of its intention. In the event of termination of the concession agreement, other than termination by reason of default, the Concessionaire shall be relieved of the outstanding obligations.

	2014-15	2013-14
	£000	£000
Opening balance as at 1 April	**84,717**	108,322
In year indexation	**1,579**	3,395
Less principal loan repayment	**(65,000)**	(27,000)
Closing Balance as at 31 March	**21,296**	84,717

5 Capital Expenditure

	Freehold Land	Structures	Plant and Machinery	Total
	£000	£000	£000	£000
Cumulative acquisitions written off as at 31 March 2014	11,129	4,799	122	16,050
Acquisitions in year	–	–	514	514
Cumulative acquisitions written off as at 31 March 2015	11,129	4,799	636	16,564

6 Operations

	2014-15	2013-14
	£000	£000
Operations expenditure comprises:		
Ancillary works; repairs and strengthening; and structural maintenance*	**508**	800
	508	800

* Includes the cost of investigating and monitoring the M48 Severn Bridge main cables defect.

7 Administration

	2014-15	2013-14
	£000	£000
Administration expenditure comprises:		
Legal and Professional*	**14**	30
Consulting Engineers	**165**	111
	179	141

* This includes the auditors' remuneration of £14,000 (2013-14: £14,000) and was for the audit of the 2014-15 Severn Bridges Act 1992 Accounts. During the year the Agency did not purchase any non-audit services from its auditors, the National Audit Office.

8 Notional Interest

	2014-15	2013-14
	£000	£000
Notional Interest on:		
Amount owed to Consolidated Fund at 26 April 1992	**734**	734
Subordinated Debt at 26 April 1992	**5,625**	5,625
Receipt and payment transactions	**–**	–
Accumulated annual deficits*	**1,247**	2,618
	7,606	8,977

* Interest is calculated based on the appropriate National Loans Fund maturity rate. For 2014-15 the rate applied was 1.22% (2013-2014: 2.31%).

9 Trade and other payables

	2014-15	2013-14
Acruals:	**£000**	£000
Operations	**25**	24
Administration	**19**	27
	44	51

10 Amount due to the Consolidated Fund

	2014-15	2013-14
	£000	£000
Debt due to the Consolidated Fund at 1 April	**272,560**	289,474
Notional Interest	**7,606**	8,977
Interest Received	**(775)**	–
Audit Fee	**14**	14
Net cash advances*	**1,194**	1,095
Loan Repayment	**(65,000)**	(27,000)
Debt due to the Consolidated Fund at 31 March	**215,599**	272,560

	2014-15	2013-14
*** Net cash advances**	**£000**	£000
In-year expenditure	**1,204**	1,114
Recoveries from Severn River Crossing	**(10)**	(19)
	1,194	1,095

11 Contingent Liabilities

In the event of default by the Concessionaire the Agency would have to assume responsibility for operating and maintaining both the existing bridges. It is not practicable to estimate the potential net cost (if any) that would arise in such a situation. As described in the Foreword and Management Commentary the Agency considers it unlikely that default could occur in the short or medium term.

12 Financial Instruments

IFRS 7 requires minimum disclosures about the nature and extent of credit risk, liquidity risk and market risk that the entity faces in undertaking its activities. For these disclosures Severn Bridges Act 1992 Account is an integral part of the Agency. Due to the largely non-trading nature of its activities and the way in which government agencies are financed, the Agency is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 7 mainly applies. The Agency has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Agency in undertaking its activities.

Liquidity risk

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

Credit risk

Credit risk is the risk of suffering financial loss, should any of the Agency's customers or counterparties fail to fulfil their contractual obligations to the Agency. Some of the Agency's customers and counterparties are other public sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public sector organisations, the Agency has policies and procedures in place to ensure credit risk is kept to a minimum.

Interest Rate Risk

This is the risk that the Agency will suffer financial loss due to interest rate fluctuation. The majority of the Agency's financial assets and its financial liabilities carry nil or fixed rates of interest, however the notional interest on the accumulated annual deficits is calculated on the appropriate National Loans Fund maturity rate which has seen small fluctuations in recent years. The overall assessment is that the Agency is not exposed to significant interest rate risk.

13 Events after the reporting period

On 1 April 2015, the vast majority of the net assets of the Agency were transferred to Highways England Company Limited under the Road Investment Strategy Infrastructure Act 2015.

Material assets and liabilities not transferring to Highways England Company Ltd but remaining with the Secretary of State for DfT include loans receivable and payable relating to the Severn River Crossing, as detailed in these accounts, along with the structures forming the Severn River Crossing valued at £2.8 billion as at 31 March 2015. Responsibility for SRC remains with DfT. Highways England Company Ltd will continue to undertake the functions previously performed by the Highways Agency under a protocol agreement with the Secretary of State.

These financial statements are laid before the Houses of Parliament by the Secretary of State for DfT. International Accounting Standard (IAS) 10 requires the Agency to disclose the date on which the accounts are authorised for issue.

The authorised date for issue is 9 October 2015.

Appendix A

Accounts direction given by the Treasury

The Treasury in pursuance of Section 28 (2) (a) of the Severn Bridges Act 1992, hereby gives the following Direction:

1 The statement of accounts which it is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 March 1994 and in any subsequent financial year shall comprise:

   a a foreword which shall include:

      i a statement that the accounts have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 28 (2) (a) of the Severn Bridges Act 1992;

      ii information on significant events during the period;

   b an Income and Expenditure Account

   c a Statement of Assets and Liabilities; and

including in each case such notes as may be necessary to present fairly the income and expenditure for the period and the assets and liabilities at the end of the period in relation to functions under the Severn Bridges Act 1992. The statement of accounts shall disclose the total sum due to the Consolidated Fund as at 31 March 1994 and for any subsequent financial year.

2 The statement of accounts shall be prepared under the historical cost convention on an accruals basis and shall follow the format attached to this Direction although minor drafting changes may be made without seeking the approval of the Treasury.

3 Details of movements within the Consolidated Fund shall be disclosed by way of notes to the accounts.

4 The accounts prepared under the Severn Bridges Act 1992 shall observe all relevant accounting and disclosure requirements as given in "Government Accounting" and in any disclosure and accounting requirements which the Treasury may issue from time to time.

5 This Accounts Direction (excluding the proforma accounts) shall be reproduced as an Appendix to the accounts.

F Martin 27 July 1994
Treasury Officer of Accounts

Appendix B

Rates of interest direction given by the Treasury

1 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are applicable to the accounts for the period 26 April 1992 to 31 March 1993 which were prepared in accordance with Section 28 of the Severn Bridges Act 1992:

a for subordinated debt and the opening balance due to the Consolidated Fund the average National Loans Fund ER 10 to 15 year interest rate and

b the average National Loans Fund 1 year Maturity rate in respect of receipts and payments.

2 The Treasury directs that under Schedule 4 of the Severn Bridges Act 1992 the following rates of interest are to be applied to the accounts from 1 April 1993 onwards are to be prepared in accordance with Section 28 of the Severn Bridges Act 1992:

a for the subordinated debt and the amount owed to the Consolidated Fund at the commencement of the concession the National Loans Fund 25 year Maturity rate as at 26 April 1992. This rate is deemed to be fixed and unless altered by the Treasury is to remain as such for the duration of the concession;

b for receipt and payment transactions undertaken within a financial year the prevailing National Loans Fund 1 year maturity rate which is to be applied to each transaction when it takes place; and

c for the interest on the annual deficit carried forward the National Loans Fund Maturity rate as shown in the table below:

Deficit for the Financial Period/Year	Carried Forward to 1 April	National Loans Fund Maturity Rate as at 1 April fixed for the duration of the Concession		Current National Loans Fund Banding
(1)	(2)	(3)		(4)
1992-1993	1993	29 year rate	=	Over 25 year band
1993-1994	1994	28 year rate	=	" " " "
1994-1995	1995	27 year rate	=	" " " "
1995-1996	1996	26 year rate	=	" " " "
1996-1997	1997	25 year rate	=	" " " "
1997-1998	1998	24 year rate	=	Over 15 year band
1998-1999	1999	23 year rate	=	" " " "
1999-2000	2000	22 year rate	=	" " " "
2000-2001	2001	21 year rate	=	" " " "
2001-2002	2002	20 year rate	=	" " " "
2002-2003	2003	19 year rate	=	" " " "
2003-2004	2004	18 year rate	=	" " " "
2004-2005	2005	17 year rate	=	" " " "
2005-2006	2006	16 year rate	=	" " " "
2006-2007	2007	15 year rate	=	" " " "
2007-2008	2008	14 year rate	=	Over 10 year band
2008-2009	2009	13 year rate	=	" " " "
2009-2010	2010	12 year rate	=	" " " "
2010-2011	2011	11 year rate	=	" " " "
2011-2012	2012	10 year rate	=	" " " "
2012-2013	2013	9 year rate	=	" " 9 "
2013-2014	2014	8 year rate	=	" " 8 "
2014-2015	2015	7 year rate	=	Over 7 year band
2015-2016	2016	6 year rate	=	" " 6 "
2016-2017	2017	5 year rate	=	" " 5 "
2017-2018	2018	4 year rate	=	" " 4 "
2018-2019	2019	3 year rate	=	" " 3 "
2019-2020	2020	2 year rate	=	" " 2 "
2020-2021	2021-2022	1 year rate	=	" " 1 "

The above rates are to be applied to the individual amounts of the annual deficits until such time as the concession is terminated or until the Treasury so directs.

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