

Severn River Crossing Charging Scheme

Accounts for the 357 day period from
8 January 2018 to 31 December
2018

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Presented to Parliament pursuant to Section 3 (1) (d) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

Ordered by the House of Commons to be printed 27 January 2020



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ISBN 978-1-5286-1725-3

CCS0120839566 01/20

Printed on paper containing 75% recycled fibre content minimum

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

Contents

Foreword and Management Commentary	6
Accounts of the Secretary of State for Transport.....	7
Statement regarding disclosure of Information to the Auditors	8
Statement of Secretary of State and Accounting Officer responsibilities	9
Governance Statement.....	10
Independent Auditor’s Report to the Houses of Parliament.....	11
Statement of Income and Expenditure for the period ended 31 December 2018	14
Statement of Capital Expenditure for the period ended 31 December 2018.....	14
Statement of Assets and Liabilities as at 31 December 2018.....	15
Notes to the Account	16
APPENDIX A.....	20

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The 1965 Act was repealed by the Severn Bridges Act 1992 (“the 1992 Act”) which provided for the Secretary of State to procure, using private funds, the construction of a second tolled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 operated and maintained both crossings. SRC retained revenues from tolls during the concession period.

SRC reached the Required Cumulative Real Revenue on the 2 November 2017. The company then collected and paid over toll charges to the Secretary of State for Transport until 7 January 2018, when the concession ended. On 8 January 2018 both bridges reverted to public ownership and responsibility for the operation and maintenance of the Severn Bridges was handed over to Highways England Company Limited.

Between 8 January 2018 and 17 December 2018, Road users continued to be charged, at a reduced rate. This was under the authority of a separate charging scheme governed by the M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017. Revenue under this scheme was payable to the Secretary of State (DfT) as the charging authority and is included in these accounts. The M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017 was amended on 17 December 2018 to remove all charges for crossing. The Order was revoked on 31 December 2018, at which point all charging infrastructure was removed.

These accounts have been produced for the 357 day period from 8 January 2018 to 31 December 2018.

Accounts of the Secretary of State for Transport

Section 3(1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulation 2003 requires the production of accounts for the period to 31 December 2018.

These accounts have been prepared in accordance with a Direction given by HM Treasury in pursuance of the above regulation. The Direction is reproduced as an appendix to the accounts. The Accounting Officer confirms that he takes personal responsibility for the foreword, management commentary and accounts and the judgments required for determining that they are fair, balanced and understandable; and considers that they have been so presented.

The accounts have been audited by the Comptroller and Auditor General (C&AG). His Independent Auditors Opinion and accompanying Report are on pages 8 to 10.

Income

Cash receipts collected for paid crossings are passed over gross to the DfT. Total revenue recognised for the period ended 31 December 2018 amounted to £96.2m.

The utilisation of the income for transport purposes is fulfilled through the parliamentary supply procedures. This ensures that the whole of the income is received and appropriated in aid and set against the Department's total transport expenditure. The net proceeds from the charging scheme are used to offset the generality of transport expenditure and not hypothecated to particular programmes or projects.

Expenditure

Total expenditure for the period ended 31 December 2018 amounted to £18.7m. Further information is provided within Note 3.

Net proceeds


The net proceeds for the period ended 31 December 2018 were £77.5m

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 of 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.

Date of Issue

The accounts have been authorised for issue by the Accounting Officer on the date of the Comptroller and Auditor General's signature of the audit report.



Jim O'Sullivan
Accounting Officer
7 January 2020



Vanessa Howlison
Chief Finance Officer
7 January 2020

Statement of Secretary of State and Accounting Officer responsibilities

Under Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003, the Secretary of State for Transport is required to prepare a statement of accounts for each financial period in the form and on the basis directed by the Treasury. The accounts are prepared on an accruals basis and must present fairly the income and expenditure for the financial period and the assets and liabilities at period-end.

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

- Observe the Accounts Direction issued by Secretary of State including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the accounts;
- Prepare the accounts on a going concern basis.

The Treasury has appointed the Chief Executive of Highways England 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 and Financial Reporting Manual' (HM Treasury's 'Managing Public Money Manual').

The Accounting Officer is required to confirm that, as far as he or she is aware, there is no relevant audit information of which the entity's auditors are unaware, and the Accounting Officer has taken all the steps that he or she ought to have taken to make himself or herself aware of any relevant audit information and to establish that the entity's auditors are aware of that information.

The Accounting Officer is required to confirm that the annual report and accounts as a whole is fair, balanced and understandable and that he or she takes personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Governance Statement

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

HM Treasury with the Cabinet Office published its Corporate Governance Code of Good Practice and guidance for central government departments in April 2017. I have provided details below of how the system of corporate governance has operated during the period to 31 December 2018, including any areas where the system has not operated in line with the code.

Scope of responsibility

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

Governance framework

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

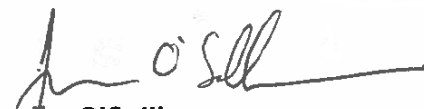
Severn River Crossing Charging Governance

Severn River Crossing undertakes the following governance activities in order to monitor a scheme of this complexity and size:

- Monthly finance reviews and quarterly strategic finance reviews;
- Management of the risk and issues register which is reviewed quarterly in the strategic review meeting;
- Monthly monitoring activities;
- Incident and issue tracking;
- Monthly invoice reviews.

Corporate Assurance Review

Corporate Assurance has regular oversight and liaison with the Severn River Crossing to review progress on the various improvement initiatives, and to offer support and guidance. During the period corporate assurance have reviewed revenue collection and the closedown process.



Jim O'Sullivan
Accounting Officer
7 January 2020



Vanessa Howlison
Chief Finance Officer
7 January 2020

Independent Auditor's Report to the Houses of Parliament

Opinion on financial statements

I have audited the financial statements of Severn Bridges Charging Scheme for the period ended 31 December 2018 which comprise: the Statement of Income and Expenditure; the Statement of Capital Expenditure; the Statement of Assets and Liabilities; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion the financial statements:

- give a true and fair view of the state of the Severn Bridges Charging Scheme affairs as at 31 December 2018 and of the net proceeds for the year then ended; and
- have been properly prepared in accordance with The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

Emphasis of Matter in respect of revocation of the Charging Scheme Order

Without qualifying my opinion, I draw attention to the disclosures made in notes 1.1 and 7 to the Accounts, and to the background section of the Foreword, which describe the revocation of the M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017. These describe the Severn Bridges Charging Scheme's formal cessation on 31 December 2018, as a result of which no further income will be charged or accounted for following that date; and the accounting convention adopted in these financial statements.

Opinion on regularity

In my opinion, in all material respects the income and expenditure 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 conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 'Audit of Financial Statements of Public Sector Entities in the United Kingdom'. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Severn Bridges Charging Scheme in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error

and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control environment.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

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

Other Information

The Accounting Officer is responsible for the other information. The other information comprises information included in the statement of accounts, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matter

In my opinion, the information given in the statement of accounts 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 guidance.

Report

I have no observations to make on these financial statements.

Gareth Davies

Comptroller and Auditor General (Statutory Auditor)

National Audit Office

157-197 Buckingham Palace Road

Victoria

London

SW1W 9SP

17 January 2020

Statement of Income and Expenditure for the period ended 31 December 2018

Income	Note	£ 000
Severn crossing charge	2	<u>96,183</u>
Expenditure		
Staff and related	3	5,829
Administration and maintenance	3	12,414
Other expenditure	3	444
		<u>18,687</u>
Net proceeds for the period		<u><u>77,496</u></u>

Statement of Capital Expenditure for the period ended 31 December 2018

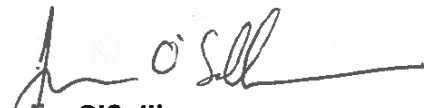
	£000
Toll removal	3,850
General maintenance	<u>8,564</u>
	<u><u>12,414</u></u>

The Notes on pages 14 to 17 form part of these accounts.

Statement of Assets and Liabilities as at 31 December 2018

	Note	£ 000
Current Assets		
Cash	4	15,860
Trade and other receivables	4	1,133
		<u>16,993</u>
Current Liabilities		
Trade and other payables	5	<u>16,993</u>
Current Assets equals Liabilities		<u><u>-</u></u>

The Notes on pages 14 to 17 form part of these accounts



Jim O'Sullivan
Accounting Officer
7 January 2020



Vanessa Howlison
Chief Finance Officer
7 January 2020

Notes to the Account

1. Statement of accounting policies

1.1 Accounting Convention

The accounts have been prepared in accordance with the 2018-19 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. The Accounts are prepared under the historical cost convention on an accruals basis.

The accounts are prepared from the point of view of the charging scheme itself.

- The schemes are settled in full by Highways England, itself funded by Parliament and working on behalf of the Secretary of State as the charging authority. A receivable from Highways England is recognised equal to any balances due to suppliers at the end of the period in recognition of this financing arrangement.
- The net assets arising from the charging scheme – comprising principally of cash – are payable under the charging scheme legislation to the DfT. An equal payable is therefore recognised to DfT in respect of these net assets. The scheme regularly pays the cash proceeds of the scheme amounts to the Department in service of this commitment.

These accounts are prepared in recognition of the fact that following the revocation of the M4 and M48 Motorways (Severn Bridges Charging Scheme) Order 2017 on 31 December 2018, and the removal of charging infrastructure, the scheme itself is not a going concern. Working capital balances will be dealt with by Highways England and the DfT following the scheme's cessation as described above, as a result of which the end of charging arrangements has not affected the amounts recognised in these financial statements or the accounting conventions adopted.

1.2 Capital expenditure

Capital expenditure is expensed as it is incurred and included in the overall expenditure figures in these accounts. Capital expenditure will form part of the Statement of Income and Expenditure and Note 3 below, in addition to its separate presentation in the Statement of Capital Expenditure.

This policy reflects the fact that the scheme itself derives no future economic benefit from the expenditure, since net proceeds are payable in full to HM Government. The relevant assets are capitalised and depreciated in the Highways England financial statements in line with the policies stated therein.

1.3 Revenue recognition and derecognition

The road user charge is recognised as income on the day the road user has crossed the crossing during the chargeable period, in line with IFRS 15.

Deferred income relates to prepaid road user charge payments and deposits paid for the TAG machine. These payments are held in the bank account until the road user has made a crossing or requested a refund.

Fines and penalties are economic benefits payable to government for breaches of laws or regulations where there is a statutory obligation to pay.

Fines and penalties are recognised as revenue when there is certainty that the enforcement income will be received.

1.4 New Accounting Standards

Two new standards are on the horizon but are not yet effective for the period ended 31 December 2018 and accordingly we have not applied them in the preparation of these financial statements. However, neither IFRS 16 *Leases* nor IFRS 17 *Insurance Contracts* would be expected to have any effect since the charging scheme has no leases or contracts within the new standards' scopes.

2. Income

**Period from 8
January 2018 to 31
December 2018**

	£000
Severn Crossing Charge	
Road user charge (accounts)	22,590
Road user charge (non accounts)	73,490
Enforcement	103
	96,183

3. Expenditure

**Period from 8
January 2018 to 31
December 2018**

	£000
Staff and related costs	
Staff costs	5,752
Other staff costs	8
Travel costs	69
	5,829
Administration and maintenance	
Consulting engineering work	3,850
Bridge maintenance costs	8,564
	12,414
Other costs	
Office costs	25
Legal and professional costs*	24
Bank charges	362
Other costs	33
	444
Total expenditure	18,687

*This includes the auditors' remuneration of £20,000 and was for the audit of the 2018-19 Severn River Crossing Charging Scheme accounts. During the year Highways England did not purchase any non-audit services from its auditors, the National Audit Office.

4. Current assets

	At 31 December 2018
	£000
Bank	15,860
Prepayment	1
Financing due from Highways England	1,132
	<u>16,993</u>

5. Trade and other payables:

	At 31 December 2018
	£000
Amounts to be paid over to DfT	5,799
Accrued expenditure	1,133
Deferred Income- Prepaid road user charge to be repaid	10,061
	<u>16,993</u>

6. Financial instruments

Due to the largely non-trading nature of its activities and the way in which government ALBs are financed, Highways England 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 9 applies. Highways England 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 Highways England in undertaking its activities.

Liquidity risk

This is the risk that Highways England is unable to meet its obligations when they fall due and to replace funds when they are withdrawn. Highways England net revenue resource requirements are mainly financed by resources voted annually by Parliament to the DfT. Highways England is therefore not exposed to significant liquidity risks.

Credit risk

Credit risk is the risk of suffering financial loss, should any customers or counterparties fail to fulfil their contractual obligations to Highways England. Some of the 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, Highways England has policies and procedures in place to ensure credit risk is kept to a minimum.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the scheme's income or the value of its holdings. The scheme is not materially exposed to interest rate or foreign exchange rate risk and the risk of changes in market prices.

7. Events after the reporting period

Prior to the formal end of the charging scheme on 31 December 2018, Highways England on the Department's behalf communicated with prepay users of the crossing to facilitate the refund of TAG balances, which are reflected as deferred income in note 5. Despite the company's best efforts it is possible that some historic balances not be claimed, the effect of which would be to decrease the deferred income balance included in note 5 and include the corresponding amount due to DfT shown in the same note. Having taken account of post balance sheet reclaims, management estimates the ultimate effect to be immaterial and has accordingly made no adjustment to the note 5 balances.

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

The authorised date for issue is the date of the Comptroller and Auditor General's audit certificate.

APPENDIX A

SECTION 3 OF THE TRUNK ROAD CHARGING SCHEMES (BRIDGES AND TUNNELS) (KEEPING OF ACCOUNTS) (ENGLAND) REGULATIONS 2003

3) - (1) Subject to paragraphs (2) and (3), a charging authority for a scheme shall, during the relevant period—

(a) keep proper accounts for that scheme showing how the net proceeds of the scheme are calculated; and

(b) prepare in respect of each financial year an annual statement of accounts for the scheme, including the following:

(i) an explanatory introduction;

(ii) a statement of the responsibilities of the person signing the accounts;

(iii) a statement of the system of internal financial control adopted by the charging authority;

(iv) a statement of income and expenditure;

(v) a statement of capital expenditure;

(vi) notes to the accounts, including an explanation of the accounting policies adopted;

(c) cause such statement of accounts to be audited by an auditor appointed for that purpose by the charging authority; and

(d) cause such statement of accounts, once audited, to be laid before each House of Parliament not later than the 31st January in the calendar year following the end of the charging authority's financial year.

(2) Subject to paragraph (3), the first statement of accounts for a scheme shall be for the period commencing on the coming into force of the scheme and ending on 31st March in the calendar year following that in which the scheme came into force.

(3) Where a scheme ceases to be in force on a date other than 31st March, the period of the final statement of accounts for that scheme shall end on that other date.

