highways england

ANNUAL REPORT AND ACCOUNTS 2020

HC 487

Highways England Annual report and accounts 2020

(For the financial year ended 31 March 2020)

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

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WE BELIEVE THAT CONNECTING PEOPLE BUILDS COMMUNITIES, CREATES OPPORTUNITIES AND HELPS THE NATION THRIVE

We operate, maintain and improve one of the most advanced road networks in the world. We aim to provide all our customers with safe and reliable journeys.

Contents

LIVE TRAFFIC LANE OR OTHER DANGER

If you break down or your vehicle is damaged and you are in a live lane or you feel in danger call:

999 from your mobile immediately

Turn on your hazard warning lights and leave your vehicle when you can safely get clear of the carriageway, waiting behind the barrier for help.

UNABLE TO LEAVE VEHICLE

If you are unable to leave your vehicle or it is not safe to do so:

Turn on your hazard warning lights and keep seatbelts on.

Once you have called 999, we can set warning signs and send help.

HARD SHOULDER OR EMERGENCY AREA

If you break down or your vehicle is damaged and you are on a motorway hard shoulder or in an emergency area call:

Highways England on 0300 123 5000, or use an emergency telephone

Turn on your hazard warning lights and leave your vehicle from the left side, waiting behind the barrier if possible and safe to do so.

Find out more at: **highwaysengland.co.uk/motorways**

Check the latest motorway traffic conditions at: **trafficengland.com**

Follow us on twitter **@highwaysengland** for the latest updates

Integrated reporting <IR>

Integrated Reporting <IR> is an initiative led by the International Integrated Reporting Council (IIRC). It sets out a framework for communicating how an organisation's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term. Its principles and aims are consistent with UK regulations for financial and corporate reporting.

Sustainability considerations are fundamental to our strategy and operations, and we believe that adopting the <IR> framework will enable us to better describe how we create value for all our stakeholders. In our 2020 Annual Report, we have taken our first steps towards integrated reporting. This includes a Non-Financial Reporting (NFR) statement and navigation key, NFR signposting throughout the report, and a more developed sustainability report, aligned with the Five Capitals Model. As we move towards full integrated reporting in subsequent years, our approach will evolve.

For more information about integrated reporting, see **www.integratedreporting.org.**

Key facts and figures

We employ nearly
6,000
FTE people

Our network includes
4,300
miles of motorways and major A-roads

Our roads carry over
2/3
of all freight

Sectors heavily reliant on our roads employ
7.4m
people and contribute
£314bn
to the UK economy

Our major schemes deliver over
£2.50
benefit to the UK economy for every
£1
invested

2019–20 financial highlights

Value of assets managed:
£126bn

Total expenditure:
£4.5bn

Daily expenditure:
£12m

Efficiencies generated:
£600m

Non-financial information statement

We aim to comply with the non-financial reporting requirements in sections 414CA and 414CB of the Companies Act 2006. The table below is intended to guide stakeholders to where the relevant non-financial information is included within our strategic report. Further information can be found in our sustainability report.

Reporting requirement	Policies and standards	Outcomes and additional information	Page reference
Environmental matters	Air quality	Greening Government Commitments	58
	Carbon emissions		59
	Climate change		61
	Five capitals	Building a sustainable business	99
People and human rights	*Home safe and well*	Embedding our strategy	78
		Government's smart motorways safety evidence stocktake	54
		Covid-19	56
	Equality, diversity and inclusion	Communities	107
		People	116
		Supply chain	118
	Board diversity policy		143
	Gender pay gap		156
	Modern slavery		71
Risk management		Managing our risks	64
		Principal risks and uncertainties	68
Governance issues	S172		133
	Economic crime		158
Non-financial matters		Business model	26
		Operating environment	28
		Key performance indicators	32

Navigate our non-financial information using the following icons

- **S** Sustainability
- **R** Risk, 1–8
- **K** Key Performance Indicators, 1–8

Part of our approach to integrated reporting in this year's report, is to show how specific NFR content links together across reporting disciplines.

We have identified three NFR requirements to signpost throughout the document: sustainability, risk, and key performance indicators. These issues are flagged when the icons on the left appear within the text.

ENSURING OUR ROADS ARE SAFE, RELIABLE AND RESILIENT

We work to provide free-flowing, safe, serviceable, accessible and integrated roads. Our network helps drive economic growth across the country, creating jobs, supporting businesses and opening up areas for development. Through our activities and improvements, we aim to deliver a sustainable benefit to the environment.

Our three imperatives underpin everything we do:

Safety

Our first imperative, this means safety for all who use or cross our roads, for our neighbouring communities, and for our people and supply chain.

Read more on page 76 →

Customer service

We are committed to making our customers' journeys safe, reliable and smooth, and providing them with the best information possible.

Read more on page 84 →

Delivery

Over the first road period (2015–20), we have delivered the biggest upgrade to the strategic road network (SRN) in a generation. Our approach is to work in an efficient and effective way, providing value for money and minimising disruption. We aim to enhance the nation's economy and leave a positive legacy for communities and the environment.

Read more on page 92 →

Our values:

Our values describe how we work, how we treat people and how we do business.

Read more on page 110 →

Our delivery over the first road period in numbers:

K

£6.3bn	67	£1.4bn	113
Value of road improvements	Road schemes completed or under construction	Efficiency savings	Safety schemes completed

Our social impact over the first road period in numbers:

S

124	1,174	160	45,000
Biodiversity schemes completed	Noise important areas mitigated	Cycling schemes completed	New homes supported

Where we spent our money in 2019–20

Total spend in 2019–20 £4.5bn 2018–19: £3.8bn	North West £337m 2018–19: £335m	North East £305m 2018–19: £304m	East £481m 2018–19: £591m
National £1,435m 2018–19: £1,109m (including PFI service payments, national projects and support costs)	South West £204m 2018–19: £158m	Midlands £711m 2018–19: £626m	South East £1,042m 2018–19: £627m

A63 Castle Street

Read more on page 44 →

A14 Cambridge to Huntingdon

Read more on page 42 →

A303 Amesbury to Berwick Down

Read more on page 40 →

Lower Thames Crossing

Read more on page 40 →

2020: OUR JOURNEY SO FAR

Government's *Road investment strategy* (RIS1), which covered the first road period from 2015–20, represented the biggest investment in England's roads in a generation. With funding of £15.2 billion, we have made significant progress in operating, maintaining and improving our roads, which are some of the very safest in the world.

The strategic report was approved by the Board on 29 July 2020 and signed on its behalf by:

Jim O'Sullivan, Chief Executive

A MESSAGE FROM OUR CHIEF EXECUTIVE

Highways England has made great progress in our first road period (2015–20). We can be pleased with what we have achieved in this final year of RIS1, and we recognise and embrace the significant challenges to come in the next five-year road investment period and beyond.

Looking back K

Back in 2015, we were entrusted with £15.2 billion[1] by government to invest in England's strategic road network (SRN), which covers the country's motorways and major A-roads in England. We agreed eight key performance indicator (KPI) targets, and the budget included the delivery of 112 major enhancement schemes. It also covered investment through five ring-fenced (designated) funds to support work outside of traditional road investment, such as delivering cycle paths and improving the environment.

We have met most of our KPI targets, exceeding some but not quite meeting others. We have made our network safer, and reduced casualties in line with our ambitious targets to cut the number of people killed or seriously injured on our network by 40%.

Over the five years, we have stayed within our funding, delivering £1.4 billion of efficiencies and providing over £2.50 of public benefit for every £1 we spent on our major schemes. We have refined our original programme, cancelling or postponing schemes where the costs outweighed the benefits, which accounted for roughly 10% of our portfolio. We have completed, or are working on, nearly 70% of the other original schemes, and we will deliver the remaining schemes within the second road period (2020–25).

We have also focused on meeting our customers' needs. We have consistently exceeded our incident clearance and network availability targets, and found new, innovative ways to improve customer service. This includes our implementation of 60mph speed limits through roadworks, where safe to do so, which won the public policy of the year award.

On balance, we are satisfied with our results. The SRN is now considered a key economic asset, with a well-established need for long-term investment to ensure the prosperity and wellbeing of our country. In the areas where we have not fully met our targets, we have clear plans to action for the second road period.

1 The RIS1 £15.2 billion funding allocated to Highways England includes £11.4 billion relating to the first five-year road period (2015-20). The remaining funding has been committed to the first year of the second road period (2020–25).

Looking ahead

Our £27.4 billion of funding for the second road period will allow us to further improve the network for road users, the communities we impact, and the environment. Our new targets include reducing the number of people killed or seriously injured on our network by 50%, against the 2005–09 baseline. Our ambition is to save customers over 20 million hours, currently lost in traffic congestion, and to provide £27 billion of benefit for road users and the economy through improving journey time, stimulating employment and supporting housing and business developments.

We are planning to open 52 schemes for traffic, deliver £2 billion of efficiencies and renew 1,100 miles of safety barriers. We will deliver an ever-stronger sustainability strategy in support of government's ambition to achieve carbon neutrality by 2050, and support up to 64,000 jobs in the construction industry.

We have worked closely with ministers, our colleagues at the Department for Transport (DfT), and the Office of Rail and Road (ORR) to ensure that our plans are robust. We are confident that we can meet our challenging targets, keeping safety, customer service and delivery as the imperatives that drive everything we do.

In-year events

We have faced new challenges this year. Our smart motorway schemes were placed under public and media scrutiny during DfT's safety evidence stocktake. The stocktake was commissioned by the last government and continued by this one and ran from October 2019 to March 2020. The stocktake found that "overall, the evidence shows that in most ways, smart motorways are as safe as, or safer than, conventional motorways". It also said that some areas of individual risk and public concern should be addressed. The published report identified an 18-point action plan, and you can read about some of our key next steps on page 54 of our strategic report. We are determined to do all we can to make our roads as safe as possible, and will be taking forward the measures set out by DfT.

There was the unexpected outbreak of Covid-19 as we approached the end of our 2019–20 financial year. I am proud of how we responded to this challenge, and especially proud of our critical workers who enabled the safe travel of NHS and other emergency service workers, as well as the timely delivery of essential goods. We were able to meet all our in-year objectives and first road period commitments, while also supporting our staff and supply chain to move to new ways of working. You can read more about our initial response to the pandemic on page 56.

2019–20 highlights

One of our key successes in this financial year was our £1.3 billion A14 Cambridge to Huntingdon scheme. We completed the 12-mile bypass between Swavesey and Ellington in December 2019, a year ahead of schedule. The rest of the scheme is due to open for traffic in May 2020, eight months early and on budget[2]. This bodes well for the next major schemes in our pipeline, including the £850 million M4 smart motorway.

It also sets us up well for our other transformational schemes, such as the Lower Thames Crossing and A303 Amesbury to Berwick Down, which are both due to start in the second road period. You can read more about our delivery, across the first road period and in 2019–20, in our strategic performance review on pages 32 to 36.

> WE HAVE MADE OUR NETWORK SAFER, AND CASUALTY NUMBERS HAVE GONE DOWN IN LINE WITH OUR AMBITIOUS TARGET TO SEE THE NUMBER OF PEOPLE KILLED OR SERIOUSLY INJURED ON OUR NETWORK REDUCED BY 40%.

As we look to the future, we must recognise how far we have come as well as how much there is still to do. Our maturing approach to sustainability, for example, can be read about on pages 98 to 100. We need to demonstrate that we can meet government's commitment to zero carbon and within its committed timescales. We also need to exploit the full potential of the digital revolution, both in our activities, and in our communications with road users and stakeholders. Our commitment to supporting and developing a diverse, healthy and fulfilled workforce can be found on page 110. And more detail on our three imperatives is provided in this year's operational report on pages 76 to 95. S

Thank you

I would like to thank everyone at Highways England for their passion and commitment to getting the country, and each other, home safe and well this year – and for the excellent examples of professionalism I am fortunate to witness every day. I also thank our Chairman, Colin Matthews, who stepped down at the end of April 2020. He has led the Board with commitment and vigour, and given immense service to Highways England. At present, we are anticipating an announcement by government on the appointment of our new permanent Chair, at which point we can look forward to working together as we move into this exciting new phase of our journey[3].

Jim O'Sullivan

Jim O'Sullivan
Chief Executive

In the second road period:

52
schemes will be opened for traffic

£2bn
of efficiencies will be achieved

64,000
jobs in the construction industry will be sustained

2 At the date of publication, in September 2020, the scheme was open for traffic, completing early in May as planned.
3 Subsequent to the preparation of this statement, Government announced that Dipesh Shah will be joining the company as the new permanent Chair with effect from 1 September 2020.

Jim O'Sullivan discussing our winter vehicle fleet at Moreton-in-Marsh, Gloucestershire

OUR FINANCIAL REVIEW

We spent £4.5 billion this year to operate, maintain and enhance our network. This is the most that has ever been invested in the SRN in a single year. It means that, with the help of our supply chain, we have invested more than £12 million of government funding every single day.

Value of assets managed:
£126bn

Total expenditure:
£4.5bn

Daily expenditure:
£12m

Efficiencies generated:
£600m

Payments made:
388,000

Overall, we invested £0.8 billion more of government funding than last year, with capital spending 67% greater than four years ago. This high level of investment allowed us to maintain and operate our network, whilst also carrying out the enhancements we committed to in our *Delivery plan*. This year we have completed six schemes, with a further 33 projects still in construction. With so many schemes underway, and a suite of new schemes planned, we will maintain high levels of investment throughout the second road period.

Our capital investment this year aligns with our *Delivery plan* for the first road period. We also used shorter term portfolio adjustments to remain within our annual funding as project risks and opportunities materialised. We have capped our non-capital operational expenditure, including the costs to run our business, relative to capital spending.

Where our funding comes from

Our funding comes from government. We have five-year funding agreements and, each year, we draw down funding for our annual investment plans.

Our funding is split between capital (for investment) and resource (operational) expenditure. We measure our financial performance as a company by: our ability to manage within our financial allocations; whether we have met our efficiency targets; and whether we have achieved the delivery and operational outcomes set out in our plans.

Our financial performance

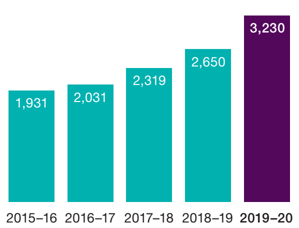
Capital investment

	Funding £m	Outturn £m	Variance £m
Total capital investment[1]	3,215	3,230	(15)

1 Capital departmental expenditure limit.

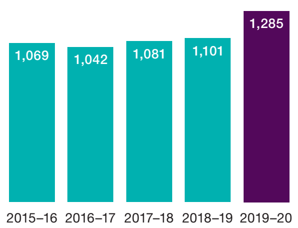
Capital expenditure was £3.2 billion in 2019–20, compared to £2.7 billion the year before. Of this, we spent £2.0 billion on enhancement projects. We spent another £0.7 billion on renewing our network to ensure that our structures and road surfaces are well maintained and operating safely. In addition, we invested in new technology on the road and in control rooms.

Capital expenditure £m



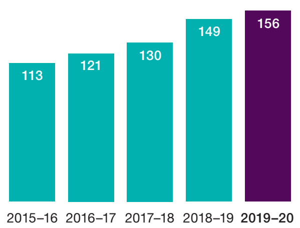
We have increased capital investment by 67% to £3.2 billion since the start of the first road period. With more major schemes in construction, we will have high levels of investment throughout the second road period.

Resource expenditure £m



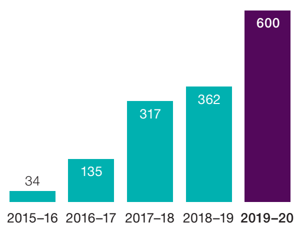
We have not increased operational (resource) expenditure in proportion to capital spending and we have absorbed the impact of inflation. There have been small increases from fluctuations in PFI maintenance expenditure and retrospective VAT charges in 2019–20.

Pay £m



We have increased our investment in people by 38% over the first road period. This has been driven by the growth in our capital programme and the roll out of our Asset Delivery model.

Efficiencies £m



We generated £0.6 billion of efficiencies this year. This takes our efficiency savings over the last five years to over £1.4 billion, out-performing our £1.2 billion five-year target.

Each year we agree annual financial plans with government and are expected to remain within 1% of that funding. We achieved this again in 2019–20 for our capital investment, as we have in every year since Highways England was created.

Operational expenditure

	Funding £m	Outturn £m	Variance £m
Operational expenditure*	1,216	1,285	(69)

* Resource departmental expenditure limit, excluding depreciation.

Our operational expenditure was £1.3 billion. Of this, 38% (£0.5 billion) was spent on PFI contract payments to providers who built roads for us in the past and now maintain them. We spent another £0.3 billion on maintenance and repairs, and £0.2 billion operating our network, including on 1,800 traffic officers and control room colleagues. We spent £0.1 billion on projects to improve the way that we operate, ensuring that we have effective IT, the highest value safety and engineering standards, and to deliver effective communications campaigns to our road users.

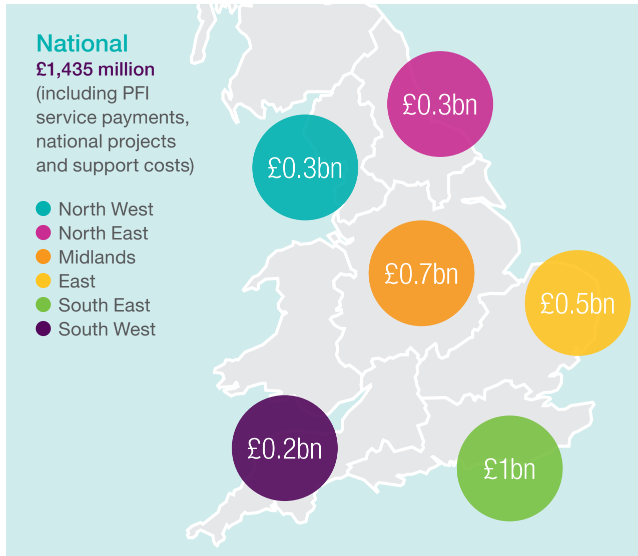
We spent a further £0.1 billion running our business. We have benchmarked our corporate functions against other companies and sectors to make sure they are efficient. We receive separate funding of £0.1 billion for managing some specific activities on behalf of the DfT. These activities, known as protocols, include collecting income on the Dartford River Crossing, and managing strategic salt stores for national and local authorities.

Our funding for operational costs has remained flat during the first road period, and we have delivered our programmes within this constraint. There has been no funding increase for general inflation, and we found additional efficiencies to offset price rises. Additional funding was provided, including for Brexit-related activity and for PFI contracts, where funding adjustments were made to match contractual delivery commitments. We exceeded our operational funding by more than 1% due to a backdated accounting adjustment for PFI liabilities.

Nationwide investment

Our maintenance and renewal programmes deliver benefits across the country. We target our work where our asset condition data tells us the need is greatest.

Our spend on network enhancements reflects where our largest schemes are located, although the benefits are felt over a much wider area and across the country.



For ease of display, regional spend figures have been rounded down to the nearest £100m.

To see our regional investment across the first road period, please see page 50 →

Our largest scheme in construction this year was the A14 Cambridge to Huntingdon in the East region. We invested £0.3 billion, bringing us to a total scheme investment of £1.3 billion since the project started in 2016. In the South East, we also invested £0.2 billion to start construction of the M4 smart motorway between junctions 3 to 12, one of the most congested routes in the country. Many smaller schemes are also bringing jobs, investment and benefits across the whole of the country.

What we spent our money on

Capital improvements:
£2.0bn
Delivering our major investment programme

Asset renewals:
£0.7bn
Renewing our assets to ensure that our network meets it service potential, including a significant resurfacing programme

Designated funds:
£0.3bn
Improving the surroundings of the SRN as well as supporting and protecting quality of life

Other capital investment:
£0.2bn
Investing in technology, congestion relief and overarching projects to support the delivery of our investment programme

Private Finance Initiatives:
£0.5bn
Meeting government private financing commitments

Total expenditure:
£4.5bn

Maintenance:
£0.3bn
Maintaining our roads to ensure that they are safe and fit for purpose

Operation of our network:
£0.2bn
Keeping our network moving, including through staffing regional control centres, our traffic officers and national incident liaison

Resource projects costs:
£0.1bn
Maintaining and improving our IT, applying our safety and engineering standards, and delivering effective communications

Protocols:
£0.1bn
Managing essential services on behalf of DfT, for example the Dartford River Crossing (Dart Charge)

Corporate services:
£0.1bn
Keeping our business running, including utilities, non-capital pay, travel and subsistence, training and settling network claims

● Capital expenditure ● Operating expenditure

How we manage our money

As a business, we are organised into six regions, each with their own detailed business plan for maintaining and operating a large part of our network. Our major projects are also delivered either through regionally-based specialist teams, or by bespoke teams created for our largest complex infrastructure projects.

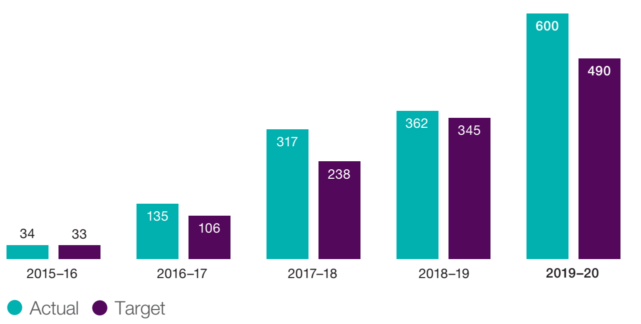
We support our supply chain by paying our suppliers on time and using government's fair payment charter. Last year, we made over 388,000 payments, with 91% paid within five days. We use project bank accounts to ensure that all tiers of our supply chain reliably receive payment. We plan and manage our cashflow to remain within government's 5% accuracy forecast, which helps the Treasury manage wider public sector finances.

388,000
supplier invoices paid

91%
of payments within five days

Cashflow forecasting within
5%
accuracy

Our efficiencies



Our financial framework was set to drive greater efficiency in our delivery. We were given a target to achieve £1.2 billion of capital efficiency savings over our first five-year road period. Funding was provided on a post-efficient basis, which meant we had to make these savings to afford our commitments. Every year, we have exceeded our target. The rate of efficiencies has increased as more projects progressed from design through to construction. We generated £0.6 billion of capital efficiency savings this year. This has brought our total efficiencies over the road period to more than £1.4 billion, meaning we outperformed our target by nearly 20%.

Our capital efficiencies can be categorised into four efficiency themes: efficient scheduling of schemes; use of Lean techniques; introduction of new types of contracts; and introduction of new design methods.

Additionally, our five-year funding settlement did not provide budget for inflation on operational expenditure. This has meant that, each year, we had to find another £20 million of new savings and efficiencies to offset inflationary pressures.

Our financial statements

There are some technical differences between how our expenditure appears in the financial statements and how it appears in relation to our funding and wider government accounts. To make this difference easier to understand, we have included a reconciliation on page 208.

Our assets

At the end of the year, the assets we hold were valued at £126.2 billion.

We assess the worth of the SRN through a regular valuation process, which is set out in note 6.2 on page 181.

This year, we revalued the pavement and land elements of the SRN. Due to changes in the specification of our network, the value of the SRN has increased by £6.5 billion, see note 1 on page 175.

Most of our assets are network-related but we also hold £0.6 billion of non-network assets. These include dwellings, plant and machinery, leases and IT. There is a further £0.3 billion of current assets, mostly trade receivables.

Depreciation

The company incurred £1.2 billion of depreciation and amortisation charges, which reduce the net value of our assets. The level of depreciation varies with the valuation of the asset, which is determined by a five-yearly revaluation process known as the quinquennial review (see note 6.2.i on page 182.

Our liabilities

At the 31st of March, we held £1.1 billion of current, short-term liabilities, mainly accrued trade payables. Invoiced trade payables are relatively low (£0.1 billion) because of our prompt payment initiative.

We have non-current, long-term liabilities of £1.6 billion, of which the majority relate to recognition of the future PFI payments over the life of the contracts. The remainder are provisions, mostly for lands, and include potential payments for compulsory purchase orders and blight.

For more information on our liabilities, see note 7.3 on page 194.

SRN valuation

Vanessa Howlison
Chief Financial Officer

LOOKING BACK OVER THE FIRST ROAD PERIOD

Over the past five years, we have built new roads, maintained and improved existing ones and kept our customers and the country's vital transport arteries moving safely. We are viewed as global leaders in road building and maintenance, and our roads are some of the very safest in the world. Our work has been underpinned by our three imperatives: safety; customer service; and delivery.

SAFETY K1 R1,2,7

Safety is our first imperative. We need to keep our customers, people and supply chain safe, above all else. Since we published our *Health and safety five-year plan* in 2015, we have delivered all of its 130 actions. In June 2019, we launched our new *Home safe and well* approach, which builds on this plan and provides us with a new framework to further improve safety.

130

safety actions delivered from our *Health and safety five-year plan*

Implementing safety measures

As part of our investment in safety measures, we have improved signage and road markings, installed new safety barriers, improved the layout of junctions and widened slip roads.

We have also tackled local areas of risk through our targeted safety programmes. These include our Cycling, safety and integration fund, which we used to deliver improvements focused on our single carriageways and routes for walkers, cyclists and horse riders.

We also used our Safety and congestion relief programme to improve existing roundabouts, slip roads and junctions.

Improving driver behaviour

The actions and behaviours of drivers are often key contributory factors in the collisions on our roads. We have undertaken a range of activities with our partners to improve drivers' information on these factors and to tackle poor driving behaviour. This has included using new camera technology to identify motorists who drive under a Red X sign. Having previously sent warning letters, drivers can now be issued with fines and penalty points for ignoring warning signs and Red X lane closures. We have also worked with the police in using unmarked heavy goods vehicles (HGVs) to patrol our network, recording driving offences.

We have run a series of targeted national and regional awareness campaigns. Our 'Space Invader' campaign, for example, focused on tailgating, using the 'stay safe, stay back' call to action. We also worked with THINK!, the DfT road safety campaign, to run an initiative to encourage motorists to perform basic safety checks before beginning their journeys.

Measuring our progress

Over the first road period, we have been working to meet our safety target of reducing the number of people killed or seriously injured (KSI) on our network by 40% by 2020, compared to the 2005–09 average baseline. We have decreased such casualties by 39.5% from 2005, and by 11.7% from 2015. At the same time, we have also seen a 42% and 20% reduction respectively, in the overall casualties on our network.

Changes in accident recording practices by some police forces in recent years, with the move from paper-based to electronic systems, have affected how the KSI number has been recorded. Some injuries previously classified as 'slight' are now classified as 'serious', for example. To account for the impact of these changing systems, the Office for National Statistics has produced a robust methodology for adjusting historical road casualty data.

For details on how we have improved safety in 2019–20, see pages 76 to 83 in our operational report →

CUSTOMER SERVICE K 2 R 3,4,5

We want our customers to trust us and for all our people, both on and off-road, to understand their contribution to customer service. Our *Customer service strategy*, published in 2016, focused on ensuring we consistently deliver the basics, while improving our services and our network for all our customers and neighbouring communities.

2,500 hours

Journey time saved each day in 2019–20

Understanding our customers

We have looked at how we can improve our relationships with customers, including how we can better understand and respond to their needs. We publish an annual Customer service plan, *Connecting our customers,* setting out how we will improve the service we provide.

We developed and used a stakeholder mapping tool to identify the key distribution hubs of our freight customers. This helped us better understand pinch points when planning roadworks. The tool has also helped us focus engagement with stakeholders, particularly around communicating roadworks closures. Royal Mail, DPD and Eddie Stobart – among other leading hauliers and transport companies – are already using our tool, and we are working together to evaluate its success.

Measuring our progress

Over the first road period, customer satisfaction has been measured through the National Road User Satisfaction Survey (NRUSS). Transport Focus, the independent watchdog for transport users, is responsible for managing the survey and for providing us with the data each month. Satisfaction has increased from 88.5% in March 2015 to 89.2% in March 2020.

Following improvements to our variable signs and signals, we have seen a rise in satisfaction around on-road and digital information. This year, our programme of improvements has saved over 2,500 hours of customer journey time on average per day, in addition to over 1,000 hours saved on average in 2018–19. This has contributed to the NRUSS satisfaction score, with information and signage being the highest performance indicator once again.

While we do not have a set target for average delay, our measurement tracks the delay experienced by individual vehicles. It is based on the difference between actual journey time and free-flow journey time. During 2019–20, average delay on our roads was 9.33 seconds per vehicle per mile, a minor improvement on last year, at 9.37 seconds.

We have also worked to improve our customers' experiences by designing roadworks to cause less disruption. This has included increasing the speed limit through roadworks, when safe to do so, and phasing roadworks to manage the number on any single stretch of road at the same time. As a result, at the end of the first road period, we have achieved our highest roadworks satisfaction score since 2014–15.

At the beginning of April 2018, Transport Focus launched the Strategic Roads User Survey (SRUS). We have worked with Transport Focus to develop this new survey, which will provide the official measure of customer satisfaction, replacing the NRUSS from April 2020. The two surveys cannot be directly compared. The new survey will use an improved methodology to provide more detailed insights, which we will use to help shape future iterations of our annual customer service plan.

For details on our work to improve customer service in 2019–20, see pages 84 to 91 in our operational report ➔

DELIVERY K 3–8 R 6,8

Government's RIS1 set out 112 schemes to be developed and built on a scale unprecedented since the 1980s. We have made significant progress in delivering, and refining, our investment plan for the first road period to ensure we deliver value for money for the taxpayer, and the best possible outcomes for road users and the communities we serve.

Delivering our investment programme

We delivered over £15 billion of investment across the first road period to improve our network. We opened 36 schemes for traffic and started work on a further 31 schemes. We worked to improve safety and increase access and integration, including delivering 438 new and upgraded crossings for walkers, cyclists and horse riders. We delivered wider improvements beyond the traditional focus of road investment, including investment in 28 schemes to support the development of more than 45,000 homes and 44,000 jobs.

As part of our delivery, we identified a number of opportunities to refine our investment programme. We published these in October 2017, and communicated further changes in our annual *Delivery plan update*. Through these changes, we improved overall value for money, as well as increasing safety, reducing disruption, easing traffic flow and improving journey-time reliability. We also provided greater visibility over the pipeline of future work for our supply chain.

We improved the governance of projects to take a consistent approach to assessing value for money. We also carried out a review of all schemes, including assessing costs, value for money, customer benefits, stakeholder and environmental impact, and how each scheme fitted with government's RIS1 objectives. Through these reviews, we identified a number of schemes which did not meet our value for money targets.

For some of these schemes, we developed options to improve value for money; for the remainder, we are reviewing other options, including rescheduling schemes.

We reviewed the timetable for all major projects as part of our ongoing capital planning, considering in particular the impact on customers. This work identified that there were eight routes where the combination of different works planned might have created unnecessary disruption for road users. To make the most efficient use of our access to the network, we decided to start some schemes earlier and reschedule others. While this will extend the period of investment, it will result in a better experience for our customers and enable a more efficient flow of construction work, saving taxpayers' money. Those schemes which we have started but not yet completed will form a significant volume of the work to be delivered early in the second road period.

Measuring our progress

We have a number of delivery-related targets for the first road period.

We exceeded our network availability KPI, achieving 98.18% against a target of 97%. To keep lanes clear, we have, for example, increased the volume and proportion of roadworks carried out at night.

We exceeded our incident clearance target of 85%, clearing 89.07% within one hour. Achieved against a backdrop of increasing traffic volumes, this demonstrates the positive impact of our initiatives, such as intelligence-led patrolling.

We work to a target of 95% of our road surface being kept in good condition, meaning that no further investigation is required for possible maintenance. At the end of the first road period, we achieved 95.5%.

We also mitigated 1,174 noise important areas against our overall target of 1,150 areas. In total, we reduced noise for around 50,000 people.

Since 2015, we have outperformed our efficiency targets. We delivered £1.4 billion of efficiency savings over the first road period, against our cumulative target of £1.21 billion.

For details on scheme delivery in 2019–20, see pages 37 to 49 in our strategic report. For details on efficiency, see page 95 in our sustainability report ➔

DELIVERING WIDE-RANGING IMPROVEMENTS

Through our capital programme and designated funds schemes, we have invested in projects beyond our road network to deliver a range of benefits for our customers, neighbouring communities, the environment and the economy.

For further details on our designated funds, see pages 101 to 103 in our sustainability report →

Mitigating noise

1,174

noise important areas mitigated

We used low-noise surfacing, noise barriers, noise insulation and bypasses to reduce noise for around 50,000 people.

Improving air quality

101

SRN sections reviewed for nitrogen oxides compliance

We improved air quality near our roads by supporting zero-emission vehicles, investigating the effectiveness of tall barriers and reducing speed limits.

Delivering cycle schemes

160

new cycle schemes

We delivered cycle schemes around the country as part of our wider delivery of 438 new and upgraded crossings for walkers, cyclists and horse riders.

Strengthening biodiversity

60

wildlife crossings

We delivered crossings, such as tunnels and green bridges, on major roads to protect and enhance natural habitats.

Using recycled materials

85%+

materials recycled

We used recycled materials and both on-site and off-site recycling facilities on some road schemes.

Reducing our CO_2 footprint

49.6%

reduction in our corporate carbon footprint

We achieved this reduction against our Greening Government Commitment baseline, surpassing DfT's target of 44%.

Reducing litter

39,000

bags of litter collected

We collected litter from our network's worst hotspots, in addition to rubbish collected as part of our routine maintenance activities, to improve safety on the SRN, promote cleaner environments for local communities and support wildlife habitats.

Improving the water environment

260

flood-vulnerable locations mitigated

We improved SRN resilience, road user safety, protection for local communities and water quality through the use of sustainable drainage systems, such as wetland and reed bed schemes.

LOOKING AHEAD TO THE SECOND ROAD PERIOD

It is vital that we keep our network well maintained and flowing smoothly. As demand grows, with traffic volumes expected to rise by up to 32% by 2040, we must make sure that our network can cope. Businesses, large and small, need roads to get goods and services to people; sectors heavily reliant on our network employ 7.4 million people, and contribute £314 billion to the UK economy. We expect this figure to grow by 35% by 2030.

Government's RIS2 sets out its vision for a safer, more reliable and greener SRN, which uses new technology, supports the country's economy and is an integrated part of the national transport network.

To respond to, and align with, RIS2, we have created our *Strategic business plan* and *Delivery plan*. Our *Strategic business plan* provides the high-level direction for every part of our company for the second road period (2020–25). This is supported by our *Delivery plan*, which provides the details of specific funding, activities and projects we will deliver over the five years.

We have set out a programme which balances £27.4 billion across enhancement schemes and operating, maintaining and renewing our roads. We will also address a wide range of issues beyond the traditional focus of road investment, and start planning for the third road period.

Government's RIS2 commits funding to a number of proposed new enhancement schemes. These schemes will add capacity to address congestion and improve network resilience, including by:

- dualling the A66, providing the first new Trans-Pennine dual carriageway since 1971
- improving the A303, providing a high-quality route to the South West and improving roads for communities, tourists and businesses
- providing a new Lower Thames Crossing to link Kent and Essex
- upgrading the A46 around Newark, easing congestion and supporting regional plans for a new trade corridor stretching from Gloucestershire to Hull

Our whole programme will help keep the country moving and create greater capacity to connect families and friends. We will help create jobs and support sustainable growth and housing, as well as supporting regional and national economies.

Preparing for the second road period has presented us with the opportunity to undertake the full planning process for the first time. For more details on our end-to-end planning, see our case study on pages 136 and 137 in our governance report ➔

The first road period vs. the second road period

WHAT IS CHANGING?

FIRST

£15.2bn[1]
capital investment

KPIs & targets

Performance measured against eight areas:

- Making the network safer
- Improving user satisfaction
- Supporting the smooth flow of traffic
- Average delay
- Delivering better environmental outcomes
- Crossings
- Achieving efficiency
- Keeping the network in good condition

Schemes

- £6.87 billion capital spend to start the delivery of 112 enhancement schemes
- Planned the development of 15 schemes in preparation for the second road period

Designated funds

Ring-fenced funding across five funds:

- Air quality
- Cycling, safety and integration
- Innovation
- Environment
- Growth and housing[2]

SECOND

£27.4bn
capital and operational investment

KPIs & targets

Performance will be measured against six outcomes:

- Improving safety for all
- Providing fast and reliable journeys
- A well-maintained and resilient network
- Delivering better environmental outcomes
- Meeting the needs of all users
- Achieving efficient delivery

Schemes

- Open 52 enhancement schemes for traffic in the second road period
- Start work on 12 new schemes[3]
- Develop over 30 pipeline schemes for the third road period and beyond

Designated funds

Ring-fenced funding across four revised funds:

- Safety and congestion
- Users and communities
- Environment and wellbeing
- Innovation and modernisation

1 The RIS1 £15.2 billion funding allocated to Highways England includes £11.4 billion relating to the first five-year road period (2015–20). The remaining funding has been committed to the first year of the second road period (2020–25).
2 In the second road period, Highways England will support growth and housing by accessing the Housing Infrastructure Fund, government's capital grant programme.
3 This number includes the 5 new scheme commitments set out in RIS2 and 7 Smart Motorway schemes confirmed following the *Smart motorway safety evidence stocktake* review.

SAFER ROADS

K 1 R 1,2,7

Safety remains our first imperative. Our ambition over the second road period is to ensure our network is safer and more reliable. We aim to at least halve the number of people killed or seriously injured on our roads by the end of 2025, against the 2005–09 average baseline. This will keep us on track to reach our goal of zero harm on our network by 2040.

50%
targeted reduction in deaths and serious injuries on our roads

ADDRESSING ENVIRONMENTAL ISSUES

K 5 R 8 S

We have allocated £936 million to our designated funds, which will help us deliver improvements in a range of areas, from conserving cultural heritage to strengthening flood resilience. They will also help us improve integration and support walkers, cyclists and horse riders. We will use the themes we set out in our long-term vision, *Connecting the country*, to guide our funding of innovation. We will work flexibly with customers and stakeholders to invest these funds where they are most needed over the next five years.

We will work in partnership with stakeholders and partners, building relationships and delivering collaboratively. This will include working with other transport providers to improve integration with infrastructure across the country.

£936m
for designated funds to support impactful projects

EFFICIENT DELIVERY

K 7

As a learning organisation, there is always more we can do to improve our performance. We will build on our efficient ways of working from the first road period, focusing on efficiency across every part of our business.

We expect to achieve £2.3 billion of efficiencies in the second road period through a variety of innovations and improvements. This will mean that our customers will see even more investment for their money than has been possible in the past. With funding now directly linked to the money that people pay through vehicle tax, we recognise that efficient delivery, alongside excellent customer service and responsiveness, is more important than ever.

£2.3bn
of efficiencies targeted by the end of the second road period

BALANCED INVESTMENT

Operating, maintaining and renewing our network will remain the bedrock of our activity, and we have made £11 billion of funding available for this purpose. We will ensure that our assets, including everything from bridges to roadside signs, are well maintained, and that we protect the surrounding environment. We will increase investment in renewals activity to pre-empt problems, particularly across concrete roads, our largest structures and safety barriers.

Major enhancement schemes are a crucial element of our investment portfolio. They are often the most impactful way to upgrade our roads, allowing us to improve junctions and add lanes, as well as deliver environmental, social and economic benefits. We will invest over £14 billion in enhancement schemes across the next five years, providing a benefit of £27 billion to customers, local communities and the wider economy.

We plan to complete the 43 RIS1 schemes in progress, as well as commencing 12 new schemes. Every part of the country will see the positive effect of our investment.

£11bn
for operating, maintaining and renewing our network

£14bn
for major enhancement schemes

£27bn
of benefit provided by our enhancements programme to customers, local communities and the wider economy

OUR BUSINESS MODEL

We operate, maintain and improve England's motorways and major A-roads. We exist to connect the country. We believe that connecting people builds communities, connecting families with places creates memories, connecting workers with jobs creates opportunities, and connecting businesses helps the nation thrive.

Our stakeholders
Who we impact:

Customers
Our aim is for road users to be and feel safe on our network, to have reliable journeys and to trust the information we provide.

Communities
We are committed to delivering positive long-term social and economic outcomes by unlocking the development of housing and employment schemes, improving road capacity and reducing congestion and delays.

Our people
We value our people and we are committed to providing safe, inclusive working environments that foster innovation and employee engagement.

Our supply chain
Our pipeline of work provides visibility to our supply chain, encouraging our partners to invest in their workforce and incentivising innovation. We support the financial health of our supply chain by paying quickly for work that has been completed.

Government
We align with government's *Industrial strategy*, which aims to increase productivity and drive economic growth across the country safely and cost-effectively.

Our planet
We work with the DfT, the Department for Environment, Food and Rural Affairs (Defra), the Office for Low Emission Vehicles and others to help improve air quality, lower carbon emissions and reduce our impact on the natural environment.

Our resources and relationships R
What we rely on:

Financial
We invest public funds in our network to deliver our agreed objectives.

Human
We have a diverse workforce, whose commitment enables us to deliver road schemes and customer service improvements.

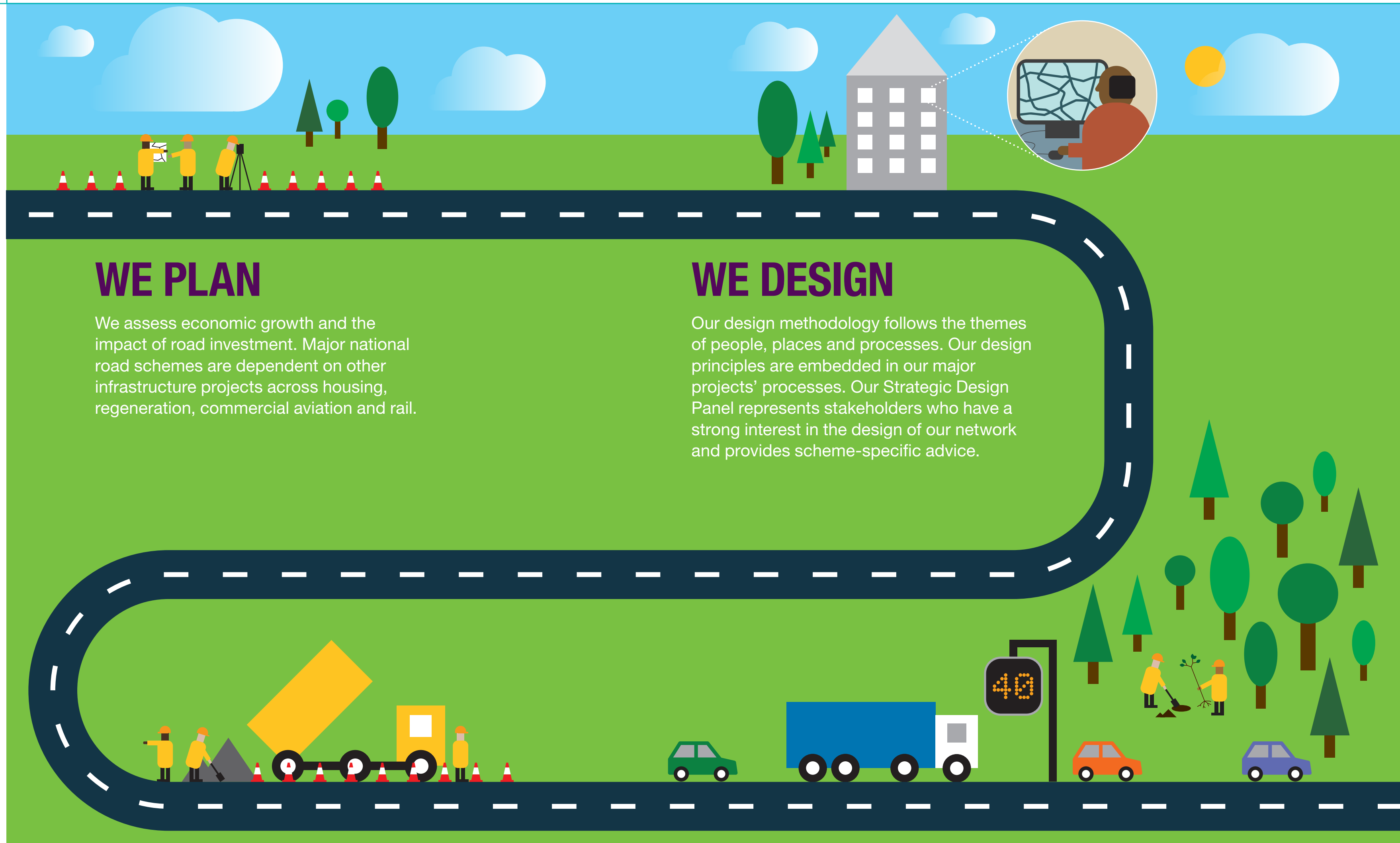
Intellectual
We have expertise and experience in developing and running a major road network.

Social
Key industry partnerships and our supply chain support our delivery.

Manufactured
Technology helps us manage the changes in the way road infrastructure is designed, delivered and operated.

Our resources and relationships are mapped to the capitals of the International Integrated Reporting Council's Integrated Reporting Framework. Find out more at the iirc.org →

How we create value S
What we do:



WE PLAN
We assess economic growth and the impact of road investment. Major national road schemes are dependent on other infrastructure projects across housing, regeneration, commercial aviation and rail.

WE DESIGN
Our design methodology follows the themes of people, places and processes. Our design principles are embedded in our major projects' processes. Our Strategic Design Panel represents stakeholders who have a strong interest in the design of our network and provides scheme-specific advice.

WE BUILD
We use increasingly digital, collaborative and integrated commercial models to work with our supply chain on the construction of our schemes. We prioritise our programme to maximise the benefits for stakeholders within our funding framework.

WE OPERATE
We directly manage operations, maintenance and scheme delivery, and we are at the forefront internationally for incident management. This includes vehicle recovery, severe weather operations and traffic management.

WE IMPROVE
We monitor the condition of our roads, basing our maintenance and renewals programmes on the needs of our assets and our customers. We schedule our work to minimise the impact on our road users and communities. We also innovate, using new technologies to ensure safer, smarter and future-ready roads, while minimising or improving our impact on the surrounding environment.

The value we offer K
Our 2015–20 highlights:

£1 = over £2.50
invested benefit

£314bn
contribution to UK economy

£6.3bn
value of road improvements

7.4m
jobs supported

40%[1]
reduction in KSIs

9.3 second
maximum average delay, ensuring

98%
network availability and 89% incident clearance within one hour

£654m
on social, environmental and safety schemes, including 160 cycling schemes, 124 biodiversity schemes and 113 safety schemes

1,174
areas benefiting from reduced levels of noise

45,000
new homes supported

1 Our target for the number of people killed or seriously injured on our roads by the end of 2020.

OUR OPERATING ENVIRONMENT

We work in a changing external environment and there are many factors that impact how we operate, maintain and improve the SRN. In this section, we summarise the main factors from 2019–20. We have aligned our operating environment to the key stakeholder groups of our business model (see page 26) to provide a direct line of sight.

OUR CUSTOMERS AND COMMUNITIES K 2 R 3,4,5

Increased demand

With a growing population, demand for our roads is increasing. Our network must be resilient to increasing volumes of traffic, changing patterns of demand and wider forecast changes, such as an increased risk of extreme weather events.

How we are responding

In the short-term, this has meant an increase in roadworks as we extend and improve our current network. We know that this has caused frustration for customers where we are constructing major schemes.

We are committed to making our customers' journeys as safe, reliable and smooth as possible. This includes reviewing how we design, manage and schedule roadworks so they cause less disruption.

Customers' evolving expectations

We consult and engage with customers, government and stakeholders across the country to ensure we deliver a balanced programme of investment and benefits.

We have constantly reviewed our programme to deliver value for money, meet our customers' needs and work with stakeholder development plans. We are in regular contact with regional and local bodies, such as sub-national transport bodies, to understand their evolving needs.

We expect our customers' expectations to grow over the second road period. Funding for the SRN from 2020 to 2025 will come from Vehicle Excise Duty within England, creating a stronger link between our customers and our income, potentially marking a shift in public expectation. Road users who feel that they are directly paying for a service are likely to have increased expectations around performance, our visibility on the roads, for example more traffic officers, and the quality of the information that they receive.

How we are responding

The requirements and priorities of our customers directly inform our delivery.

As part of our planning for the second road period and beyond, we have worked to understand how requirements are changing. It is likely, for example, that our customers will expect increasing access to roadside technology to support innovations in the car and communications industries. We are undertaking research, and engaging with stakeholders, to understand the role that we can play in supporting innovation.

Public perception

We exist to connect the country, and our business has strong public service roots in doing the best for society.

This year, our smart motorways were placed under public and media scrutiny, with government commissioning an evidence stocktake of the safety of these roads. We fully supported DfT's stocktake, and welcomed the opportunity to understand where we can improve.

How we are responding

We have helped transform the national debate on roads to one where the SRN is a key economic asset, with long-term investment recognised as essential to ensuring the prosperity and wellbeing of the country.

Government published its *Smart motorway safety evidence stocktake and action plan* in March 2020. This supported smart motorways as safe and effective ways of providing faster and more reliable journeys and identified a number of actions, which we will take forward. You can read more about our response on page 54.

GOVERNMENT

Government's priorities and vision for the SRN

Government is both our client and our Shareholder. In 2019–20, we needed to complete government's £15.2 billion RIS1 for the first road period, delivering their priorities as well as the commitments we made to them.

This delivery was set against a backdrop of ongoing planning and collaboration, as we worked closely with the DfT to prepare for the second road period. Our *Licence* requires us to make decisions for the long-term and invest so that whole-life costs are minimised.

How we are responding

The £27.4 billion of funding announced in RIS2 reaffirms government's commitment to consistent, long-term investment in the SRN, and their confidence in our ability to deliver.

Our planning for the second road period, as set out in our *Strategic business plan* and our *Delivery plan*, has been influenced by government's vision for the SRN to:

- enable safer, more reliable journeys, directly supporting the UK economy
- be a greener network, working harmoniously with the environment
- be a network that enables seamless and integrated journeys
- be a smarter network, responding to the predicted rapid technological change

Leaving the European Union (EU)

We have worked closely with DfT on the consequences associated with leaving the EU, for example working as part of government's Operation Yellowhammer.

How we are responding

We have reviewed government's Brexit notices, considered the potential impact of EU Exit on our business, and undertaken work in Kent to provide solutions at ports. In other parts of the country, we have reviewed our plans with ports, airports, other key transport hubs, and highway authorities, working with local resilience forums to support preparations.

We have also responded to government's request to support the Get ready for Brexit campaign by:

- displaying messages on 350 permanent variable message signs across the country
- deploying 19 portable variable message signs to some locations without permanent infrastructure

ENVIRONMENT K 5 R 8 S

Environmental commitments

Public interest and concern on both climate change and air quality are increasing, along with expectations around corporate responsibility. In response, we are working hard to minimise our impact.

Government has committed to achieving carbon neutrality by 2050 and compliance with European air quality standards. We are required to contribute towards the Greening Government Commitments, and will support DfT in delivering their targets.

How we are responding

We have committed to ongoing improvement in environmental outcomes from our activities. We are acting to make the SRN a better neighbour, working to improve air quality, reduce our carbon footprint, reduce noise pollution, protect biodiversity and improve the water environment. We are collaborating with DfT, Defra, the Office for Low Emission Vehicles and others.

We know that more will need to be done in the future, and have agreed to a range of environmental targets and associated reporting as part of government's RIS2. This has informed our planning for the second road period and beyond.

Some solutions will be outside of our direct control, such as the uptake of electric vehicles, yet we understand that we will still have an enabling role.

See 'Greening government commitments' on page 58 for more details.

EMERGING TECHNOLOGY AND INNOVATION

New and emerging trends

Technology is constantly changing, influencing our decision-making and investments as we work to deliver better outcomes for our customers.

In 2019–20, we have seen the trend for increased innovation across our sector increase, particularly around digital design, off-site and modular construction and smarter materials.

Technology also remains a driver for wider innovation, including around improving our environmental footprint.

How we are responding

Consideration of these trends has led us to identify that digital roads will be the future of the SRN. We are preparing a digital roads concept strategy, focused on harnessing data, technology and connectivity to improve the way the SRN is designed, built, operated and used. There are three core areas:

- Digital design and construction
- Digital operations
- Digital for customers

Digital technology will lead to significant changes over the coming years, potentially including:

- automation and repeatable digital techniques for design, construction and maintenance to make our assets easier to maintain and build
- use of dynamic lanes and artificial intelligence to run a network of connected, fully autonomous vehicles
- digital communications channels and reliable data to meet our customers' evolving mobility demands and enable seamless journeys
- optimised road usage to reduce congestion and ensure our network is free-flowing
- making our network more connected, enabling intelligent, data-driven and automated decision-making to manage traffic flow and disruptions

Across the year, we have been working with our supply chain to track and respond to emerging trends, particularly those across the construction industry:

Robotics and automation
Automating construction and engineering tasks to improve safety and provide efficiencies

Drone technology
Remotely undertaking asset inspections and surveying work

Artificial intelligence
Providing the opportunity for machines to deliver or support tasks normally undertaken by humans

Sensors and tracking software
Monitoring assets remotely and improving predictive capabilities for asset management and deterioration estimation

Data science
Using data science to improve analytics and allow more accurate and rapid decisions to be made

Materials sciences
Supporting a reduction in the use of energy and materials, as well as enabling greater efficiency

Digital twins
Providing digital replication to visualise and provide greater understanding of assets

Virtual and augmented reality
Testing construction and other techniques in virtual environments to improve safety and efficiency

KEY PERFORMANCE INDICATORS

Our eight KPIs provide a framework against which we have monitored our progress across the last year, and across the first road period as a whole. Our results for 2019–20 show that we have met the majority of our commitments, with further work needed in some areas.

These results have been assured by our RIS Performance Compliance team, validated by our Internal Audit team, and approved by the Board.

OUR PERFORMANCE OVER THE FIRST ROAD PERIOD:

1 Making the network safer

- We need to keep our customers, people and supply chain safe above all else, and our roads are now some of the very safest in the world
- We are on track to reduce the number of people killed or seriously injured on our network by 40% by the end of 2020

2 Improving user satisfaction

- Our 2019–20 score (89.2%) represents the highest end-of-year road user satisfaction result since 2016–17, showing that we have made improvement
- Overall, across the first road period, we narrowly missed our 90% target

3 Supporting the smooth flow of traffic

- Network availability: we met our 97% target every year in the first road period, despite a significant ramp-up in delivery
- Incident clearance: we also met our 85% target every year, against a backdrop of increasing traffic volumes and incidents

4 Average delay

- While not targeted, we report average delay (time lost per vehicle mile) year-on-year as part of our commitment to supporting economic growth
- Overall, we have seen a 5% increase in average delay per mile over the first road period, which reflects the 3% traffic growth over the same period and shows that the network is operating near capacity – and in some locations above capacity

5 Delivering better environmental outcomes

- Noise: we mitigated a cumulative total of 1,174 noise important areas across the first road period, exceeding our KPI of 1,150 by 24
- Biodiversity: we also slowed the rate of biodiversity decline across our estate over the last five years

6 Crossings

- While not targeted, we are committed to improving our network's impact on cyclists, walkers and other vulnerable users of our network
- During the first road period, we completed 438 new or upgraded crossings

7 Achieving efficiency

- We made cumulative efficiency savings for the first road period of £1,448 million, exceeding our £1,212 million target by £236 million, or 19%

8 Keeping the network in good condition

- Over the first road period, we have seen an increasing proportion of our road surfaces in good condition, with the percentage requiring no further investigation stabilising above our 95% target for three consecutive years

OUR RESULTS FOR 2019–20 AND THE FIRST ROAD PERIOD:

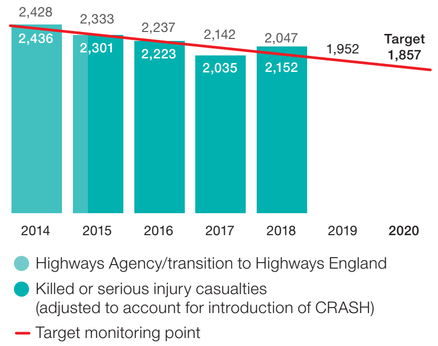
1 Making the network safer

Our target:

We must achieve a

40%

reduction in the number of people killed or seriously injured on our network by 2020



What we achieved:

Safety is our first imperative, and we need to keep our customers, people and suppliers safe above all else. We monitor our road safety performance through the figures provided in the *Reported road casualties Great Britain annual report*, published by DfT.

The Stats19 validated annual statistics for 2019 will be published at the end of July 2020. A provisional understanding of safety performance can be derived from unvalidated Q1-2 data published in November 2019 which indicated a slight decrease in the number of reported KSI's (-2.7% on 2018).[1]

We will assess progress towards our target for this roads period after publication of validated statistics for 2019 and 2020 in summer 2020 and 2021 respectively.

Read more about safety on page 76 →

Safety KPI notes

1 Further analysis based on our dataset and our understanding of fatal casualties for 2019 indicates that the number of fatal incidents has reduced by around 10% compared to 2018.

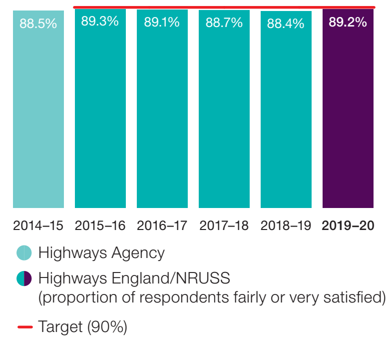
2 Improving user satisfaction

Our target:

We must achieve a score of

90%

road user satisfaction by March 2017 and then maintain or improve that standard



What we achieved:

In 2019–20, we achieved a satisfaction score of 89.2% based on Transport Focus' *National road user satisfaction survey*. While slightly below our target, this is the highest end-of-year score since 2015–16, showing a clear upturn from 2018–19. Overall, across the first road period, we have narrowly missed our 90% target each year.

We have worked hard across our business and supply chain to improve the experience for our customers and neighbouring communities. We have focused on the areas that matter most to them, such as roadworks management, information and signage. We have, for example, saved over 3,500 hours of customer journey time per day from variable speed limit improvements, equating to over £20 million a year in economic benefits. We also achieved our highest ever scores for roadworks (75.5% – a 10% increase from last year) and customer information (93.3%).

Moving into the second road period, we will listen to our customers and communities. Transport Focus' *Strategic road user survey* will provide us with insight to help tailor what we do and how we do it. Our customer service plan, *Connecting our customers*, for 2020–21 will provide a strong focus on improving information, roadworks and customer contact – while ensuring that we are reflecting the needs of all our users and the communities we serve.

Read more about user satisfaction on page 85 →

OUR RESULTS FOR 2019–20 AND THE FIRST ROAD PERIOD:

3 Supporting the smooth flow of traffic

Our targets:

We must achieve

97%

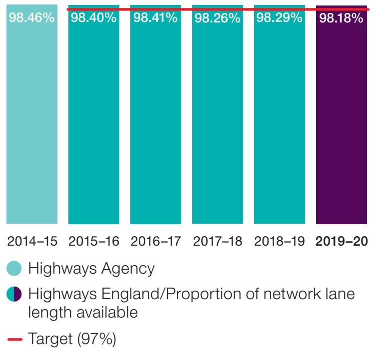
lane availability in any one rolling year to support the smooth flow of traffic

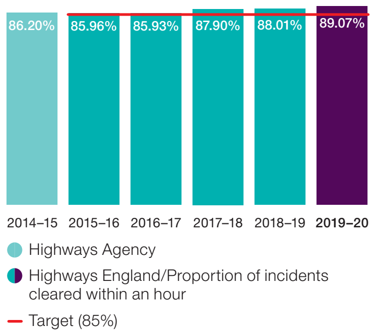
&

We must clear at least

85%

of incidents on the motorways within the hour





What we achieved:

Network availability:
In 2019–20, we kept 98.18% of our network open to traffic, exceeding our target by 1.18%. December 2019 was one of our strongest months, with 98.61% availability, because of our removal of roadworks over Christmas.

In the first road period, we have met our target every year. We have achieved this despite a significant ramp-up in delivery and the increasing roadworks activity that goes hand-in-hand with such investment, accounting for the overall trend of decreased availability. We now put out only 16% of our closures in the daytime compared to 25% in 2014–15, the last year of Highways Agency.

Incident clearance:
In 2019–20, we cleared 89.07% of incidents on the motorway within one hour, exceeding our target by 4.07%. Our performance is higher than last year (88.01%), achieved against a backdrop of increasing traffic volumes and incidents. We have a clearance rate of 90.6% for breakdowns, which accounted for half of all incidents.

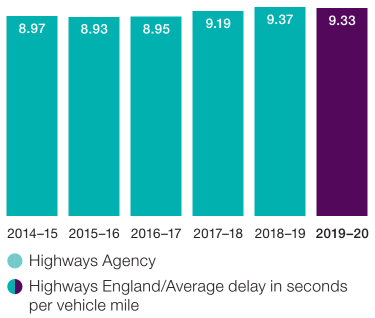
We have made significant progress in performance over the first road period. We have met our target every year, with an overall trend of improvement. This final year, 2019–20, was our strongest ever.

Read more about supporting the smooth flow of traffic on page 90 ➔

4 Average delay

Our target:

There is no target for this measure



What we achieved:

While government does not set a target for this measure, we report average delay (time lost per vehicle mile) year-on-year as part of our commitment to supporting economic growth.

In 2019–20, we reported an average delay of 9.33 seconds per vehicle per mile. This represents a slight reduction from the 9.37 seconds delay reported in 2018–19.

Overall, we have seen a 5% increase in average delay per mile across the first road period. This reflects the 3% traffic growth over the same period. Despite demand growth, journey time reliability has been stable over the first road period, with the planning time index identical to year 1.

Read more about average delay on page 18 ➔

OUR RESULTS FOR 2019–20 AND THE FIRST ROAD PERIOD:

Strategic report

5 Delivering better environmental outcomes S

Our targets:

We must mitigate at least

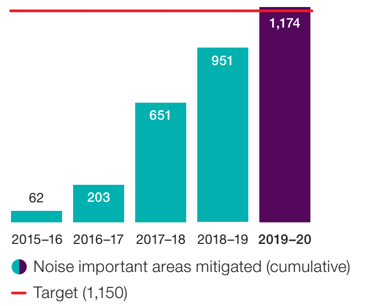
1,150

noise important areas by 2020

&

We must publish a *Biodiversity action plan* by 30 June 2015 and report annually on how we have delivered against the plan

Noise[1]



Biodiversity

1 Due to agreed changes to metric calculation methodology, the figures for previous years have been restated (agreed through DfT and Office of Rail and Road change control).

What we achieved:

Noise:
In 2019–20, to improve the quality of life for our neighbours living alongside the SRN, we mitigated 223 noise improvement areas. More than 400 households benefited from noise insulation, and over 2,000 households from noise reduction through noise barriers, bypasses or lower noise resurfacing.

Across the first road period, we have mitigated a cumulative total of 1,174 noise important areas, 24 above our KPI of 1,150.

Biodiversity:
We published our *Biodiversity action plan* in 2015–16, and we have since reported annually against this plan. We published our last *Biodiversity report* in 2018–19, and information on our biodiversity performance in 2019–20 is included in this annual report.

In 2019–20, we delivered 46 biodiversity schemes across a total of over 200 hectares of species-rich grassland, 12 connected habitats, two sites of special scientific interest, one nature important area and two partnership schemes. This work has increased the level of biodiversity across our estate, supporting the native flora and fauna and providing connected habitats in which they can thrive.

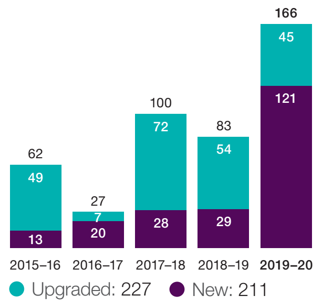
Over the first road period, we have reduced the rate of biodiversity loss across our estate. This is supported by qualitative evidence gathered as part of the approval process for our designated funds schemes, and reinforced by delivery evidence.

Read more about delivering better environmental outcomes on page 101 ➔

6 Crossings

Our target:

There is no target for this measure



* Due to agreed changes to metric calculation methodology, the figures for previous years have been restated (agreed through DfT and Office of Rail and Road change control).

What we achieved:

While government has not set a target for this measure, we report on the number of new and upgraded crossings year-on-year. In 2019–20, we delivered 121 new and 45 upgraded crossings, helping cyclists, walkers and other vulnerable users of our network.

During the first road period, we have completed 438 new or upgraded crossings for vulnerable users. These have addressed gaps on, or improved, our network to provide safe, direct, attractive and accessible crossing facilities.

Read more about crossings on page 102 ➔

OUR RESULTS FOR 2019–20 AND THE FIRST ROAD PERIOD:

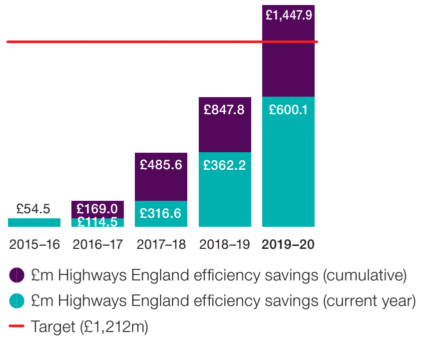
7 Achieving efficiency

Our target:

We must make capital expenditure savings of at least

£1,212m

by 2019–20



What we achieved:

In 2019–20, we made efficiency savings of £600 million. This is an increase of £238 million compared to our savings in 2018–19 (£362 million).

Overall, we have made cumulative efficiency savings for the first road period of £1,448 million. This exceeds our five-year target of £1,212 million by £236 million, or 19%. The biggest driver of efficiencies has been our improvements to the scheduling of schemes, helping us to plan better.

We have also used new working practices and innovation and technology to drive productivity in both our operations and construction activity.

Read more about achieving efficiency on page 95 ➔

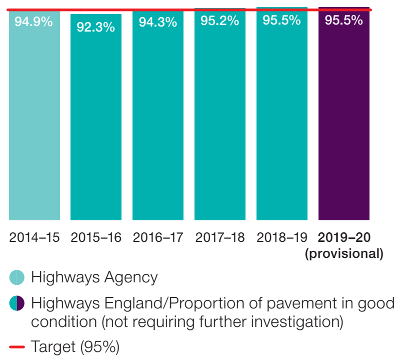
8 Keeping the network in good condition

Our target:

We must ensure that

95%

of pavement (road surface) requires no further investigation for possible maintenance



What we achieved:

In 2019–20, we ensured that 95.5% of our network was in good condition, with no further investigation required for possible maintenance. This exceeded our target by 0.5%.

For this KPI, we measure lane one of the main carriageway. Our asset management system shows that, since March 2019, we have undertaken approximately 893 km of maintenance work in lane one.

In 2015–16, this metric was a lagging measure, with an initial deterioration that was not anticipated from historic trends. Yet, over the first road period, we have seen an increasing trend in our performance, followed by stabilisation above our required target for the last three consecutive years.

Over the first road period, we have also implemented new processes and planning to model our future renewals needs against expected outcomes. This has included assurance processes to monitor the actual performance of our road surface against predicted models. We have used our new modelling capability to inform the investment case for the second road period.

Read more about keeping our network in good condition on page 89 ➔

DELIVERING OUR ENHANCEMENTS PROGRAMME

In our *Delivery plan* for the first road period, we set out an ambitious programme of investment, including 112 enhancement schemes. In the following pages, we summarise our progress across these complex national schemes and major road improvements.

As our understanding of delivery challenges has evolved, we have reviewed and updated our enhancements programme. We have engaged with stakeholders across the country to deliver a balance of investment and benefits across all regions.

We have advanced 21 schemes in the first road period and deferred 31 schemes to the second road period. We have also agreed changes with DfT to manage 12 major schemes with poor value for money or lack of stakeholder support. As forecast, our programme retains 100 of the originally proposed 112 RIS1 schemes.

We have made good progress over the road period. We have invested £6.87 billion of our capital budget into major schemes and opened 36 for traffic, compared to the 28 schemes planned at the start of the second road period[1]. Through this work, we have added over 370 lane miles of additional capacity to our network, and generated efficiency savings of £1.4 billion in total over the first road period.

During 2019–20, we opened seven enhancement schemes, including the M20 junction 10a which was delayed from 2018–19, adding over 70 lane miles of capacity. We missed our 2019–20 *Delivery plan* commitment for the M271/A35 Redbridge roundabout upgrade, which will open early in the second road period. We started work on 23 RIS1 schemes and improvements to the A27 East of Lewes.

We also met our commitment to provide funding to support a further two schemes, planned to be delivered by third parties: the M11 junction 7a; and A5 Towcester relief road.

Towards the end of the first road period, we agreed with DfT to remove the M56 new junction 11a from our enhancements programme and defer the development of the M6 junction 22 upgrade to a future road period, which we will consider in the second road period. The start of works has also been rescheduled for: A27 Worthing and Lancing improvements; A47 Great Yarmouth Junctions; M2 junction 5 improvement; and A303 Sparkford to Ilchester dualling.

Commitment for 2019–20	Number of schemes
Started construction	24[2]
Open for traffic	7[3]

2 Includes the A27 East of Lewes, and excludes the two schemes to be delivered by third parties
3 Includes M20 Junction 10a 2018–19 commitment

We have invested

£6.87bn

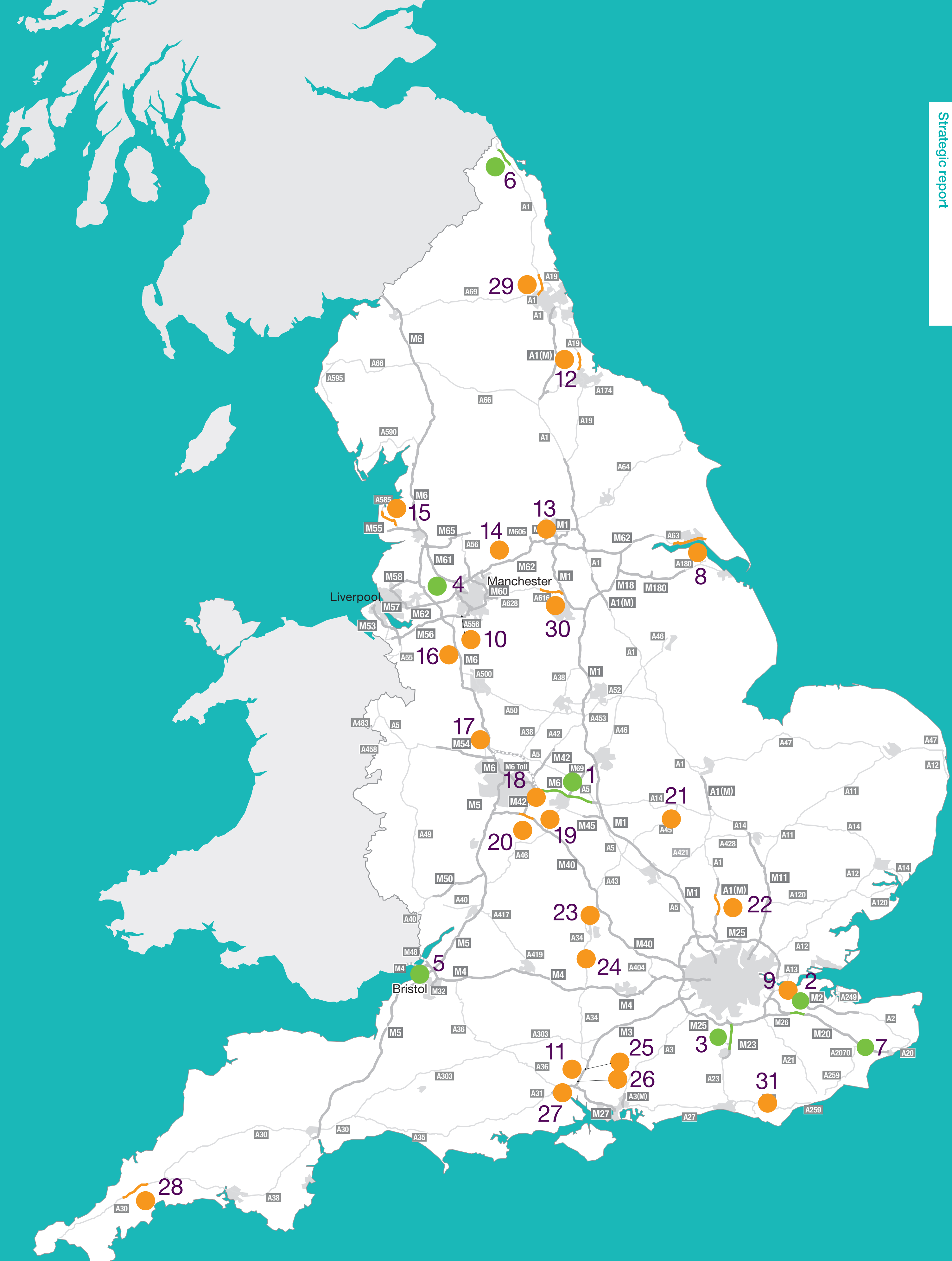
of our capital budget into major schemes over the first road period

1 Our original commitment was to open 28 schemes for traffic in the first road period. We accelerated 11 schemes from the second road period and deferred two schemes, bringing our revised commitment to 37. Of these, we missed one commitment (the M271/A35 Redbridge roundabout upgrade).

SCHEMES OPEN FOR TRAFFIC AND WHICH STARTED CONSTRUCTION DURING 2019–20

1. M6 junctions 2 to 4
2. M20 junctions 3 to 5
3. M23 junctions 8 to 10
4. M62 junctions 10 to 12
5. M49 Avonmouth junction
6. A1 North of Ellingham
7. M20 junction 10a
8. A63 Castle Street
9. A2 Bean and Ebbsfleet
10. M56 junctions 6 to 8
11. M3 junctions 9 to 14
12. A19 Norton to Wynyard
13. M621 junctions 1 to 7 improvements
14. M62 junctions 20 to 25[4]
15. A585 Windy Harbour – Skippool
16. M6 junction 19 improvements
17. M6 junction 10 improvement
18. M42 junction 6
19. A46 Coventry junction upgrades
20. M40/M42 interchange smart motorway
21. A45/A6 Chowns Mill junction improvement
22. A1(M) junctions 6 to 8 smart motorway[1]
23. A34 Oxford junctions[5]
24. A34 technology enhancements[5]
25. M3 junctions 10 to 11 improved slip roads
26. M3 junctions 12 to 14 improved slip roads
27. M271/A35 Redbridge roundabout upgrade
28. A30 Chiverton to Carland Cross
29. A1 Scotswood to North Brunton
30. A61 Westwood roundabout
31. A27 East of Lewes

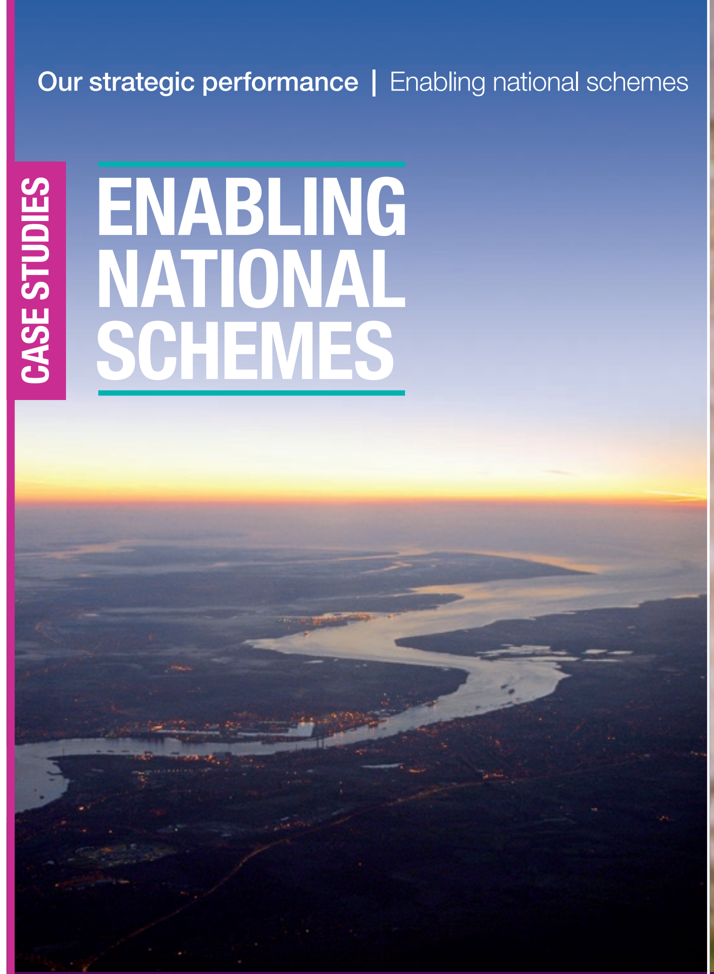
Motorways
Trunk roads
Schemes opened for traffic
Schemes in construction



4 Delivery in the second road period may be subject to the outcome of the *Smart motorway safety evidence stocktake* review.
5 A34 schemes are now known as A34 Newbury to Oxford enhancements.

CASE STUDIES

ENABLING NATIONAL SCHEMES



LOWER THAMES CROSSING

This is the single biggest roads investment project since the M25 was completed more than 30 years ago. It will be the longest road tunnel in the country, and one of the largest diameter bored tunnels in the world.

The crossing will form a vital part of the UK's transport infrastructure, transforming the regional and national road network. The route will provide new connections and quicker, safer and more reliable journeys. It will almost double road capacity across the Thames, providing much-needed relief for the Dartford Crossing. It will open up markets for businesses, drive economic growth locally and across the country, and allow people better access to job opportunities on both sides of the Thames.

Following the supplementary consultation held between January and March, we will submit the Development Consent Order application for permission to build the crossing later this year. A decision is expected in 2021. Subject to receiving consent, we expect to start on-site in 2022, with completion in the third road period.

A303 AMESBURY TO BERWICK DOWN

This is the first, and most significant, of a series of upgrades on the congested A303/A358 corridor. Our improvements between Amesbury and Berwick Down will include eight miles of new free-flowing dual carriageway and a much-needed bypass of Winterbourne Stoke. A two-mile tunnel under the Stonehenge landscape will also remove the sight and sound of traffic from much of the World Heritage Site and reconnect both halves of the area.

In May 2019, a National Audit Office value for money review of the A303 Amesbury to Berwick Down project was published. We welcomed their conclusion that the benefits of the scheme, and of others along the A303 corridor, provided good strategic reason for the upgrade.

This £1.7 billion scheme, planned to open in the third road period, will improve connections between the South East and South West. This will reduce journey times for millions of people, and support economic growth and tourism in an area where congestion and slow journeys have negatively impacted the region's economy.

Following our submission of the Development Consent Order in October 2018, the six-month public examination of our scheme proposals ended in October 2019. The Secretary of State for Transport is due to make a decision on the Development Consent Order later in the year.

To allow construction to start on schedule in 2021, government gave us the go-ahead to start our search for world-class contractors to design, build and maintain this iconic scheme. We started this process in July 2019, and it will be ongoing throughout 2020.

WORKING WITH HS2 AND HEATHROW AIRPORT

In 2014, we established a dedicated team to lead on the connections between HS2 and our network, with the aim of minimising impact on the SRN and considering our customers' needs.

Early Phase 1 works have started on-site and we are working with HS2 to ensure safety, technical and operational considerations are in place before the main works begin.

We are working with HS2 on Phase 2 of the project as it progresses through the planning process. On Phase 2a, we have agreed design changes to safeguard the future development of our network, mitigated overlap between the HS2 scheme and our Smart Motorway Programme, and explored other areas of joint working. We are preparing for this phase to move into delivery following Royal Assent, expected in late 2020.

We are also providing advice on Phase 2b of the project. As the future of this phase and timescales become more clear, we are working with HS2 to minimise the impact of construction on our customers. We are also working with HS2 to agree the design of physical interfaces with our network. We will assess these as the route and programme are refined.

As a statutory consultee, we worked closely with Heathrow Airport Limited on its plans for a third runway. Our focus was on protecting the long-term capacity, safety and operability of the SRN. We worked together, in particular, to assure the development of a safe design for the M25, assess the traffic impacts of their proposals, and agree how this area would be operated and maintained into the future. Heathrow's proposals included a realignment of a section of the M25 into a tunnel and changes to junctions on the M25 and M4/M4 Spur. We responded to Heathrow's public consultation in September 2019 with our requirements for the SRN.

In February 2020, the Court of Appeal ruled that the designation of the Airports National Policy Statement was unlawful. Heathrow has subsequently paused work on its Development Consent Order application, required to deliver the expansion proposal, as they consider their response to the ruling.

CASE STUDY

A14 CAMBRIDGE TO HUNTINGDON

We are now in the final year of construction to upgrade the A14 trunk road between Cambridge and Huntingdon, the A1 between Brampton and Alconbury and the A14 Cambridge northern bypass to Milton. The project, which started construction in late 2016, is due to open for traffic in May 2020, eight months ahead of schedule[1]. Through this project, we aim to improve safety, tackle congestion, connect people and unlock economic growth, creating a positive legacy for future generations.

Progress this year

In February 2019, we completed the 750-metre-long Great Ouse viaduct. In March 2019, we opened the upgraded A1 between Alconbury and Buckden. We also opened the first section of the A1307, a new local road running alongside the A14. During the summer of 2019, we started construction on the new link roads in Huntingdon and prepared for removing the old viaduct over the train station. In December 2019, a year ahead of schedule, we opened the new 12-mile bypass. Running between Swavesey and Ellington, this offers long-distance traffic a new high-quality A-road.

In parallel, we have worked to complete the eastern section of our scheme between Swavesey and Milton. Here we have upgraded the existing A14 from two to three lanes, and three to four between Bar Hill and Girton. We also began to build the new A1307. These two sections are due to open to traffic in May 2020[1], with works continuing to transform the old A14 for local journeys in and around Huntingdon, due to be completed as planned by 2022.

Outreach

We have employed over 140 apprentices and 72 graduates across our project, as well as welcoming around 75 young people for work experience.

We have worked with local communities to encourage young people to consider construction and engineering as an exciting career choice. We visited over 40 local schools and colleges, and attended over 200 careers events, to help people learn how construction and engineering projects are delivered, and the skills required. We worked with a further 12 schools as part of our archaeological outreach programme.

Partnership working through designated funds

We used our designated funds to increase scheme benefits, working in partnership with our supply chain and key stakeholders. These included, among others, Cambridgeshire County Council, the Environment Agency, and the Wildlife Trust.

We funded several projects, including:

- autonomous dumper truck trials to increase safety and address the forecast shortage of on-site workers
- research to improve the way we monitor and manage our concrete structures
- a community heritage facility at Northstowe to engage the local community and display the scheme's archaeological findings
- five schemes to improve connectivity and accessibility for walkers, cyclists and horse riders
- flooding interventions to provide resilience for local homes and Bar Hill Primary School
- a study to identify how the Brampton Wood site of special scientific interest could be improved by our partners

Benefits

With the majority of our A14 project now complete, we have already delivered many of the anticipated benefits.

Throughout delivery, we have used innovative techniques such as off-site construction to minimise disruption on existing roads. This was especially the case around building and installing bridge decks at Swavesey and Bar Hill. Traditionally, we would have built these in situ, leading to months of weekend road closures and an extended construction period. On this project, we built the bridge decks alongside the carriageway, transported them using a self-propelled modular wheeled platform, and then jacked them into place. By taking this approach, we greatly reduced the number of carriageway or full A14 closures for each bridge.

We also built our own construction yard at the side of the A1 to construct bridge components, such as deck parts and parapets. We then transported these to where they were needed.

Traditionally, these components would be either procured off-site and transported, or poured in situ. Our new process increased safety, accuracy and reduced the need for road transportation or extended road closures.

As part of delivering our scheme, we have aimed to leave a positive environmental legacy. We improved the habitats for many of the more vulnerable wildlife species, including barn owls, kestrels, swifts, great crested newts, badgers, otters, water voles, bats and butterflies. Since the start of our project, we have created over one square mile of new habitat in 18 areas, and are planting twice as many trees and shrubs as we have removed. We have also built 24 wildlife tunnels across our scheme to give animals safe places to cross.

To improve the impact of construction on the environment, we have reduced our project's carbon footprint in the following ways:

- **Using renewable energy:** We sourced 100% of energy used at our construction compounds from renewable sources.
- **Local sourcing**: We locally sourced via borrow pits most of the five million tonnes of materials needed to build the new road, reducing long-distance journeys.
- **Using non-drinking water:** For construction, we tried to only use non-drinking water from water treatment plants, borrow pits and local watercourses (up to a maximum of 20m³ per day) to minimise impact on the local drinking water supply. We also recycled water where we could, saving over 2,500m³.
- **Reducing fossil fuel:** Where possible, we used hybrid generators, solar-powered floodlights and hydrogen-powered vehicles. The CO_2 emissions from the fuel we saved by using solar-powered floodlights alone is the equivalent of a new car being driven 110 times around the earth.

We used
100%
renewable energy at our compounds

We built
24
wildlife tunnels on this project

> WITH THE MAJORITY OF OUR A14 PROJECT NOW COMPLETE, WE HAVE ALREADY DELIVERED MANY OF THE PROJECT'S ANTICIPATED BENEFITS.

A new stretch of the A14, before it opened to traffic

1 At the date of publication, the scheme was open for traffic, completing early in May 2020 as planned.

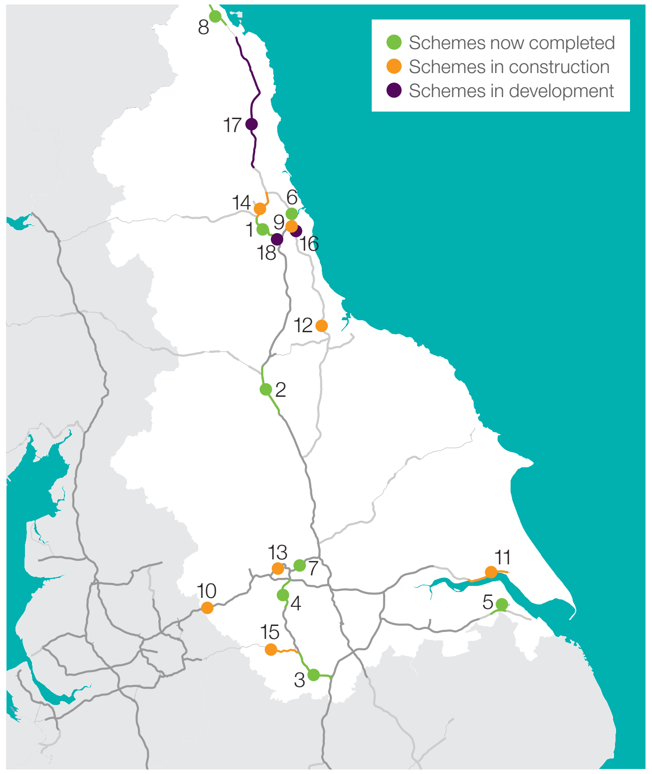
DELIVERING REGIONAL SCHEMES

YORKSHIRE AND NORTH EAST

	No.	Name
Schemes now completed	1	A1 Coal House to Metro Centre
	2	A1 Leeming to Barton
	3	M1 junctions 32 to 35a
	4	M1 junctions 39 to 42
	5	A160/A180 Immingham
	6	A19/A1058 Coast Road
	7	M1 junction 45 improvement
	8	A1 North of Ellingham
Schemes in construction	9	A19 Testos
	10	M62 junctions 20 to 25[1]
	11	A63 Castle Street
	12	A19 Norton to Wynyard
	13	M621 junctions 1 to 7 improvements
	14	A1 Scotswood to North Brunton
	15	A61 Westwood roundabout (formerly A61 dualling)
Schemes in development	16	A19 Down Hill Lane junction improvement
	17	A1 Morpeth to Ellingham
	18	A1 Birtley to Coal House widening

There are no schemes at options stage in this region.

1 Delivery in the second road period may be subject to the outcome of the *Smart motorway safety evidence stocktake* review.




Angel of the North at A1 junction 66, south of Gateshead

A63 Castle Street case study

In March 2020, we started work to improve the A63 Castle Street in Hull, due to be completed in 2025. Through this project, we will invest around £350 million. We will lower the A63 to create an underpass and new split-level junction, as well as removing six sets of traffic lights and several local accesses. We will also consider improved access for non-motorised users, and include two new pedestrian and cycle bridges to improve connections between the north and south of the city. The Princes Quay Bridge, for example, will link the city with the Hull Marina.

Engaging with our stakeholders

As part of our work, we actively engaged with several local and regional stakeholders. This included consulting with the Holy Trinity Church Hull and the Diocese of York to understand the best way to remove remains from the Trinity Burial Ground. We established a cultural heritage liaison group with representatives from Historic England, Hull City Council and Humber Archaeology Partnership to understand how to mitigate impacts on local heritage assets. We also carried out disability awareness workshops, when guides with varying disabilities went on a site tour with our project team to share their concerns and needs.

As part of our project, we procured some of the workforce and subcontract work packages from companies based in the local area.

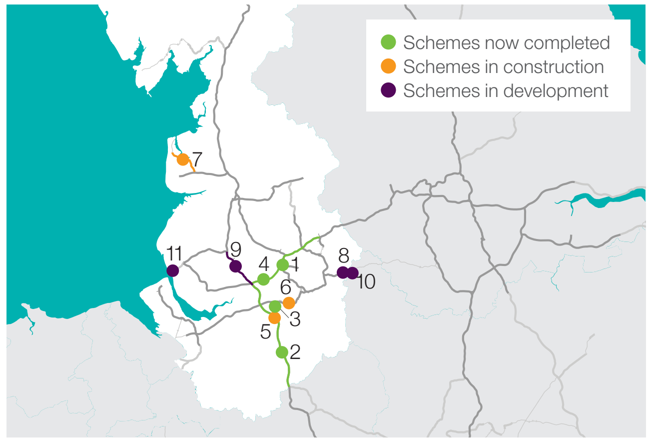
Wider investment through our designated funds

As part of our designated funds programme, we provided a £2.9 million fund to create a sustainable future for Hull Minster Church. Our fund will help establish the church as a place of worship as well as a focal point for the community and a magnet for visitors. It will create a 'heritage corridor' within the church, providing a home for carefully curated exhibits about the history of Hull and the church's role.

NORTH WEST

	No.	Name
Schemes now completed	1	M60 junction 8 to M62 junction 20 smart motorway
	2	M6 junctions 16 to 19
	3	A556 Knutsford to Bowdon
	4	M62 junctions 10 to 12
Schemes in construction	5	M6 junction 19 improvements
	6	M56 junctions 6 to 8
	7	A585 Windy Harbour – Skippool
Schemes in development	8	Mottram Moor Link Road
	9	M6 junctions 21a to 26
	10	A57(T) to A57 Link Road
	11	A5036 Princess Way – access to port of Liverpool

There are no schemes at options stage in this region.



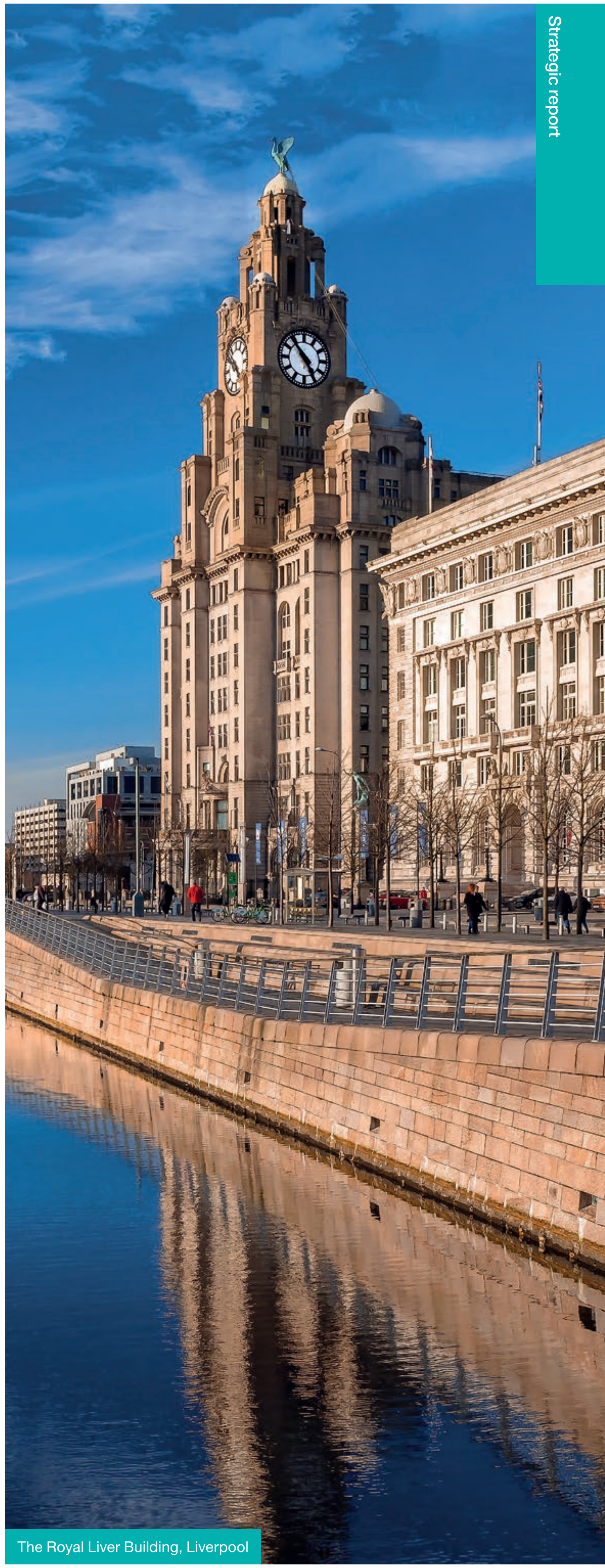
M62 junctions 10 to 12 case study

In March 2020, we opened for traffic our £145 million smart motorway scheme on the M62 between junctions 10 to 12 (Croft to Eccles interchange). This 8.5-mile stretch is a key part of the strategic east-west transport network, linking the M6 and M60.

Through this scheme, we added additional capacity by converting around 17 miles of hard shoulder into running lanes. We installed new technology to provide smoother traffic flow, including fitting 37 CCTV cameras, 37 signs and 49 signals on newly installed structures. This has already delivered significant journey time savings, with forecasted average daily reductions of over 10 minutes.

Delivering wide-ranging improvements

We worked with neighbouring communities along this stretch of motorway in a variety of ways. To mitigate two pre-existing noise important areas and help residents next to the motorway, we installed two new noise barriers. To support local employment, we hired nine people from the nearby community who were previously unemployed, and delivered over 500 training sessions across the community. We also engaged local charities and schools' youth groups throughout this project.

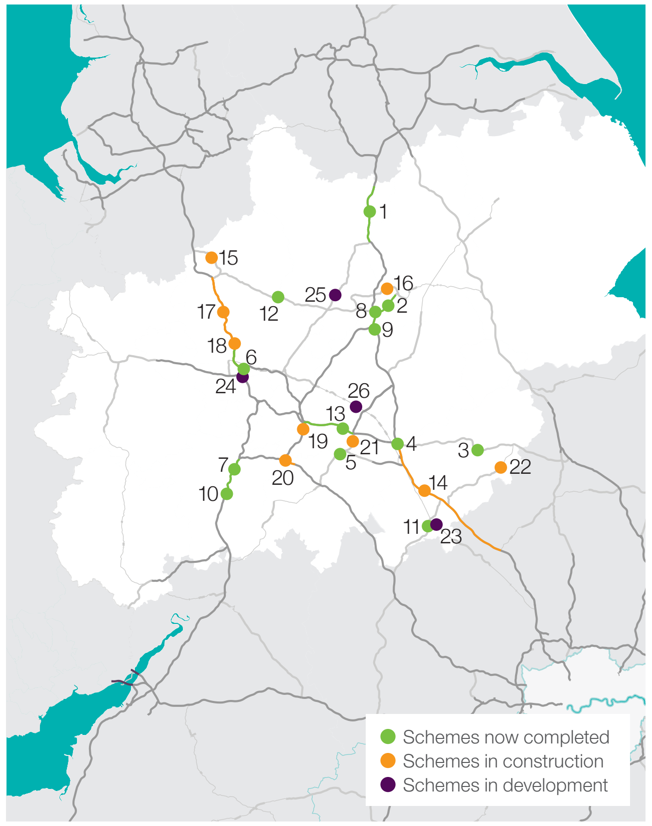

The Royal Liver Building, Liverpool

MIDLANDS

	No.	Name
Schemes now completed	1	M1 junctions 28 to 31
	2	A453 widening
	3	A14 Kettering bypass widening
	4	M1 junction 19 improvement
	5	A45-A46 Tollbar End
	6	M6 junctions 10a to 13
	7	M5 junctions 4a to 6
	8	M1 junctions 24 to 25
	9	M1 junctions 23a to 24
	10	M5 junctions 5, 6 and 7 upgrades
	11	A43 Abthorpe junction
	12	A50 Uttoxeter (Project A)
	13	M6 junctions 2 to 4
Schemes in construction	14	M1 junctions 13 to 19
	15	A500 Etruria widening
	16	A52 Nottingham junctions
	17	M6 junctions 13 to 15
	18	M6 junction 10 improvement
	19	M42 junction 6
	20	M40/M42 interchange smart motorway
	21	A46 Coventry junction upgrades
	22	A45/A6 Chowns Mill junction improvement
Schemes in development	23*	A5 Towcester relief road
	24	M54 to M6
	25	A38 Derby junctions
	26	A5 Dodwells to Longshoot widening

There are no schemes at options stage in this region.

* The A5 Towcester relief road is being delivered by a third party developer.



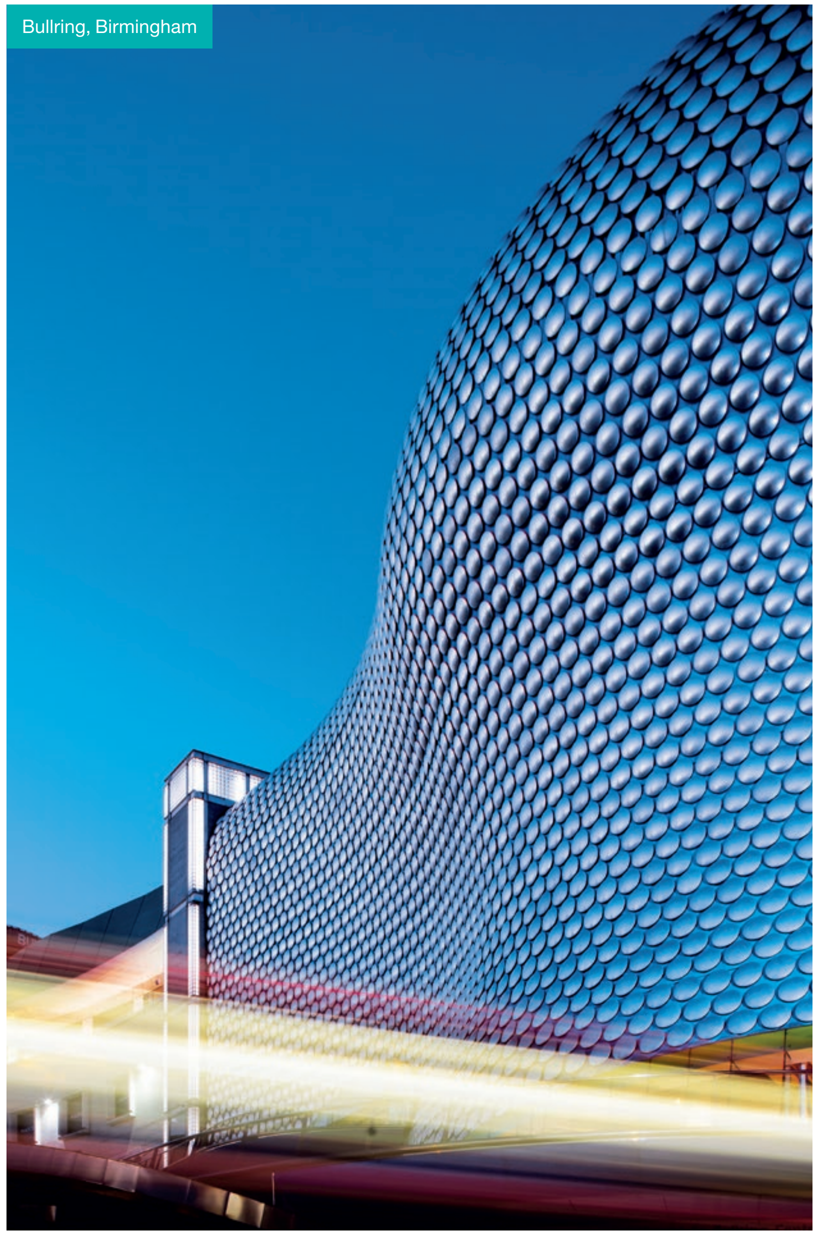
M6 junctions 2 to 4 case study

In March 2020, we completed our smart motorway project on the M6 between junction 2 (M69 interchange) and junction 4 (M42 interchange). Investing over £200 million, we have added a fourth lane in each direction to improve journey times and enable growth around this heavily congested section of the M6. This has provided around 24 lane miles of additional capacity to the SRN, as well as over 112 electronic signs and 44 CCTV cameras.

Delivering wider benefits for stakeholders

We have also improved the surrounding environment by mitigating noise levels in eight noise important areas, as well as improving water quality at 56 drainage outfalls.

Through this project, we have helped regional employment as well as encouraging careers in the sector through our 'new start apprenticeship' scheme. Our teams worked closely with local schools, undertook community volunteering, fundraised for charity and helped the homeless.

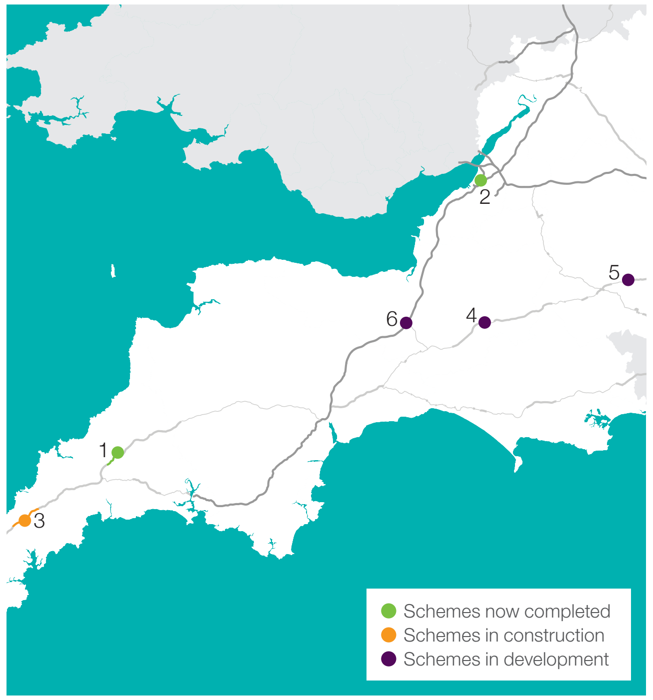


Bullring, Birmingham

SOUTH WEST

	No.	Name
Schemes now completed	1	A30 Temple to Carblake
	2	M49 Avonmouth junction
Schemes in construction	3	A30 Chiverton to Carland Cross
Schemes in development	4	A303 Sparkford to Ilchester dualling
	5	A303 Amesbury to Berwick Down
	6	A358 Taunton to Southfields

There are no schemes at options stage in this region.



A30 Chiverton to Carland Cross case study

Over the last 12 months, we have developed this scheme to invest around £300 million to upgrade to dual carriageway the A30 between Chiverton and Carland Cross, north of Truro in Cornwall.

Due to open in 2023–24, this nine-mile stretch of new road will link existing dual carriageways. This section of the A30 experiences severe congestion and delays, and our route will remove a bottleneck and increase capacity to support economic growth in Cornwall. This includes upgrading three main junctions to improve safety and support the free flow of traffic. Once open, we forecast this will reduce journey times by 5-6 minutes.

Delivering for local communities

Our project scope includes changing the existing A30 to a local road, separating east-west strategic traffic from more local north-south traffic. This will benefit residents and support quicker, more reliable journeys. It will also improve access for non-motorised road users, reducing severance to public right of way routes.

We will deliver this project through our Regional Delivery Partnerships, working with local employers and stakeholders.

Willow Man, to the west of the M5 motorway near Bridgwater, Somerset

LONDON AND THE SOUTH EAST

	No.	Name
Schemes now completed	1	M25 junction 30
	2	M3 junctions 2 to 4a
	3	A21 Tonbridge to Pembury
	4	M4 Heathrow slip road
	5	M20 junction 10a
	6	M20 junctions 3 to 5
	7	M23 junctions 8 to 10
Schemes in construction	8	*A34 Oxford junctions
	9	*A34 technology junction enhancements
	10	M4 junctions 3 to 12
	11	M27 junctions 4 to 11
	12	A2 Bean and Ebbsfleet
	13	M3 junctions 9 to 14
	14	M3 junctions 10 to 11 improved slip roads
	15	M3 junctions 12 to 14 improved slip roads
	16	M271/A35 Redbridge roundabout upgrade
Schemes in development	17	M25 junction 25 improvement
	18	M25 junction 28 improvement
	19	M25 junctions 10 to 16
	20	M25 junction 10/A3 Wisley interchange
	21	M3 junction 9 improvement
	22	M27 Southampton junctions
	23	A31 Ringwood
	24	A27 Worthing and Lancing improvements
	25	M2 junction 5 improvement
Schemes at options stage	26	A27 Arundel Bypass

* A34 schemes are now known as A34 Newbury to Oxford enhancements.

M20 junction 10a case study

Through this scheme, we added a new junction where the A2070 meets the M20. We completed this project, previously committed to open in 2018–19, in December 2019. It concludes over £100 million of investment, £36 million of which was funded by the South East Enterprise Partnership and Ashford Borough Council.

We have improved motorway access, supporting both local and regional growth plans. We have also increased capacity, reduced congestion and improved safety on the motorway, as well as on local roads.

Enhancing the environment

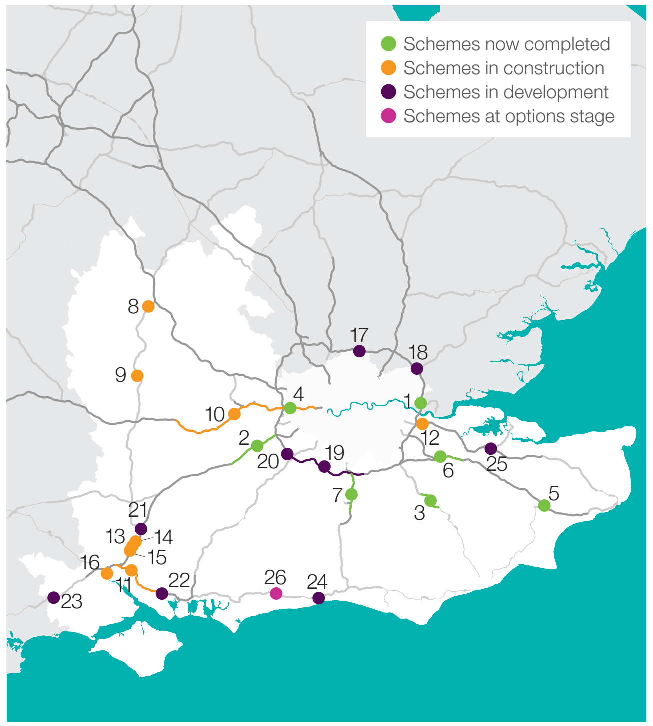
As part of scheme delivery, we reduced noise at three noise important areas and created 20 hectares of new wildlife habitat. To improve access, we delivered new, and improved, facilities for walkers and cyclists, including a new footbridge to provide safer crossings over the M20. We are due to complete another footbridge by summer 2020.

M20 junctions 3 to 5 and M23 junctions 8 to 10 case studies

Having started construction in 2018, we opened our M20 smart motorway scheme in March 2020. Through this £134 million project, we added additional capacity to the strategically-important London to Dover corridor between junctions 3 to 5 (Maidstone to M26 interchange). By converting the hard shoulder in both directions, we helped reduce congestion and deliver faster, more reliable journeys. We installed five new emergency areas, and provided variable messaging and customer information signs on 19 new gantry structures.

Supporting our communities

We worked with the local Royal British Legion to provide employment opportunities for veterans, and procured road signs from their manufacturing group, Britain's Bravest.




The London Eye


The River Cam, Cambridge

We also provided science, technology, engineering and mathematics ambassadors for local schools.

In March 2020, we opened our smart motorway scheme on the M23 between junctions 8 to 10, linking the M25 with Gatwick airport as well as with the Sussex coast. We invested over £220 million to provide more than 20 lane miles of extra capacity, converting the hard shoulder in each direction. We used technology to control traffic flow, improving journey times by two minutes in peak times.

Working with our stakeholders

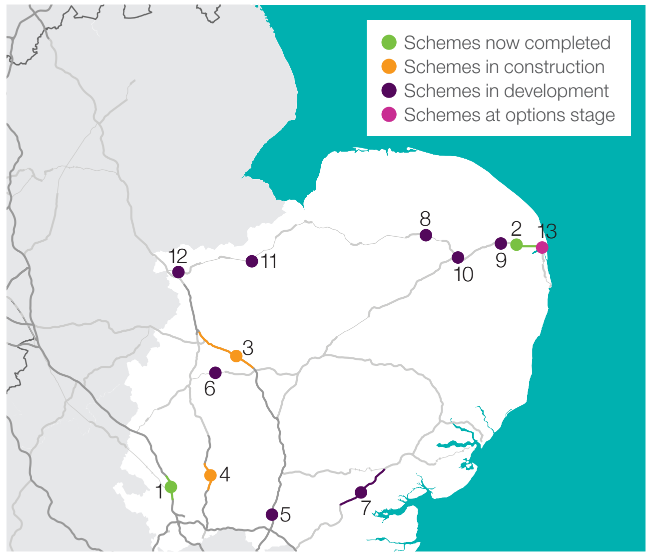
Our co-ordination of activities with local stakeholders was critical. To minimise disruption, we worked with Gatwick airport so that staff and airline passengers were informed well in advance of any road closures, and to promote alternative routes. We also worked with Network Rail to avoid conflict with rail engineering works.

Through these two smart motorway schemes, we have delivered improvements on some of the busiest sections of the SRN. To increase safety, we have installed concrete safety barriers in both projects. Together, these schemes have helped deliver faster and reliable journeys, improved connections to Gatwick airport and reduced congestion. Both schemes have also made improvements to noise important areas.

EAST

	No.	Name
Schemes now completed	1	A5/M1 junction 11a link
	2	A47 Acle Straight
Schemes in construction	3	A14 Cambridge to Huntingdon[1]
	4	A1(M) junctions 6 to 8 smart motorway[2]
Schemes in development	5	M11 junction 7a upgrade[3]
	6	A428 Black Cat to Caxton Gibbet
	7	A12 Chelmsford to A120 widening
	8	A47 North Tuddenham to Easton
	9	A47 Blofield to North Burlingham dualling
	10	A47/A11 Thickthorn junction
	11	A47 Guyhirn junction
	12	A47 Wansford to Sutton
Schemes at options stage	13	A47 Great Yarmouth junction

1 At the date of publication, the scheme was open for traffic, completing early in May 2020 as planned.
2 Delivery in the second road period may be subject to the outcome of the *Smart motorway safety evidence stocktake* review.
3 Our M11 junction 7a upgrade is being delivered by a third party (Essex County Council).



A12 Chelmsford to A120 widening case study

In October 2019, we announced our preferred route for the first section of this scheme: from junction 19 (Boreham interchange) to junction 23 (Kelvedon south).

We also held a public consultation from October to December 2019 to gather feedback on four further options, in addition to the two consulted on in 2017, for the remaining section from junctions 23 to 25. We have developed these additional routes to have options which could accommodate the proposed Colchester Braintree Borders Garden Community housing development at Marks Tey[1].

The A12 is an important transport link, connecting the key regional centres of Chelmsford and Colchester, and the M25 to the ports of Felixstowe and Harwich. The scheme will improve journey time reliability, and provide important links between the UK and our global supply chain. We plan to announce a preferred route for junctions 23 to 25 in 2020 and deliver the project as a single scheme.

We have already started working with our delivery partners and landowners to conduct essential surveys along the A12.

1 Prior to publication, in May 2020, the inspector who undertook the inquiry into the Essex County development plan found the Garden Community development to be unviable.

Strategic report

REGIONAL IMPACT

Over the past five years, we have invested across the country to drive improvements and bring benefits to our customers. Here we summarise, region by region, our progress and impact across the first road period[1].

For our regional delivery in 2019–20, please see pages 44 to 49 ➔

North West £1.8bn

- Eleven major schemes: four completed; three in construction; and four in development
- Over 60 miles of smart motorways
- Biggest increase in capacity in the region since 1971
- Key east-west and north-south links upgraded to smart motorways
- Reduced congestion and improved journey times with, for example, the M6 junctions 16 to 19 smart motorway saving 30 minutes travel time at peaks
- Over 150 noise important areas mitigated
- Over 3,500 new homes supported
- Over 14,600 jobs generated
- 48 cycle and walking schemes completed

Yorkshire and the North East £1.7bn

- Eighteen major schemes: eight completed; seven in construction; and three in development
- £350 million project to improve the A63 Castle Street in Hull
- Over 65 lane miles added
- Increased capacity along with improved motorways, interchanges and access to the Port of Immingham
- Comprehensive review of connectivity
- Over 140 noise important areas mitigated
- Over 8,800 new homes supported
- Over 9,200 jobs generated
- 24 cycle and walking schemes completed

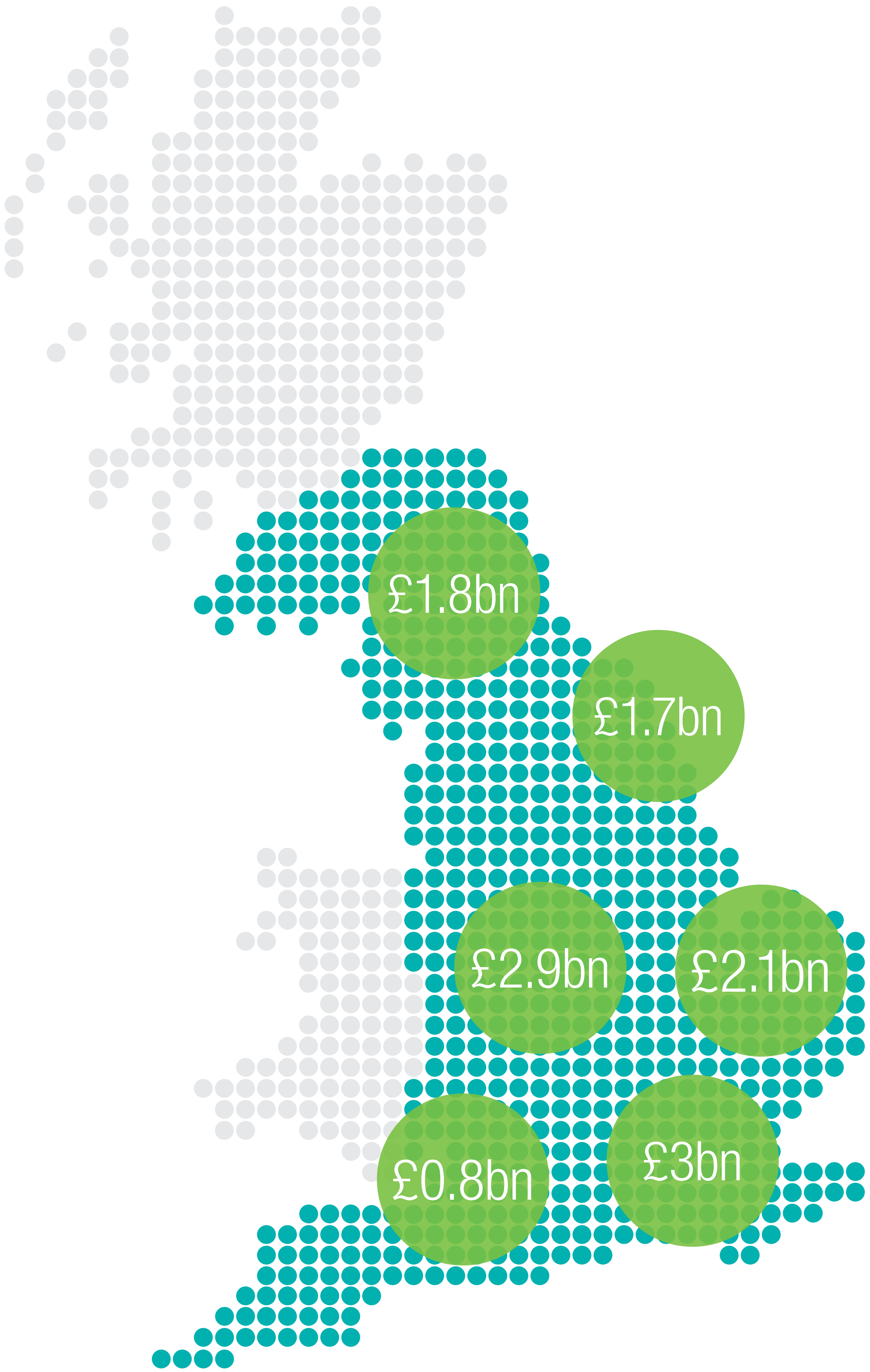
East £2.1bn

- Thirteen major schemes: two completed; two in construction; eight in development; and one at options stage
- Over 11 lane miles added
- £1.3 billion upgrade to the A14 now in its final year of construction, with the 12-mile bypass between Swavesey and Ellington completed a year ahead of schedule
- Major upgrades to the A47 and A428 in development
- Over 175 noise important areas mitigated
- 34 cycle and walking schemes completed

Midlands £2.9bn

- Twenty six major schemes: thirteen completed; nine in construction; and four in development
- Over 160 lane miles added
- Schemes opened for traffic have eased congestion and supported local economic growth
- Major routes upgraded to smart motorways
- Improved links from Birmingham to London and Manchester
- Major improvement work started at key strategic junctions
- Over 260 noise important areas mitigated
- Over 17,300 new homes supported
- Over 9,900 jobs generated
- 25 cycle and walking schemes completed

1 Statistics for new housing and jobs result from our Growth and Housing Designated Fund activity, and not from our scheduled RIS1 programme of works. They are for the lifetime of the associated developments and are not necessarily restricted, therefore, to schemes completed in our first road period.



South West £0.8bn

- Six major schemes: two completed; one in construction; and three in development
- £500 million further investment in the A303
- Over seven lane miles added
- A30 Chiverton to Carland Cross scheme started, supporting economic growth across the South West
- Working on dual carriageways for Cornwall (A358) and Gloucestershire (A417)
- Over 165 noise important areas mitigated
- Over 11,900 new homes supported
- Over 9,500 jobs generated
- 14 cycle and walking schemes completed

London and the South East £3bn

- Twenty seven major schemes: seven completed; nine in construction (10 including A27 East of Lewes); nine in development; and one at options stage
- Over 60 lane miles added
- New smart technology on M3, M20 and M23
- Tackling 'missing' links on the south coast A27
- Over 300 noise important areas mitigated
- Over 3,500 new homes supported
- Over 800 jobs generated
- 15 cycle and walking schemes completed

KEEPING OUR ROADS RUNNING

Our aim to provide safe and reliable journeys for our customers underpins everything we do. We spend more than £1 billion every year to support our customers and manage incidents, as well as deliver our maintenance and asset renewals programmes. We work to keep our roads open and fit for purpose, today, tomorrow and into the future.

During 2019–20 we invested
£733m
in renewals

We completed works on almost
1,000
schemes to renew road surfaces

We repaired over
33,000
defects on our network caused by wear and tear and damage

Maintenance and renewals

Our maintenance and renewals programmes are based on the needs of our customers and our assets in each region. We monitor the condition of our roads and structures, undertake regular inspections of our assets and schedule our maintenance and renewals activities across the year to minimise the impact on our customers.

During 2019–20, we invested £733 million in renewals and completed works on almost 1,000 schemes to renew road surfaces, structures and technology on our network.

We invested over £214 million on maintenance, including repairing over 33,000 defects on our network caused by wear and tear and damage. This represents 20% of our total planned investment for capital maintenance within the first road period.

Asset Delivery

In 2016, we launched Asset Delivery: our approach to maintaining and improving our assets, and generating better data to support it.

Through Asset Delivery, we are bringing in-house some of the maintenance strategy and working more closely and efficiently with our supply chain. We are managing maintenance operations in a more coordinated way, as well as taking greater control of the actions we ask our supply chain to undertake. Asset Delivery also enables us to benchmark cost and productivity information between our supply chain partners and between our regions.

In 2019–20, we rolled out Asset Delivery across five operational areas, undertaking:

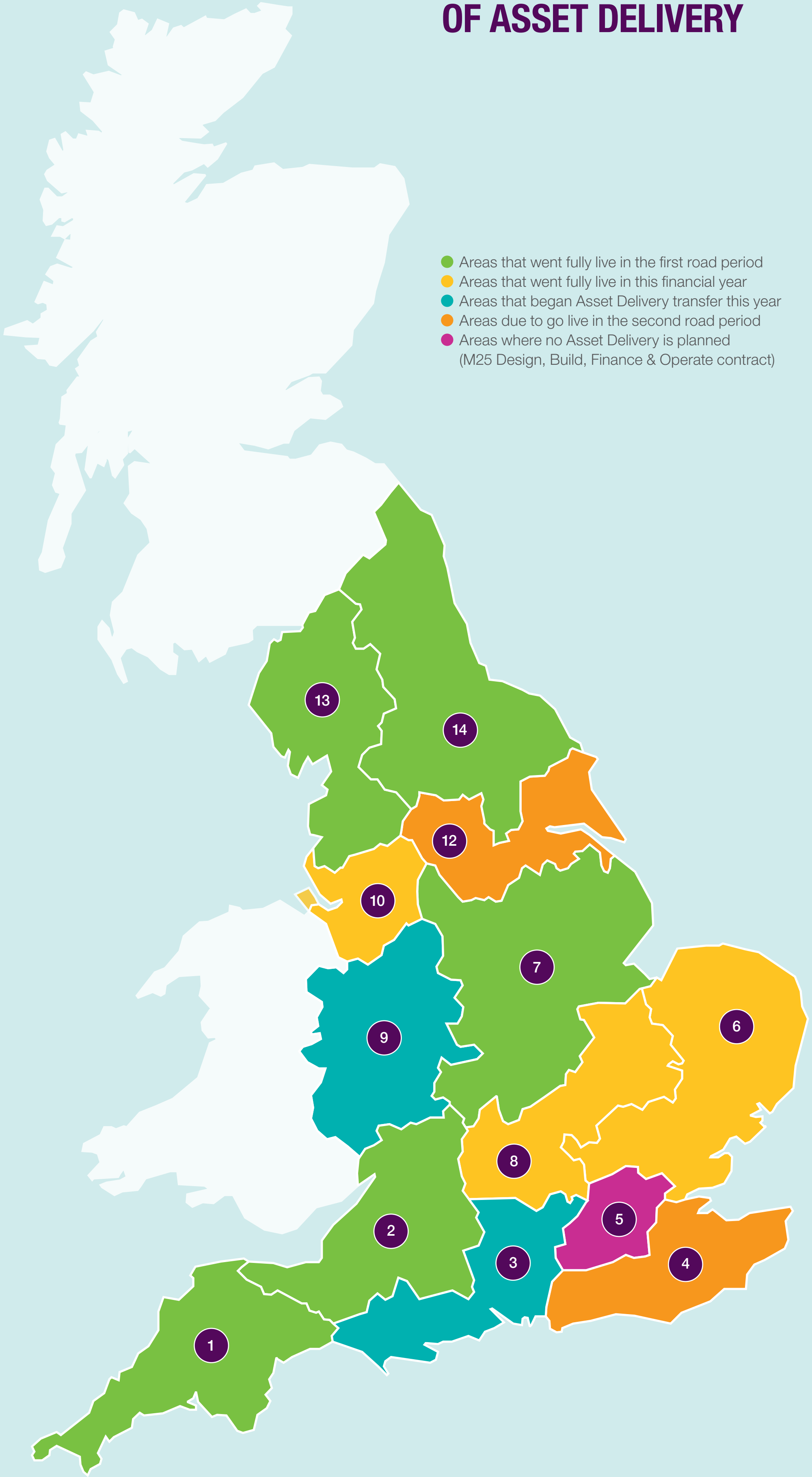
- full implementation in Greater Manchester and Merseyside (Area 10) and the East (Areas 6 and 8)
- partial implementation in the Home Counties (Area 3) and West Midlands (Area 9)

In achieving this, we have grown our organisation by 346 people. We opened three new offices near Warrington, Ipswich and Cambridge, refurbished one office in Bedford and built a new office within a depot near Bedford.

Over the first road period, we have rolled out Asset Delivery in eight of our 12 areas, and undertaken a progressive transfer of responsibility in two further regions.

Looking to the second road period, we will roll out Asset Delivery to the remaining two areas: Kent and Sussex (Area 4); and Yorkshire and Humberside (Area 12).

NATIONAL ROLL-OUT OF ASSET DELIVERY



Operational Excellence

Launched in 2017, Operational Excellence is an internal programme of initiatives and best practice across our business, including people, processes, systems, technology and data. It covers improvements ranging from how we manage our network and respond to incidents through to how we measure performance and create a legacy of change and improved capability.

As the first stage of Operational Excellence nears completion, we have significantly improved our delivery capacity, including:

- simplifying and driving delivery consistency across the country
- improving the design and delivery of our asset renewals process
- improving how we plan for and implement maintenance
- developing planning tools and improving our systems for our employees and contractors
- coordinating and managing change through our operations transformation management office, and our Design Authority

Such progress, together with other initiatives, has helped us exceed our efficiency target for the first road period.

It has also helped us deliver non-financial benefits, such as better use of our network capacity and an improved safety culture. We have embedded a proactive approach to safety, identifying potential hazards or unsafe conditions and fixing them to prevent accidents from happening. As a result, we had reduced the accident frequency rate across our people from 0.07 to 0.01 at the end of March 2020.

We have also improved how we use our data to generate operational insights. This, in turn, has allowed us to align our traffic officers' work more closely to the needs of our customers. We have increased the amount of time that our traffic officers spend on our network, whether patrolling, waiting at designated park up points or attending incidents, by an average of over 20 minutes per shift (2018 baseline to July 2019).

SMART MOTORWAYS: GOVERNMENT'S EVIDENCE STOCKTAKE

In October 2019, the Secretary of State for Transport asked DfT to carry out a stocktake of the safety of smart motorways. Published in March 2020, the *Smart motorway safety evidence stocktake and action plan* established that, in most ways, smart motorways are at least as safe as, or safer than, the conventional motorways they replaced. However, there are individual risks within their operation that could be further reduced to improve safety and public confidence. We are determined to do all we can to make our roads as safe as possible, and we will take forward the measures set out by DfT.

M62 smart motorway

WHY SMART MOTORWAYS?

Smart motorways can provide a third more capacity than a traditional motorway that occupies the same space. On the M25, for example, our all-lane running motorway sections give access to 11,000 more vehicles every day.

The number of miles driven on our motorways and major A-roads has increased by 23% since 2000, and the number and diversity of vehicles on our roads is expected to further increase. Our investment in smart motorways will ensure that our roads can meet future needs, accommodating increased vehicle numbers as well as cleaner, smarter and more autonomous vehicle types.

Smart motorways are the best way to provide increased capacity in a cost-effective way, while minimising the amount of additional land required. This has a variety of environmental benefits, and capacity can be added more quickly, causing less disruption for customers.

Our delivery costs indicate that all-lane running is 60% more cost efficient than delivering increased capacity through traditional widening, and 40% more cost efficient than just using the hard shoulder at peak times.

ARE THEY SAFER? K1 R1,2,5,7

England's motorways are among the very safest in the world. Our motorways are three times safer than all our A-roads and six times safer than our single carriageway A-roads. Overall, what the stocktake evidence concluded is that in most ways smart motorways are as safe as, or safer than, conventional motorways. As predicted, the risk of breaking down in a live lane is increased, but many other risks are reduced.

Compared to conventional motorways, smart motorways have a range of additional protection measures in place. These include full CCTV coverage, sensors to detect the flow and speed of traffic, and emergency areas to stop in. They also include electronic signs which display variable speed limits, Red X to close lanes, and messages to warn drivers of hazards ahead. These features all help reduce the risk to our customers.

Defining key terms

Smart motorways
These are motorways that use technology to manage the flow of traffic, controlled from our regional control centres. We monitor traffic and set variable speed limits and signs to help keep the traffic flowing safely and freely. By opening the hard shoulder to traffic, either temporarily or permanently, we increase the capacity of the road without the expense and disruption of widening the road.

The term smart motorway describes a set of three different motorway designs:

All-lane running
A smart motorway which includes the permanent conversion of a hard shoulder to a running lane and features regular emergency areas.

Dynamic hard shoulders
A smart motorway that temporarily increases capacity at peak times by using the hard shoulder and features emergency areas.

Controlled motorway
A smart motorway which retains a hard shoulder and uses variable speed limits on a conventional motorway to control the speed of traffic.

WHAT'S GOING TO CHANGE?

We have agreed with government an 18-point action plan to make smart motorways safer and increase customer confidence in using them. Recognising concerns, we will strengthen our existing communications and public awareness messages, aimed at improving our customers' understanding about how to use smart motorways and what to do in an emergency.

1. **Ending the use of dynamic hard shoulders** by converting dynamic hard shoulder sections to all-lane running to end driver confusion over different types of smart motorway.
2. **Faster roll-out of stopped vehicle detection** to all sections of smart motorway currently without it so stopped vehicles are, in most cases, detected in 20 seconds. Future designed schemes will have this technology as standard.
3. **Faster attendance by more Highways England traffic officer patrols** on smart motorways where the existing spacing between places to stop in an emergency, such as motorway services and emergency areas, is more than one mile, reducing the attendance time from an average of 17 minutes to 10 minutes.
4. **Committing to a new standard for spacing of places to stop in an emergency**, with a maximum of one mile apart. We will look to, where feasible, provide them every 0.75 miles apart so that, on future schemes, motorists should typically reach one every 45 seconds at 60mph.
5. **Delivering ten additional emergency areas on the M25** on the sections of smart motorway with a higher rate of live lane stops, and where places to stop in an emergency are furthest apart.
6. **Considering a national programme to install more emergency areas on existing smart motorways,** where places to stop in an emergency are more than one mile apart.
7. **Investigating M6 Bromford viaduct and sections of the M1** to understand what more could be done on these sections where multiple collisions have occurred.
8. **Making emergency areas more visible** – all emergency areas will have a bright orange road surface, better signs on approach showing where they are, and signs within them giving information on what to do. These will be installed by the end of spring 2020.
9. **Installing more traffic signs giving the distance to the next place to stop in an emergency** so you should almost always be able to see a sign (typically these will be between 300 and 400 metres apart), helping drivers reach a safer place to stop.
10. **More communication with drivers** by improving public information, spending £5 million extra to further increase public awareness and understanding of smart motorways and how to use them confidently. We will ensure drivers receive advice to help them keep safe on smart motorways, including advice on what to do in a breakdown.
11. **Displaying 'report of obstruction' messages** automatically on electronic signs to warn oncoming drivers of a stopped vehicle ahead.
12. **Displaying places to stop in an emergency on your satnav** by working with satnav providers to ensure that places to stop in an emergency, such as emergency areas, are shown on the screen of the device when needed.
13. **Making it easier to call for help if broken down** by working with car manufacturers to build greater awareness and understanding of 'eCall' functionality, which is standard in all new cars from April 2018.
14. **Completing the upgrade of digital enforcement cameras** across the smart motorway network, enabling Red X signs to be enforced.
15. **Updating the Highway Code** to provide more guidance for motorists on smart motorway driving.
16. **Closer working with the recovery industry,** improving collaboration, training and procedures.
17. **Reviewing existing emergency areas where the width is less than the current standard;** and if feasible and appropriate we will widen to the current standard.
18. Supporting the DfT in their immediate **review of the use of red flashing lights for recovery vehicles.**

COVID-19

This year, a new strain of Coronavirus (Covid-19) emerged, declared by the World Health Organization as a 'Public Health Emergency of International Concern'.

After the first UK cases were confirmed on 31 January 2020, with new cases emerging throughout February, government initially introduced preventative hygiene instructions and social distancing measures. However, this escalated to a full-scale 'lockdown' in March, which came into effect on Monday 23 March. All non-essential activities and travel were suspended, and everyone instructed to work from home if possible.

Throughout the Covid-19 pandemic, our critical workers played, and are still playing, an important role in keeping our network operational to support the NHS and other emergency services. Life-saving medicine, care workers, equipment and supplies have been able to get to where they were needed most, along with food and freight.

We mobilised our crisis management and business continuity plans quickly. In spite of the national challenges, we were able to meet our in-year objectives and final commitments from the first road period. Our one missed target for 2019–20, the M271/A35 Redbridge roundabout upgrade, was not a result of Covid-19. You can read more about that on page 38.

Managing the risk R

The Covid-19 crisis created an unprecedented national and global set of operational, financial and strategic challenges.

Our strong crisis management procedures served us well in establishing the required command, coordination and communication arrangements to keep our company functioning effectively. Our robust business continuity plans allowed us to respond flexibly to the emerging risks.

We used our variable message signs across our network to support government and Public Health England messaging

We have two relevant risks in our civil emergencies risk register:

- H23 Pandemic Influenza (Very high risk)
- H24 Emerging Infectious Disease (Medium risk)

Although Covid-19 falls under H24, there are similarities in the disease characteristics with pandemic flu. Government advice was to use the planning assumptions for H23 to prepare, and to expect significant levels of staff absenteeism due to sickness, should the worst-case scenario occur.

We had learnt from a similar situation during the swine flu pandemic of 2009. Knowing that our people may need to take leave to care for sick family members, or look after children if schools closed, we introduced laptops for all office-based employees to enable effective remote working in such circumstances. We were subsequently in a more agile position this time around.

Looking to leadership

Our National Resilience and Security team monitored the situation closely to ensure that we aligned with government advice and guidance.

We implemented a coordinated approach across our business and supply chain, integrating our response and activities with DfT and central government, as well as with local resilience forums and other stakeholders.

Led by our Executive team, 'Gold' and 'Silver' groups were established to meet several times weekly to adjust our daily service delivery plans and future strategies. Regional Silver groups managed any local response, protecting our most critical functions and keeping the SRN open and operating safely.

Protecting our people

The safety, health and wellbeing of our customers, staff and supply chain has always been our first priority. We worked closely and effectively with our trade union colleagues throughout the crisis,

> LIFE-SAVING MEDICINE, CARE WORKERS, EQUIPMENT AND SUPPLIES HAVE BEEN ABLE TO GET TO WHERE THEY WERE NEEDED MOST, ALONG WITH FOOD AND FREIGHT.

and promoted government and Public Health England advice through our internal communications platforms to inform, reassure and keep our people safe. We also offered an increased support service from our Occupational Health Team and Mental Health Advisers to help individuals cope with the challenges of self-isolating and working from home.

Most of our people were able to work remotely, allowing us to close our corporate offices and support government guidelines on social distancing.

Our front-line services on the SRN and in our control centres continued as usual. Our operationally-critical buildings remained open to keep our roads safe. We increased cleaning in these centres and provided the necessary personal protective equipment for our critical workers. We moved our operational people to single-crewed traffic officer vehicles, where possible, and our supply chain partners introduced stricter safeguarding measures at our construction sites.

We were aware of the potential financial impact on some of our supply chain, particularly our Tier 2 and Tier 3 suppliers. We expanded our use of project bank accounts (which ringfence money to ensure it gets paid to lower level contractors) and worked to improve the speed of invoice payments.

Our 'Here's to the workers' social media campaign highlighted the vital work our people and our supply chain delivered throughout the Covid-19 lockdown.

Caring for customers K2

Our approach ensured there was no operational impact for customers using our network. The national lockdown saw a 50% reduction in traffic volumes on our network. It also saw a 75% reduction in incidents and a 50% reduction in calls made to our customer service team. This helped us balance the pressures faced through increased staff absences.

We used our digital channels to support government's 'Stay at home' advice. We prepared a vehicle checks social media campaign, in readiness for the phased easing of the lockdown.

Still delivering, but differently

We were able to organise our operations so that all business-critical sites remained open during the pandemic. Work to meet our year-end commitments proceeded as planned.

Our control rooms remained open and resourced, maintenance activities continued, and our capital maintenance schemes were delivered as expected.

DfT asked us to prioritise keeping critical freight and key workers moving. We carefully controlled road closures, particularly any roadworks which might cause delays near hospitals, to minimise impact on such travel.

Preparing for the future

Alongside managing the operational challenges presented by Covid-19, we started delivery of government's RIS2, announced by the Chancellor in March 2020.

Schemes already under construction have progressed, and planning and development work has continued for those schemes due to start in the weeks and months ahead.

The significant investment set out in government's RIS2 will be crucial. We, and our supply chain, are ready to respond to support our country's economy at this vital time.

SUPPORTING THE GREENING GOVERNMENT COMMITMENTS

Government has committed to achieving reductions in the UK's greenhouse gas emissions and improvements in air quality. We will support DfT in its targets, and we have committed to ongoing improvement in our environmental outcomes.

We work with DfT, Defra, the Office for Low Emission Vehicles and others to help improve air quality, lower carbon emissions and reduce our impact on the natural environment. S

AIR QUALITY

Our ambition

Emissions from vehicles using our roads, particularly nitrogen dioxide (NO_2), can pose a risk to people's health and wellbeing. We want to do all we can to improve the air quality for those who live near our roads.

We are helping government implement its *NO_2 plan*, published in July 2017, which is focused on meeting the limit value for NO_2 in the shortest timescale possible.

We have completed a detailed analysis of the 101 sections of our network reported by the Joint Air Quality Unit as potentially not yet compliant with the limit value for NO_2.

Providing transparency over our ambitions and actions

In 2019, we launched our new air quality web pages (www.highwaysengland.co.uk/air-quality/), setting out our ambitions and activities. We published, for example, the findings from our extensive research programme, including air quality pilot studies. We will update the website regularly to show what we are doing, including the areas where we will deliver mitigation measures.

Gathering ideas from across the country

In 2019, as part of our *Air quality strategy*, we ran a multi-million pound 'innovation call' for people and organisations with ideas about how to improve air quality.

Using our Air quality fund, we are now investing in several promising projects.

Reducing speed limits

We are now confident that reducing speed limits to 60mph on certain sections of road currently operating at the national speed limit could help us deliver cleaner air. This is based on evidence from our trials in 2019 on the M1 in South Yorkshire, together with our analysis of other traffic and air quality data.

We are planning a pilot to reduce speed limits across a small number of locations, and we will publish where these are in advance of go-live.

Installing tall barriers

During the year, we completed studies to understand the feasibility of installing tall barriers of around 9.3 metres in 12 locations. Our monitoring showed that they bought about a measured NO_2 reduction behind the barriers, helping our closest neighbours have cleaner air.

After further modelling, and with the help of architects, we have been able to develop a design that mitigates the visual impact of these barriers, without compromising performance. We are looking at several locations where such barriers may provide benefits.

Supporting zero emission vehicles

Throughout the first road period, we have worked towards achieving our commitment of ensuring that 95% of our network is within 20 miles of a rapid charge point for electric vehicles. This year we delivered on this commitment.

We have worked with local authorities and private landowners so that the charge points are sited in convenient, accessible and safe locations. We have put in place arrangements so that these charge points will be maintained in order that customers can plan their journeys with confidence.

We have been working with the Office for Low Emission Vehicles and the Department for Business, Energy and Industrial Strategy to develop the vision for wider roll-out of rapid charge points across the SRN. This would help avoid the take-up of electric vehicles being slowed by customer concerns over their ability to complete long journeys.

We are also working to accelerate the take-up of electric vehicles, particularly targeting vans, as the fastest growing vehicle sector.

In March 2019, we agreed with Leeds City Council[1] to implement an electric van 'centre of excellence' and invest almost £2 million of capital funding. This funding allowed the council to purchase around 70 mostly small electric vans for businesses in West Yorkshire to try for free for up to two months. The council is also investing almost £1 million of funding to manage and support participants, and to provide a 'total cost of ownership' report.

The council launched the 'try-before-you-buy' scheme in January 2020, with 44 vans already available. We expect that many participants will go on to buy their own electric vans when they see the savings possible. Every extra electric vehicle will contribute to cleaner air on the roads in the area, including on the M621 and the local roads.

We are working to replicate this model elsewhere. We have recently contracted with local authorities in Nottingham, Kent, Sheffield and Coventry to deliver further centres of excellence and are seeking additional investment opportunities in the second road period.

CARBON EMISSIONS

Our ambition

In 2019, the government amended the *Climate change act 2008* to commit the UK to cutting greenhouse gas emissions to net zero by 2050. The infrastructure sector will need to support delivery of this target. We believe that the roads sector and the SRN have a key role to play in helping government achieve its carbon goals.

Improving and maintaining our network is a carbon-intensive process. Our *Sustainable development strategy* states our aim to reduce our carbon footprint and specifies that we "will work closely with our supply chain to reduce emissions from network-related activity".

We measure our carbon footprint: the total tonnes of carbon dioxide equivalents from our activities. DfT's carbon target, in the Greening Government Commitments, requires a 44% reduction by 2019–20, against the 2009–10 baseline. We have exceeded this target, achieving a 49.6% reduction.

Our actions

The standards we publish in the *Design manual for roads and bridges* require greenhouse gas emissions to be addressed in road project design.

In 2019, we published our standard for sustainable development and design. This requires road projects to meet a series of sustainable development goals throughout the design lifecycle, including minimising greenhouse gas emissions. We have since embedded this standard in scheme design, for example on projects such as the Lower Thames Crossing.

Through a new standard around climate, we are also ensuring that projects assess greenhouse gas emissions as part of seeking planning approval.

1 Leeds.gov.uk/campaign/ev-trials

Reporting and our carbon calculation tool

We record the greenhouse gases generated by us and our supply chain, following the scope set out in the *Greenhouse gas protocol*[1]. We report:

- scope 1 direct greenhouse gas emissions, such as the combustion of fuel
- scope 2 indirect emissions of our purchased electricity, including the electricity required to power our network
- scope 3 other indirect emissions, such as travelling on business – this also includes carbon from our supply chain, which form the largest part of our greenhouse gas emissions

We monitor the greenhouse gases associated with the construction and maintenance of roads using our carbon calculation tool.

Suppliers working on all major projects and regional operations are required to report on a quarterly basis, as a minimum. Our supply chain reports their materials, fuel, transport and waste through this tool, which creates a carbon dioxide equivalent figure.

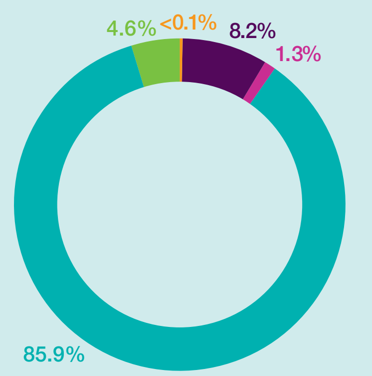
In June 2019, we released an updated version of our carbon tool to allow accurate reporting using the latest carbon factors. Our tool now includes over 350 emission factors, an amount of carbon dioxide equivalent produced by each unit of a product. It also allows users to enter their own factors, if better lifecycle information is available for new products.

Our supply chain can use our tool to evaluate what drives their carbon footprint, helping them reduce carbon intensity in future.

Following analysis of data received through our tool, we are designing a new metric to roll out in 2020 to incentivise greater reductions in carbon.

We have also finalised a method of measuring customer carbon, which we will report in our sustainability report for 2020–21.

Our carbon reporting[2]



- **Scope 1:** Direct traffic officer fuel
- **Scope 1:** Direct estates gas usage
- **Scope 2 and 3:** Indirect emissions from office and network electricity consumption
- **Scope 3:** Highways England business travel
- **Scope 3:** Highways England water consumption – embodied greenhouse gas

2 These figures do not include our supply chain.

Installing energy-efficient equipment

We recognise the benefits of being an energy and resource-efficient organisation. Installing energy-efficient equipment, for example, brings an immediate and long-lasting energy consumption cost saving, along with a corresponding carbon cost saving.

Over 80% of our company carbon footprint is due to the electricity we use to safely light and operate our network. We have removed a large proportion of our road lighting or modernised to LED lighting, where safe to do so. This has brought energy benefits, as well as saving on future maintenance and interventions.

We have also invested in electric vehicle charge points. Over 95% of our network is now within 20 miles of a charging point, promoting electric vehicles and a reduced carbon footprint for every mile travelled.

1 *Greenhouse gas protocol: The GHG protocol corporate standard* classifies a company's emissions into three 'scopes'.

CLIMATE CHANGE

As part of our *Sustainable development strategy*, we commit to adapting our network to a changing climate.

Over the past year, we have been reviewing the latest UK climate projections and preparing our adaptation report on our vulnerability to, and actions against, climate change. This complies with the Adaptation Reporting Power of the Climate Change Act. We will publish our report in 2021.

We have also taken the opportunity to embed climate resilience into the standards in our *Design manual for roads and bridges*. For example, we published a new standard for undertaking assessment of climate impacts and greenhouse gas emissions, which should be applied as we develop road projects. We have also rolled out training on climate change risk to our people and our supply chain.

We are monitoring best practice in climate resilience across the infrastructure sector, and we are a member of the Infrastructure Operators Adaptation Forum.

NOISE POLLUTION

Our target K[5]

This year, we mitigated 223 noise important areas, which are the places identified by government where people suffer from the worst noise. As part of this work, we used low-noise surfacing, noise barriers, bypasses and noise insulation. When combined with our activity from the previous four years, we exceeded our target of mitigating 1,150 noise important areas by the end of the first road period.

Our major schemes have helped our progress in this area. As part of our schemes, we deliver solutions such as re-routing traffic away from population centres and incorporating noise mitigation measures into our designs.

Low-noise surfacing

We generally use low-noise surfacing for new or replacement road surfaces, unless there is a safety or engineering reason not to do so. This can be the case in areas where high friction surfaces are required to reduce the risk of collisions.

Noise barriers

In 2019–20, we used part of our Environment fund to deliver 16 noise barriers. We worked with our noise stakeholder group to prioritise installation based on the overall benefit the barriers would provide and the noise characteristics affecting the local population. This stakeholder group consists of government and non-government organisations, including Defra, the Noise Abatement Society, UK Noise Association and Environmental Protection UK.

M1 junction 39 combined safety barrier and noise barrier project

In April 2019, we completed our M1 junction 39 combined safety barrier and noise barrier project.

We developed a combined product, which had never been constructed anywhere in the UK or Europe before, specifically for this location. Topographical constraints, such as the steepness of the embankment, meant that locating a separate noise barrier and safety barrier would be difficult, which led to this cost-effective, innovative solution.

As a result of our work, we mitigated a noise important area and reduced night time noise for over 430 neighbouring households. We have received positive feedback from the Parish Council and local residents, who report a difference in the sound levels and that they are able to enjoy their gardens again.

We have started work on a similar combined safety and noise barrier on the M621 at junctions 6 to 7.

Noise insulation

Through our noise insulation programme, we provide bespoke insulation packages, including upgraded glazing and ventilation, to individual houses to reduce internal noise levels. Our programme covers the whole of our network, prioritising the locations with the highest level of noise.

In 2019–20, we insulated 369 properties against noise through improved glazing. Our programme has provided real benefits to people and communities. It has also delivered value for money, with the monetised benefits of our mitigations exceeding their delivery cost.

BIODIVERSITY

Our target K5

Government's *A green future: our 25 year plan to improve the environment* set out its ambition to embed the principle that new developments should result in net environmental gain. In support of this, and to be transparent about our biodiversity performance, we have taken opportunities to adopt this concept.

We have, for example, included this concept in the revisions to our design and assessment standards in the *Design manual for roads and bridges*. We have also incorporated Natural England's biodiversity metric into project design and assessment to support better decision-making.

To meet our shadow running of a biodiversity metric, we have adopted the 'Defra Metric 2.0'. We will use this to report our performance in this area. To date, the metric has demonstrated that we now have projects which are identifying opportunities to deliver net gains for biodiversity.

Our biodiversity projects

Since 1945, according to Defra, there has been 97% loss of heath and acid grasslands, 95% loss of neutral grasslands and 87% loss of chalk grassland in England and Wales. Our projects provide an opportunity to mitigate some of that loss by creating and improving habitats for wildlife.

We published our biodiversity action plan, *Our plan to protect and increase biodiversity*, in 2015–16. Since then we have published an annual update on delivery of the plan.

Up to the end of March 2020, we have spent around £7 million on 124 projects specifically targeted to support biodiversity. These projects are at various stages of development, design and delivery, giving us a strong pipeline of schemes to be delivered.

In 2019–20, we delivered 46 biodiversity schemes, creating over 200 hectares of species-rich grassland. These support a range of native wildflowers and pollinator insects, such as bees and butterflies, as well as a wider range of invertebrates, amphibians, small mammals and birds.

WATER ENVIRONMENT

Our ambition

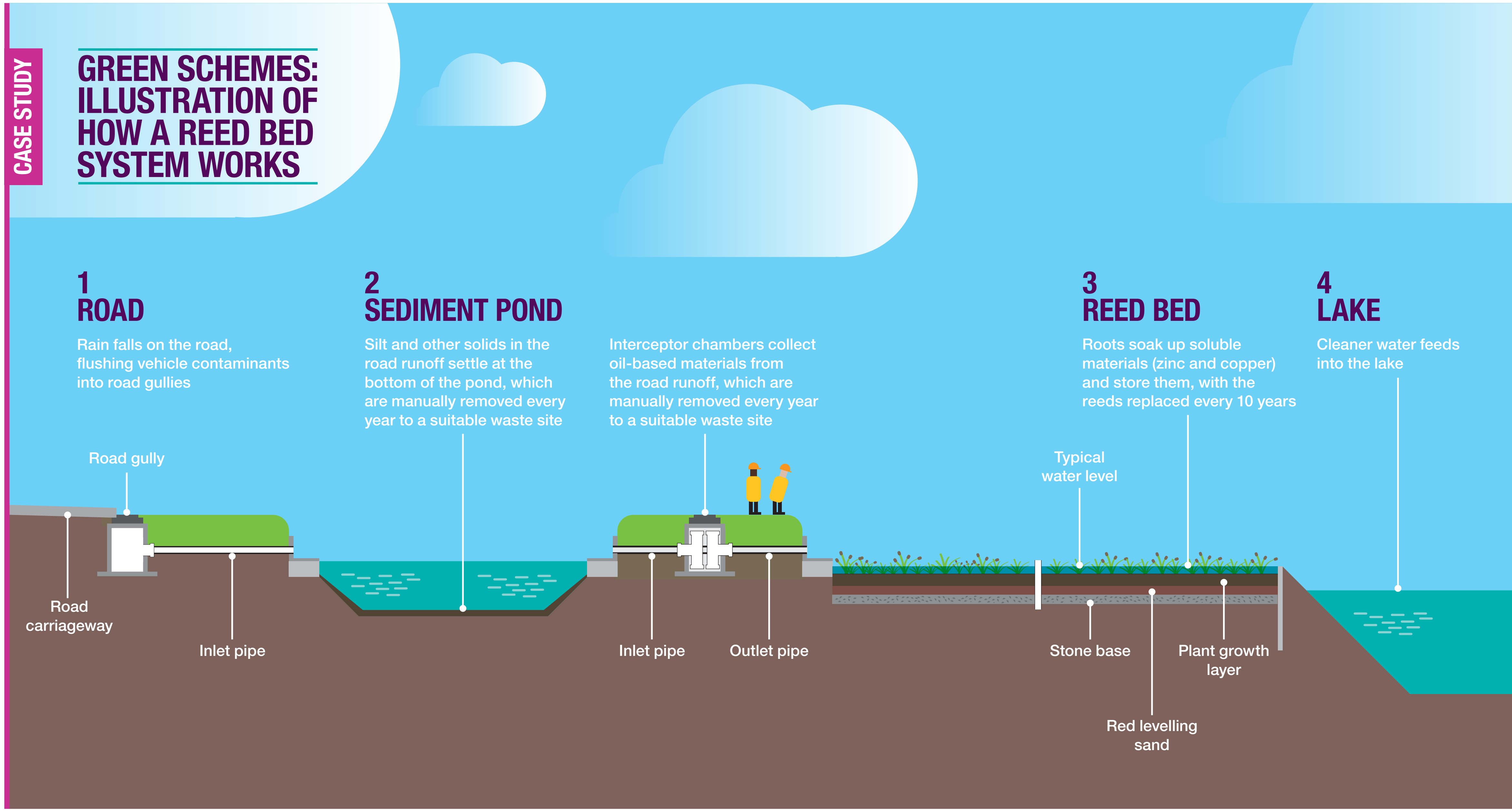
We are committed to improving the water environment, reducing flood risk and improving water quality for those using or living next to our network.

We have developed a programme of schemes to address high-priority locations. Wherever possible, we look to mitigate these through the use of sustainable drainage systems.

We have worked closely with the Environment Agency and other stakeholders to identify a programme of partnership projects, funded through our designated funds. These deliver high-quality projects, such as our A38 Stover Park Wetland Scheme outlined in the case study below.

CASE STUDY

GREEN SCHEMES: ILLUSTRATION OF HOW A REED BED SYSTEM WORKS



A38 STOVER PARK WETLAND SCHEME

Stover Lake is a local beauty spot and part of a Site of Special Scientific Interest Country Park, owned by Devon County Council. It is next to the A38 near Newton Abbot. The lake was previously renowned for its lilies and invertebrate diversity, especially dragonflies, but over the last 20 years the lake has been slowly deteriorating due to contaminated silt from A38 runoff water. The main aim of our project was to improve the quality of water entering the lake.

Our original scheme involved building large-scale interceptors within the highway boundary. By partnering with Devon County Council and working with Natural England and the Environment Agency, we were instead able to design a sustainable drainage system. We installed two reed bed systems within the parkland, significantly improving the water quality entering the lake and the associated biodiversity within the park.

Our scheme includes a raised platform for the public to view the site along with three information boards. This has resulted in many positive conversations between the public and the park rangers.

MANAGING OUR RISKS

We work closely with our partners and stakeholders to mitigate the impact of risk across our broad range of activities at operational, tactical and strategic levels.

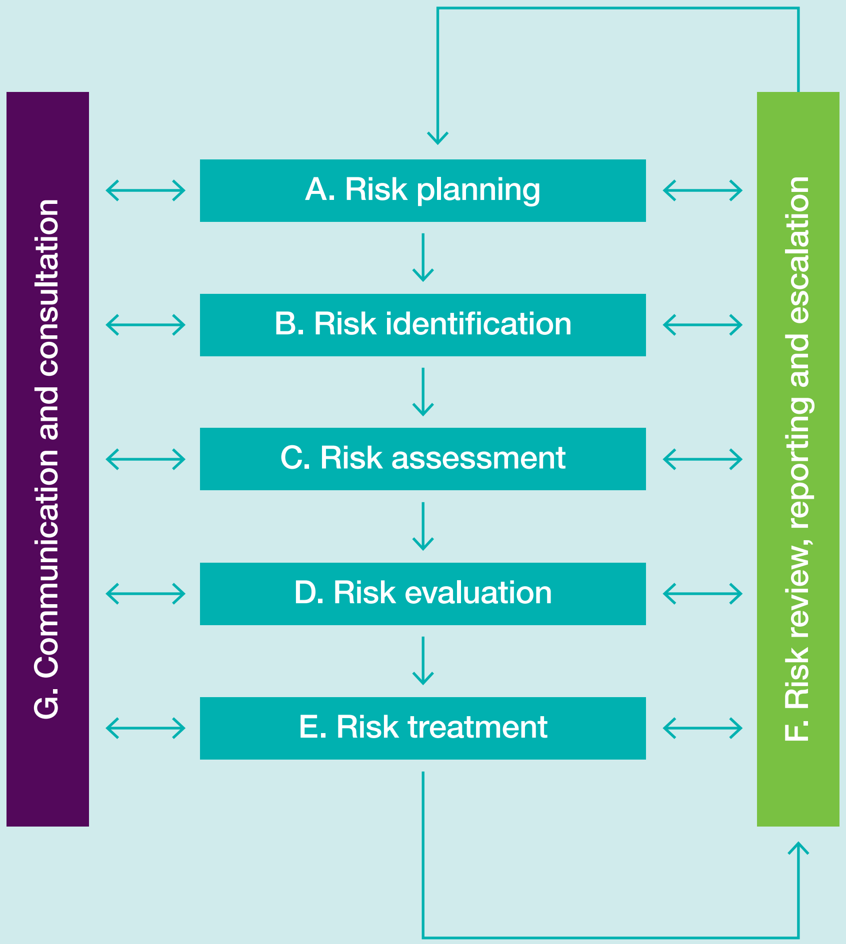
Our risk management process focuses on the early identification, assessment and management of risk. Our underlying principles are that risks are:

- identified, assessed and mitigated in line with our risk appetite
- monitored continuously
- reported through our established procedures

All risk aligns to our strategic objectives, and our Board and Executive team work together to identify, review and monitor these throughout the year.

All our people are encouraged to identify, prioritise, manage, monitor and report all risks relevant to their working area. We carry out periodic risk reviews across all business areas throughout the year. We use the outputs to review, refresh and report our risk register information to the appropriate levels of the business.

Key elements of our risk management process



A. Risk planning: Our policy, processes and procedures define the external or internal criteria to be considered when identifying and managing risk.

B. Risk identification: We have a defined process to help identify, recognise and describe opportunities and threats to strategic, programme, project and operational objectives.

C. Risk assessment: We assess the probability and impact of all risk against a matrix that recognises that any risk has the potential for multiple impacts. We encourage the risk owner to identify the most important impact and this helps us prioritise our response.

D. Risk evaluation: We compare the level of risk assessed with our risk appetite (set by the Board) to help the risk owner prioritise management activity.

E. Risk treatment: We identify actions to increase opportunities and reduce threats (putting controls in place), and identify any further activity that will help the risk owner manage the risk.

F. Risk review, reporting and escalation: We structure this area so that:

- risks and opportunities are managed in line with our risk appetite
- risks are updated as additional activity to manage them is delivered
- risks are escalated to senior management for information, review and/or further management

G. Communication and consultation: We consult and communicate with internal and external stakeholders through all stages of the risk management lifecycle. This helps us increase understanding and improve our risk management capability across the business.

Highways England risk management process based upon core requirements of ISO31000:2018

Governance

The Board has overall responsibility for determining the amount and type of risk that we are willing to take to meet our strategic objectives, known as our risk appetite. Oversight of the risk management framework and its effectiveness is delegated to the Audit and Risk Committee. The outcomes from their work feed into the Board's wider business discussions.

As Accounting Officer, our Chief Executive is responsible to Parliament for the stewardship of public money and he exercises his delegations in line with the Finance and Reporting letter and Accounting Officer letter, issued by the DfT, our Shareholder. Each Executive Director owns the risks relevant to their area of responsibility and delegates the management of them to the appropriate functions within the business.

Identification of risks

Identifying risk is a continuous process. The Board and our Executive team complete a full refresh of the corporate risks and their mitigations on an annual basis. Our Executive team work with their own teams to identify the risks facing their parts of the business.

Each of our major programmes relies on a Head of Risk to oversee the identification and coordination of programme and project risk. Oversight is provided at portfolio level by a Head of Profession for risk management. This role is linked to the Head of Corporate Risk Assurance to ensure cohesion at a corporate level.

Evaluation and management of risks

The business considers both external and internal risks that could affect our ability to achieve our objectives.

We use a risk scoring matrix so that risks are evaluated consistently and consider likelihood, impact and timing.

Risk appetite

The Board is responsible for defining the level and type of risk that the company is willing to take and ensuring we remain in line with our strategy. Our risk appetite is cascaded through our organisation through our policies, procedures and delegated authorities.

We face various risks in the operation of our network, and through our construction and maintenance activities. While it is not appropriate to eliminate all risks inherent in our activities, we take all reasonable measures to minimise the potential impact.

Health, safety and wellbeing

We work to reduce the potential for harm or loss of life for the public, road users and our people.

Customer

We want to be trusted to deliver our commitments and be respected by those who use our services. We work to ensure that any risk outcomes only have the potential for low-to-medium impact on our customers and stakeholders.

Delivery

We identify risks which might impact our ability to meet key performance goals and capital outcomes. We adapt our approach to optimise and meet our short-term and long-term targets.

Financial governance

We are willing to accept some circumstances where we will balance financial risk to improve our long-term financial performance, operational performance and capital outputs. Decisions on these will be taken in accordance with our internal control and governance arrangements.

When we evaluate risk, we consider the inherent or 'raw' risk, which is the level of the risk without any mitigating action. We also consider the residual or 'current' risk, which is the risk that remains after we consider the effect of mitigating actions and controls.

Any significant risk is escalated to the Board for its consideration. For the Board to accept it as a principal risk, it needs to be either cross-organisation, fast paced or have the potential to jeopardise our business. If acknowledged, the risk is added to our Board-level component of our corporate risk register. This ensures that the Board can maintain visibility of its status and mitigation plan through the company's monthly corporate reporting process.

A formal review is completed on a quarterly basis, and the results reported to our Executive team and the Board.

Developing capability

We have deployed an enterprise-wide risk recording tool across our major projects environment to improve the way that we record and report risk. We will roll out this tool across the rest of our company in the coming year.

Alongside developing our system functionality, we have increased the capability of our people. We have developed online risk management training, aimed at our project risk managers, and risk awareness training for non-specialist staff whose role involves risk management to a lesser degree. We have established a network of risk champions across the business, who identify the risks facing our business and share expertise and good practice. As this network will be vital in increasing capability across our company, we will increase their role as part of the roll-out of the risk recording tool in 2020–21.

Assuring our risk

We have several teams that work together to help us manage risk properly. Each team has a unique perspective and specific skill sets. Their duties are coordinated carefully so that there are neither gaps nor duplication of activity. We have created a four lines of assurance model and this provides the Board with an appropriate level of comfort that we are managing risks properly.

Four lines of assurance model

We use each line of assurance to provide a level of oversight. This model allows each risk owner to draw from a breadth of information and rely on assurances obtained at the most appropriate level, relevant to the risk being managed.

Management control	Corporate oversight	Internal and independent assurance providers	External and independent assurance providers
1st line of assurance	**2nd line of assurance**	**3rd line of assurance**	**4th line of assurance**
Assurance through: • Business reporting • Applying operational controls • Authorisation and sign-off	**Assurance through:** • Policy compliance review • Inspection • Quality assurance reporting • Business and project review • Risk reporting	**Assurance through:** • Internal audit • Programme assurance • Health and safety assurance • Counter-fraud • Contract assurance • Risk assurance	**Assurance through:** • National Audit Office • Transport Focus • ORR • DfT client and shareholder teams • Infrastructure and Projects Authority • Other
Risk content: accountability • Implement actions to manage and treat risk • Comply with risk management process • Implement risk management process where applicable • Execute risk assessments and identify emerging risk	**Risk process: accountability** • Establish policy and process for risk management • Provide our strategic link for risk, including oversight of risk themes and trends, synergies and opportunities for change • Provide guidance and coordination across the business • Liaise between the first, third and fourth line of assurance activity	**Risk content and process monitoring** • Liaise with senior management and the Board • Rationalise and systematise risk assessment and governance reporting • Provide oversight on risk management content and processes • Provide assurance that risk management processes are adequate and appropriate	

"WE WORK TO REDUCE THE POTENTIAL FOR HARM OR LOSS OF LIFE FOR THE PUBLIC, ROAD USERS AND OUR PEOPLE.

PRINCIPAL RISKS AND UNCERTAINTIES

Our risks are linked to the company's strategic objectives and KPIs. To provide a broader sense of the level of exposure, we group all risks under our three imperatives: safety, customer service, and delivery. Applying these themes to a reporting dashboard allows the Board and our Executive team to focus their attention on areas of significant movement, rather than discussing each on a risk-by-risk basis. It also provides a different lens to show the data, recognising that risks can be assessed against more than their category, such as financial, operational and environmental.

We rate our risks

High risks

are events that we consider have a high probability of occurring and which could have an extreme or major impact if they do so

Medium risks

are events that we consider are likely to occur and which will have a significant impact if they do so

Low risks

are events that we consider are unlikely to occur and which will have an undesirable impact if they do so

Our risk assessment

The risk heat map illustrates the relative positioning of our principal risks without control (raw) and with control applied (current). We set out further details on our principal risks below, explaining how these risks link to our three imperatives and summarising our key risk mitigation strategies.

Safety	1	Ineffective control over health, safety and wellbeing threats
Safety	2	Ineffective road user safety interventions
Customer	3	Managing our company narrative around our deliverables
Customer; Delivery	4	Ineffective programming of designated funds
Customer	5	Public perception on smart motorways
Safety; Customer; Delivery	6	Securing our information
Safety	7	Major asset failure
Delivery	8	Environmental impact through company operations

Impact	Very unlikely	Unlikely	May happen	Likely	Almost certain
Extreme	Medium	Medium	High	High	High
Major	Low	Medium	Medium 1 2 3 4 5 6 7 8	High 1 3 4 5 6 8	High 7
Severe	Low	Low	Medium 2	Medium	High
Difficult	Low	Low	Low	Medium	Medium
Undesirable	Low	Low	Low	Low	Low
Opportunity					

Likelihood

Raw risk (without control applied)

Current risk (with control applied)

Strategic risk	Summary of mitigating action	Risk commentary
Safety risk 1 K 1		**Risk rating Raw Current**
Ineffective control over safety, health and wellbeing could lead to an increase in our people and road workers being physically or mentally harmed	• Our contractual obligations are set to ensure certain health and safety standards are met, including the use of competent contractors at all levels. • Our Health and Safety Management System incorporates policies and processes that direct our workforce and ensure the control of contractors. • We have an ongoing monitoring regime, including inspections, leadership tours, accident reviews and compliance and assurance reviews. • We have dedicated health and safety professionals across each region and programme team who provide health and safety advice and support to the business. • Our wellbeing programme is in place and progress is monitored on a quarterly basis.	We have seen an increase in our supply chain accident frequency rate from 0.05 to 0.07 (from 20 to 30 RIDDOR accidents) and reduced our traffic officer and employee accident frequency rate from 0.07 to 0.01 (from 7 to 1 RIDDOR accidents). Read more on page 78.
Safety risk 2 K 1		**Risk rating Raw Current**
Ineffective interventions or investments for road user safety might lead to an increase in road users being harmed	• We have Executive and Board-level committees to assess and approve investment in our safety interventions and monitor the success of their implementation. • Our *National incident casualty reduction plan* and *Regional incident casualty reduction plans* provide detailed programmes of interventions to reduce incidents on our network. • We track, monitor and report on the overall levels of casualty incidents to our Executive and Board-level committees to help inform future investment and interventions.	In 2018 (the last full year for which we have validated data), there was an increase in the number of killed or seriously injured cases compared to 2017, although there was an overall reduction in the number of reported incidents. More information about road user safety interventions can be found on page 79.
Safety risk 7 K 1		**Risk rating Raw Current**
A significant asset failure on our network could result in a major incident, leading to death, injury or vehicle/property damage	• Our standards for the design, operation, inspection and maintenance of assets are defined by our Chief Engineer in the *Design manual for roads and bridges*. • For structures, including geotechnical structures, we have an established design-check process that includes oversight by independent specialists working for our Chief Engineer. • We have an incident reporting process and a programme of inspections in place. These are defined within the *Design manual for roads and bridges* and are completed by either our inspectors or our contractors, including our PFI concessionaires. This is complemented by our *Asset data management manual* and inspection assurance process to ensure that key inspections are carried out on time. • We use a suite of asset management systems to hold, manage and analyse data to identify needs and report performance.	We continually monitor the condition of our roads and carry out investigations of any potential defects. Our maintenance and renewals programmes are based on the needs of our customers and our assets in each region. More detail on our approach can be found on page 89.
Customer services risk 3 K 2		**Risk rating Raw Current**
We do not manage our company narrative effectively, which might result in reputational damage that undermines our capability and achievements	• We have developed a corporate back-story to build our reputation. This is applied across all communications, both internally and externally. Our Corporate Editor reviews key documents to ensure we use a consistent tone of voice. • We use our supply chain Engagement Council to communicate key messages and briefings with our contractor community. • Our strategic stakeholder engagement is supported by a full communications plan, which is reviewed regularly to ensure it is relevant and consistent.	We made good progress this year delivering to plan and with strong financial results. For further commentary on our performance, see our Chief Executive's statement on page 10.
Customer services risk 5		**Risk rating Raw Current**
Stakeholder confidence in our smart motorway operations is low, which could leave the public feeling unsafe while driving on them, undermine our customer performance and reduce the effectiveness of our safety campaigns	• All smart motorway safety, operation and performance data is analysed. Trend information is shared with stakeholder groups, such as the Smart Roads Expert Advisory Group. This helps strengthen our message and improve our relationships with these stakeholders. • We have a portfolio of road user campaigns to inform the public wand influence safer driving behaviours. Campaign performance is monitored by the Board and our Executive team. • Our strategic stakeholder engagement activity is supported by a full communications plan. This is regularly reviewed to ensure that it is relevant and consistent.	Over the course of this financial year, customer confidence in the safety of our smart motorways was low. This is unacceptable, and we are determined to restore public confidence through the delivery of a series of measures contained in the Secretary of State for Transport's *Smart motorway safety evidence stocktake and action plan*, published in March 2020. More information on this can be found on page 54.

Strategic report

Strategic risk	Summary of mitigating action	Risk commentary
Customer services risk 4		Risk rating Raw Current
Ineffective programming or investment of designated funds could impair our ability to deliver designated fund requirements and reduce benefit to customers and communities	• We manage investment of our designated funds portfolio through a dedicated investment decision committee, and we monitor delivery to minimise potential over-programming. • Monthly 'surgeries' are held to improve liaison and share best practice across the delivery arms of the business. This provides stronger links between the Designated Funds Programme Office and delivery teams. • We use the Air quality fund and Innovation fund to engage across a wider stakeholder base to generate more investment opportunities.	Our £654 million designated fund programme provides ring-fenced funding to improve the surroundings of the SRN as well as supporting and protecting quality of life. We are always looking at new ways of working with our stakeholders to use their expertise to hep us deliver our schemes more effectively. For more information, please see page 101.
Delivery risk 6		Risk rating Raw Current
Inappropriate information and data governance, security and management might lead to the inefficient delivery of our business objectives	• Our policies, procedures and processes define the governance, control and management activities over any personal and sensitive information that we hold or use in the normal course of our work. • We have a defined risk assessment framework for both information and operational technology, where we risk assess and assure the design, build and implementation of any technology solution on and off our SRN. • We monitor across industry, accept government best practice, and regularly review all significant data risks at the Board and the Audit and Risk Committee.	Since 2015, we have increased our capability and capacity to understand and improve on our data management and security practices. We are improving our information rights practices and work proactively with our supply chain to reduce the risk of non-compliance, while promoting the fair and ethical handling of personal information.
Delivery risk 8 K 5 S		Risk rating Raw Current
Insufficient identification or prioritisation of environmental improvements in the design of company operations may lead to our investment activities either damaging or failing to improve the environment. This could impede our ability to meet legislative and *Delivery plan* commitments on air quality, noise and biodiversity, and harm our neighbours	• Our *Sustainable development strategy and action plan* for the first road period describes how we will deliver against our aspirations in this investment period. • We employ environmental specialists on all our major project schemes who monitor environmental performance and escalate issues quickly to senior management. • All our projects are supported by environmental advisers to promote good technical practice from our supply chain, challenge poor practice and provide environmental technical assurance to the project teams. • Our Air quality fund and Innovation fund support additional interventions across our operations.	We work closely with government to address air quality and have advanced plans to understand our air quality challenges and to introduce mitigations where possible. We have delivered 1,174 noise improvement interventions to those communities who live and work close to our roads and 124 biodiversity schemes. You can read more about our air quality actions and how we protect the environment on page 58.

In-year activity

Good risk management is an integral part of the way we lead, direct, manage and operate our business. Risks can crystallise quickly and in-year we had to respond to three separate risk events.

Our response to our customers' reaction to smart motorways and the impact of Covid-19 are discussed on pages 54 and 56.

The third event related to the impact that a reclassification of recoverable VAT by HMRC might have had on our design, build, finance and operational contracts, and hybrid road schemes funding and delivery. We maintained an open dialogue with DfT and HM Treasury to discuss our interpretation, and the impact that reclassification would have on current and future funding. This led to an agreement on a final back tax figure.

We managed the impact of the unfunded cost on this financial year through a combination of expenditure reductions from across the business and securing a contribution from DfT.

Brexit

On 31 January 2020, the UK left the EU in accordance with Article 50 of the EU's Lisbon Treaty. During the two-year negotiation period, there were no significant changes in legislation, regulation and funding arrangements that impacted our company.

We have worked closely with DfT on the consequences associated with leaving the EU as part of Operation Yellowhammer.

You can read more about our work on Brexit planning on pages 29 and 93.

Economic crime

We refer to the collective of fraud, bribery, corruption, money laundering and modern slavery as economic crime. We are determined to manage this risk across our company and our supply chain. As well as the tragic human consequences, exposure could lead to financial loss or delays to delivery, and might impact on customer and stakeholder confidence in how we respond to any issues that we find.

In line with our values, we require all our people to act honestly and with integrity, safeguarding the public funds for which we are responsible.

All instances of economic crime will be dealt with effectively, ethically and in accordance with the law.

This year, we focused our efforts on raising fraud awareness through targeted training events and the use of internal social platforms, such as Yammer.

Our counter-fraud culture is maturing throughout our organisation, with appropriate channels in place for our people, customers and our supply chain to raise concerns safely. Our suite of policy, processes and procedures reflects and builds upon current legislative requirements. These should be understood by all staff, no matter what their role.

We have improved our understanding of our risk profile. This captures internal and external economic crime risks, including those introduced through cybercrime. We base this on industry and government information, updated on an annual basis. We use this information to carry out proactive testing over our control activity to improve our resilience.

We have seen an increase in the number of fraud allegations from external sources. All allegations are investigated in line with our policies. The Anti-Economic Crime Group and the Audit and Risk Committee receive reports on the work of the counter-fraud team, the results of all investigations completed and recommendations for future prevention.

Working proactively with our supply chain, we are raising the profile of economic crime risk across the sector. We have created the Supply Chain Economic Crime Group, a forum which brings together our supply chain to highlight areas of commonality and share best practice.

We fully align to the work of the Cabinet Office in improving counter-fraud capability across government. This year, the Cabinet Office confirmed our own assessment of our performance against the Government Functional Standard 'GovS 013'. They recognised that we are fully compliant in all aspects of the standard. Our ability to deal with economic crime has increased during the past financial year and we are progressing a risk-based programme of proactive work to further reduce the level of risk that we face.

Modern slavery

We support government's objectives to eradicate modern slavery and human trafficking. We recognise the significant role that we play in both combating it and supporting victims. We are committed to ensuring our supply chain and business activities are free from ethical and labour standards abuses.

The steps we have taken to-date include:

People

We carry out pre-employment checks on all directly employed staff. Only agencies on approved frameworks are used for temporary employment, and these frameworks include a standard requirement to provide assurance that pre-employment checks are conducted.

We have a range of policies and procedures designed to protect our people from poor treatment or exploitation. These comply with all relevant employment law and the Advisory, Conciliation and Arbitration Service code of practice. These include the provision of fair pay rates based on nationally-negotiated terms and conditions of employment. We also provide a range of benefits, including health and wellbeing support and access to training and development opportunities.

Where changes to employment, work, organisation, policies and procedures are proposed, we communicate, consult and negotiate with the trade unions, as appropriate. To engage and involve our people in matters which affect them, we hold regular staff briefings and consultation with a range of staff forums, including BAME (Black, Asian and minority ethnic) and LGBT+.

Procurement and our supply chain

Most of our products and services are purchased from UK or EU-based firms. These firms may also be required to comply with the requirements of the UK Modern Slavery Act (2015) or similar legislation in other EU states.

A significant number of products are purchased through our supply chain, whose Supplier Code of Conduct includes a provision around forced labour.

Where possible, and consistent with the Public Contracts Regulations, we build long-standing relationships with our supply chain.

Training

Our counter-fraud team provide advice and training about modern slavery and human trafficking, supported by our modern slavery policy and procedure. This year, we provided specific training to a range of key people across our operations, major projects and commercial and procurement teams.

We are currently developing a new awareness package specifically for modern slavery. This will be rolled out across the relevant parts of the business in 2020–21.

Responding

Any concerns about modern slavery are taken seriously and managed sensitively. This includes referring to external agencies, such as the Gangmasters and Labour Abuse Authority and the Home Office, where appropriate.

OUR FUTURE VIABILITY

The Board has assessed the viability of our company over the five years to March 2025, in line with the five-year road investment period starting from 1 April 2020.

The Board reviews our going concern on an annual basis. It considers government funding, our business plan, our risk management framework and our corporate risk register, which includes our principal risks. It also takes into account our current position at the end of this, the first road period, and our plans for the second road period.

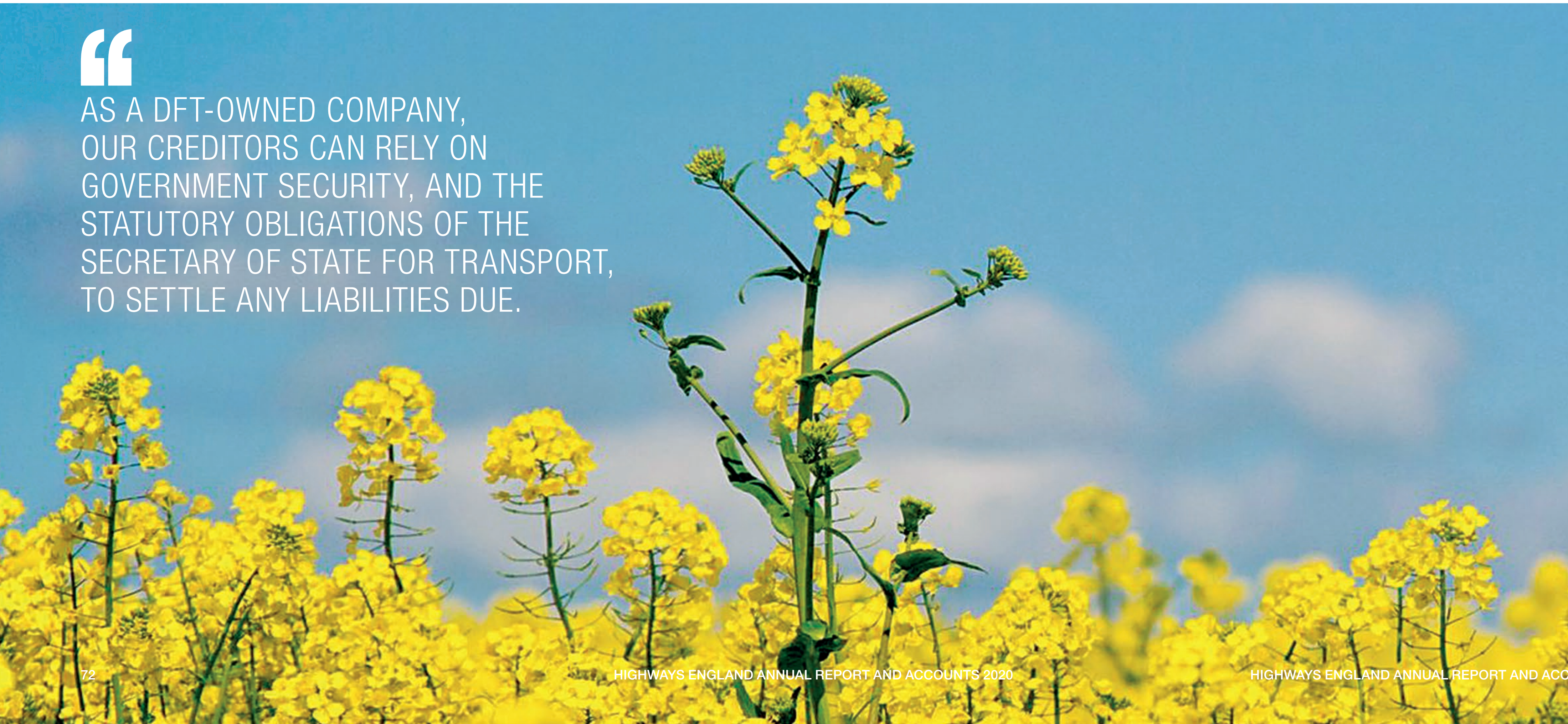
Funding

We are funded from the public purse by grants-in-aid from DfT. Before the start of each funding period, we work with DfT and ORR to determine our outputs and provide a high degree of certainty over our capital and resource funding. This is detailed in the *Statement of funds available* and set out in government's annual resource delegated expenditure limit.

Our funding for the next road period will be provided through the National Roads Fund, which reserves the revenues of Vehicle Excise Duty within England for road investment. As a DfT-owned company, our creditors can rely on government security, and the statutory obligations of the Secretary of State for Transport, to settle any liabilities due.

The Board considered five years to be an appropriate timeframe, given the certainty of our funding settlement for the next five years.

In March 2020, government published RIS2, setting out their strategic vision for the SRN and how money will be invested to operate, maintain, renew and improve our network. The *Statement of funds available* details £27.4 billion of capital and resource funding to meet our commitments for the financial years from 2020–21 to 2024–25.



“AS A DFT-OWNED COMPANY, OUR CREDITORS CAN RELY ON GOVERNMENT SECURITY, AND THE STATUTORY OBLIGATIONS OF THE SECRETARY OF STATE FOR TRANSPORT, TO SETTLE ANY LIABILITIES DUE.

Planning

For each road period, we prepare a *Strategic business plan* and a five-year *Delivery plan*, supported by an annual *Delivery plan update.* Together, these explain how we will deliver our strategic outcomes, measure our success and identify our future improvement plans.

Our performance is monitored by the ORR on a quarterly basis, and we refresh and publish an annual *Delivery plan update.* We use our plans, budgets and related financial models to project cash flows, monitor financial risks and our liquidity position, and forecast future funding requirements relevant to our Licence.

In January 2019, we presented our *Draft strategic business plan* to government and the ORR, in which we set out our proposals for the next road period. Our final *Strategic business plan* is due to be published in summer 2020.

Principal risks

Linked to our ability to meet our strategic objectives, we identify our principal risks (pages 68 to 70) through robust assessment. This includes a continuous cycle of reporting and review at all levels of our business.

We analyse our company's resilience to the potential impact of these risks, based on:

- the effectiveness of mitigating actions to reduce either likelihood or impact
- the Board's conclusions from its regular monitoring and review of risk management and internal control systems, as described on page 148

We also consider our company's ability to withstand severe yet plausible scenarios, as shown in the table below.

These scenarios cover all our principal risks and were considered in terms of the impact on our three imperatives and our ability to deliver our second road period commitments.

Based on this assessment, the Board is content that we have appropriate arrangements in place to minimise the impact of these scenarios and can ensure our company's resilience.

As such, the Board has a reasonable expectation that our company will continue in operation and meet its liabilities as they fall due over the period to March 2025.

Imperative	Scenario	Link to our principal risks
Safety	A significant safety event occurs on our network which leads to injuries and fatalities to our people, road workers or road users	**Safety risk 1:** Ineffective control over health, safety and wellbeing threats **Safety risk 2:** Ineffective road user safety interventions **Safety risk 7:** Major asset failure
Customer	A significant adverse event occurs which disrupts the operation of our network or undermines the public's confidence in our company	**Customer services risk 5:** Public perception on smart motorways **Delivery risk 6:** Securing our information **Safety risk 7:** Major asset failure
Delivery	We are unable to deliver planned enhancements to the SRN due to ineffective planning or management	**Customer services risk 4:** Ineffective programming of designated funds **Delivery risk 8:** Environmental impact through company operations **Delivery risk 6:** Securing our information

OUR THREE IMPERATIVES: A ROAD MAP FOR SUCCESS

Our three imperatives – safety, customer service and delivery – underpin everything we do. In this operational report, we look at each in turn, using a wider lens to explore our strategies, activities and progress.

SAFETY

see page 76 →

CUSTOMER SERVICE

see page 84 →

DELIVERY

see page 92 →

The Howgill Hills and the M6 in Cumbria

SAFETY

K 1 R 1,2,7

Today, our roads are among the very safest in the world. People using, or working on our network, are even less likely to be injured than they were in 2015. We know there is still more to do. Our long-term aim is that, by 2040, no one should be harmed when travelling or working on our network.

MONITORING OUR SAFETY

We collect, analyse and report on our health, safety and wellbeing data, using this information to drive improvements for our customers, people and supply chain. Our Executive team review our safety performance report every month, with bi-monthly review by our Safety Committee. We also provide our safety data to ORR, who analyse it and publish a report on how we are performing against our targets.

Our safety performance

In recent years, changes in police force accident recording processes have affected how the number of people killed or seriously injured has been recorded. With the move from paper-based to electronic systems, some injuries previously classified as 'slight' are now classified as 'serious'.

To account for the impact of these changing systems, the Office for National Statistics produced a methodology for adjusting historic road casualty data, and our targets have been adjusted in line with this methodology. The figures in the KSI chart on page 78 reflect an all injury-based approach to severity reporting, based on analysis by their Methodology Advisory Service on behalf of DfT. This diagram outlines our adjusted target, the reported killed or seriously injured number, and the adjusted value.

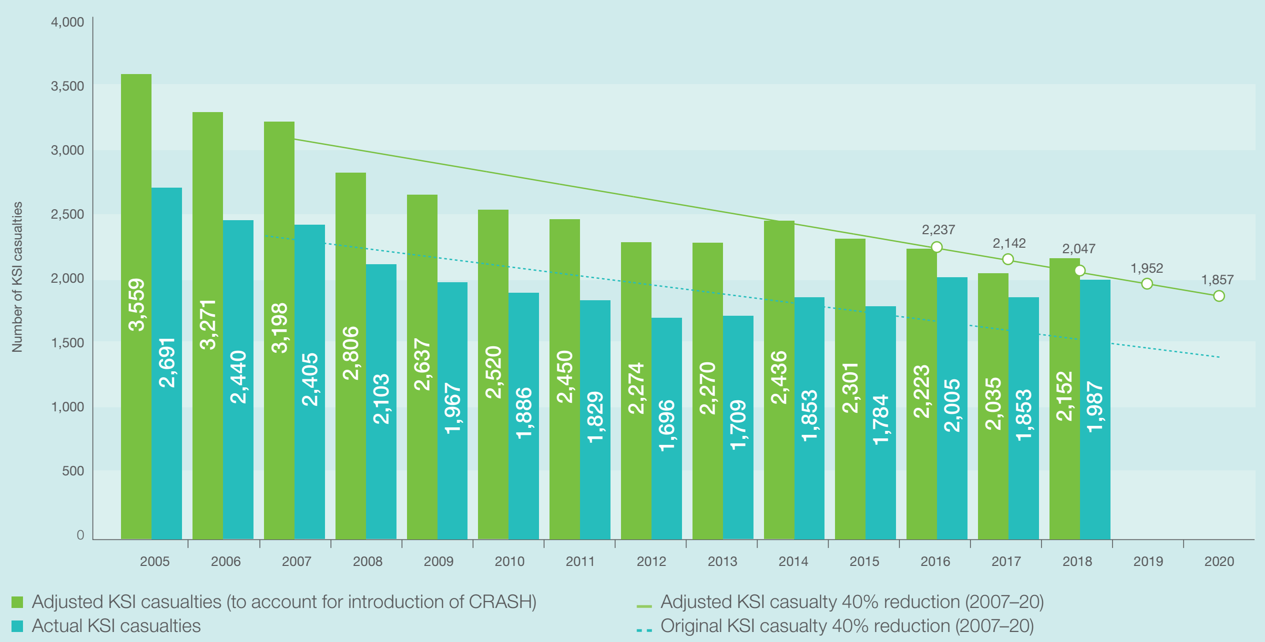
In 2018 (the last year for which we have validated data), the number of people killed or seriously injured on our network was 2,152. This represents an increase of 5.7% compared to 2017.

The total number of reported casualties on our network reduced, with 13,380 reported in 2018 compared to 14,225 in 2017. The total number of reported casualties for vulnerable road users also reduced, with 103 cyclist and 148 pedestrian casualties in 2018. This compares to 134 cyclists and 153 pedestrian casualties in 2017. Motorcyclists are still over-represented, with 353 people killed or seriously injured (17.8% of total) and 785 casualties in 2018.

Over the first road period, we have seen a reduction in killed or seriously injured casualties by 39.5% from 2005, and by 11.7% from 2015. At the same time, we have also seen a 42% and 20% reduction respectively, in the overall casualties on our network.

We have reduced the accident frequency rate across our people from 0.07 to 0.01, from 7 to 1 RIDDOR accidents. Yet we have seen an increase in our supply chain accident frequency rate from 0.05 to 0.07, from 20 to 30 RIDDOR accidents.

Annual number of people killed and seriously injured (KSI) and reduction target[1]



1 For 2019, our provisional analysis has forecast that 1,919 people were killed or seriously injured on our network.
We will confirm whether we have met our safety target for the first road period after the validated numbers for 2019 and 2020 are reported, in summer 2020 and 2021 respectively.

EMBEDDING OUR STRATEGY

We have embedded our safety approach across our company, ensuring that it underpins who we are and what we do. Safety is our first imperative across every one of our activities, from starting all significant meetings with a safety moment to informing how we set our budgets for the year.

Home safe and well

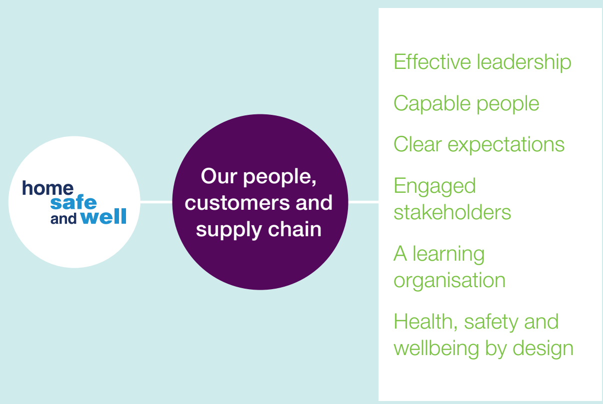
Our *Health and safety five-year plan*, published in 2015, provided us with a strong foundation. It enabled us to learn and improve as we adapted to new challenges, along with the wider industry.

In June 2019, we published our *Home safe and well* approach, with input from our people, trade unions, supply chain and stakeholders. It details the work we are doing to improve the lives of our customers, people and supply chain, while keeping focus on the delivery of our investment programme.

Our *Home safe and well* approach is based around six areas. Our aim is to raise industry standards over the next five years and help towards our aspirations of:

- reducing the number of those killed or seriously injured on our roads by 50%
- halving the number of lost-time incidents in our company
- halving suicides on our roads
- halving service strikes
- halving vehicle incursions into roadworks
- halving bridge strikes
- achieving the Workplace Wellbeing Charter for England
- achieving a standard equal to ISO 45001 for our occupational health and safety management system
- doubling our hazard and near miss reporting
- achieving level 4 cultural maturity on the Hearts and Minds Maturity Model

Our *Home safe and well* approach



Directorate-level plans

Each Executive Director has developed their own health, safety and wellbeing plan, focusing on priority areas for their business area. For instance our Operations directorate, who are the front line of our maintenance and operational work, are also embracing the *Home safe and well* approach through our ongoing Operational Excellence programme.

IMPROVING OUR PEOPLE'S HEALTH AND WELLBEING

Looking after the mental health of our people as much as their physical health, and their wellbeing, plays a big part in making sure we are a safe and attractive place to work. Our rapid response to the Covid-19 pandemic, prioritising the safety of our people, our contractors and our road users, for example, showed our constant focus on health and wellbeing, as well as how we live our company values.

Support and counselling

We have a well-used employee assistance programme, which offers confidential 24/7 support and counselling. We have also increased our internal network of mental health first aiders by 30, so we now have 190 people spread across our offices, control centres and outstations. We log the number of conversations taking place, as well as the common themes, to help us monitor this internal network, as well as support both our first aiders and our people. Since we improved the log in October 2019, our first aiders have had 257 conversations.

Due to the nature of our work, sometimes our on-road and control centre colleagues deal with the tragic outcomes of traumatic events. This year, we rolled out trauma training to all these colleagues, while also training managers in trauma debrief skills. We provide specialist trauma support for any of our people who needs it, not only at work, but for personal events too.

Developing an open and honest culture is important to us. We encourage employees to talk about their health and wellbeing to increase understanding and help us provide appropriate support. We do this through regularly publishing blogs from our people about their experiences, struggles and everyday life. We published 15 blogs in total over the past year, with a readership of 9,919. The topics ranged from menopause and fitness to mental health and being HIV+. We also have a yammer group, 'Zest', where our people can chat, share stories and ask for advice.

Wellbeing resources

We run a wellbeing programme which provides quarterly workshops in our offices and control centres. Last year, we ran 168 workshops and webinars. These covered topics such as sleep, behavioural change, boosting resilience, mindfulness and nutrition.

We also provide access to an online wellbeing platform, through which our people can complete online health assessments, set goals and monitor progress.

This platform also provides access to advice, information and coaching. To date, 1,763 of our employees have registered on the platform.

Developing our culture

We recognise our wider role in creating the best culture and opportunities for our people.

This year, for example, we created a menopause at work policy as we recognised that we needed to be more open about menopause and we support our people in this area. To help with fitness, we increased the cycle-to-work scheme amount to £3,000, partnered with Evans Cycles and ran promotional events. To create flexible working opportunities, we provided benefits such as childcare vouchers and holiday play schemes.

For more details on how we work to support our people, see pages 110 to 116 in our sustainability report.

DELIVERING ROAD SAFETY INITIATIVES AND CAMPAIGNS

Human error is a key factor in collisions on our network. We engage with our customers through a range of initiatives which encourage people to drive more safely, with a focus on high-risk groups and poor driver behaviour.

Safety schemes and activities

In our updated *National incident and casualty reduction plan*, published in June 2020, we set out how we will improve our road safety performance. This plan aligns with *Home safe and well*, with all activities based on our safe system approach: safer roads; safer vehicles; and safer people.

Our Safety and Congestion Relief Programme helps to address congestion bottlenecks and deliver targeted road safety interventions on our network.

We ran a comprehensive programme of safety activities in 2019–20

One key safety scheme this year was our £225,000 investment in equipping each of our 234 traffic officer vehicles with an automated external defibrillator by the end of February. For a sudden cardiac arrest victim, every minute that passes without defibrillation decreases their chances of survival by 10%. Good CPR, combined with using a defibrillator within the first three to five minutes, saves lives. When combined with the use of a defibrillator at the scene, our traffic officers can increase the chance of someone surviving from around 2% to 75%.

We also invest in road safety infrastructure improvements for vulnerable users through our £175 million Cycling, safety and integration fund. We target the safety element towards single carriageways to tackle the higher casualty rates. During 2019–20, we invested over £20 million through this designated fund to deliver 27 safety schemes on our network.

We also focused on creating high-quality infrastructure to make cycling safer, and to encourage more people to take up this sustainable mode of transport. Of the 59 new or upgraded pieces of cycling infrastructure we have delivered, eight were delivered by working in partnership with Sustrans.

As part of our work, we delivered eleven schemes to enable people to travel across and alongside our network safely. We also invested £4 million into restoring a mile-long stretch of canal that was destroyed during the construction of the M5 over 50 years ago. When the work is finished, much of which will be delivered by volunteers, the restored canal will provide a great walking and cycle route and will also improve biodiversity by creating wide reed beds. The scheme offers us the opportunity to leave a positive legacy, and to put right the damage done in the past.

Suicide prevention

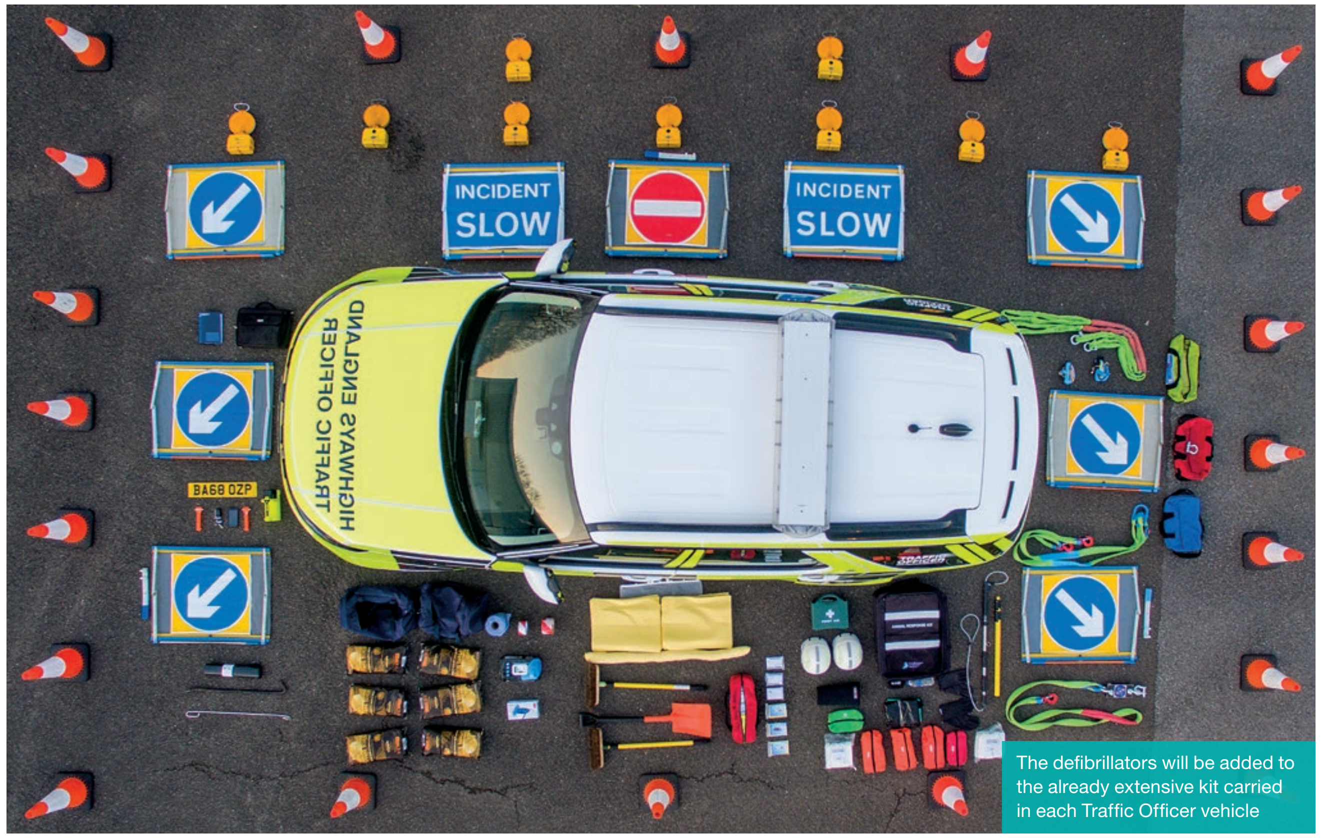
We recognise the wide-reaching and devastating impact of suicide for both individuals and communities. We understand the important role we can play in influencing and supporting a wider community-based approach to suicide prevention.

In 2017, we developed our *Suicide prevention strategy*, setting out how we will contribute to delivering government's national strategy for suicide prevention. In January 2020, we published our updated suicide prevention toolkit. This provides a central hub for information, policy, guidance and resources for our regional directors to identify and deliver a range of crisis interventions on our network.

Safety communication campaigns

Over summer 2019, we ran a series of communications campaigns to increase awareness and improve driver behaviour. These included:

- **Check it before towing it:** We encouraged drivers to check their vehicles before heading out on longer journeys. We focused on the 4,000 incidents that occur every year towing trailers, showing dramatic footage of a trailer rolling down the M25 in Surrey.
- **Keep left:** We developed this campaign based on customer feedback following our 'Space Invader' campaign. Good lane discipline increases how safe our customers feel on our roads, and lessens the risk of incidents.
- **Driving through roadworks:** We created and promoted film footage aimed at encouraging our customers to drive carefully through roadworks. We highlighted the potential horrific consequences of poor driving behaviours in these high-risk areas.



The defibrillators will be added to the already extensive kit carried in each Traffic Officer vehicle

> BY ROLLING OUT 234 DEFIBRILLATORS ACROSS ENGLISH HIGHWAYS, HIGHWAYS ENGLAND ARE DOING THEIR PART TO HELP GIVE CARDIAC ARREST VICTIMS THE BEST CHANCE OF SURVIVAL. THE BRITISH HEART FOUNDATION ENCOURAGES ALL WORKPLACES TO ENSURE THEIR EMPLOYEES ARE TRAINED IN LIFESAVING CPR SKILLS AND IN HOW TO USE A PUBLIC ACCESS DEFIBRILLATOR. IT COULD REALLY MAKE THE DIFFERENCE BETWEEN LIFE AND DEATH.

Judy O'Sullivan, Director of Health Innovation Programmes at the British Heart Foundation

Safety awards

Each year, the best international road safety initiatives are given public recognition through the Prince Michael International Road Safety Awards. In December 2019, we were recognised with four awards for:

- our partnership with BabyBox, which provides targeted road safety resources and tangible rewards to expectant parents
- our smart motorway compliance programme, which focused on improving driver understanding and compliance with Red X signals
- our research and development of the Young Riders Motorcycling Compulsory Basic Training programme
- SafetyCam, which protects road workers through camera technology, increasing compliance with site speed limits and detecting unsafe driving in work zones

Due to Covid-19, we postponed our third Highways England Awards to celebrate the best from our supply chain and people. This year, we featured nearly 100 entries in the safety category. Shortlisted entries included: our work on suicide prevention; using robots to reduce human risk in working on roads; and the approach one of our construction projects has taken to look after both the physical and mental health of its workers.

WORKING WITH OUR SUPPLY CHAIN

Procurement and contract management

We want everyone we work with to support our *Home safe and well* approach. In March 2019, we created our Supply Chain Safety Leadership Group. The group oversees the development and adoption of health, safety and wellbeing improvement activities across our supply chain.

The group aims to:

- raise the quality of conversations between us and our supply chain
- reduce risks on our network
- research and share innovations
- be the unified voice of the roads sector

Work is also underway to embed relevant clauses in all contracts that encourage and compel our supply chain to develop the required safety capability. We want our supply chain to demonstrate:

- **readiness**, through planning and using safety-led approaches
- **capability**, by using best practice to support safety approaches
- **organisational design**, through having the organisational structure and capability in place to support delivery
- **resilience**, to promote resilience and minimise risk, as well as increasing capability with Tier 1, Tier 2 and Tier 3 supply chains

During 2020–21, we plan to further develop and embed new models of industry-leading safety practices. These will be embedded through future procurement processes and contract awards.

CASE STUDY

M1 WEEK OF ACTION

In our M1 'week of action', held in May 2019, we worked together with the emergency services to improve safety and change driver behaviour. This was the first time we used our three HGV supercabs to focus on one motorway. The supercabs allow police officers to film evidence of unsafe driving behaviour, with drivers being pulled over by police cars following a short distance behind.

Improving safety, increasing awareness and changing driver behaviour

In our M1 week of action, we took a coordinated approach to safety interventions and communications.

Six police forces used all three HGV supercabs, pulling over nearly 200 dangerous drivers. Our traffic officers and the emergency services also provided safety tips and free tyre checks to over 750 drivers.

At the same time, we launched a high-profile communications campaign, focusing on statistics and footage from the first year of our HGV supercabs initiative.

Our campaign engaged millions of drivers – not only raising their awareness of dangerous driving but also changing their behaviour.

We secured media coverage beyond all initial expectations. We reached 37 million people across 227 unique media sources, with features in regional and national TV, radio, print and online media. This is equivalent to exposing each of England's 32.9 million drivers to a media story about our campaign at least once during the week.

During our week of action, the number of collisions on the M1 fell by 29% to 64 incidents, compared to 90 incidents during the previous week. We also recorded the fourth lowest number of collisions of 2019 and second lowest outside the school holidays.

Our communications campaign was voted Best Public Sector Campaign at the industry-leading PR Week Awards 2019. We also won Best Media Relations Campaign at the CorpComms Awards 2019.

Following the success of this week, we ran Operation Pennine during autumn 2019. This was a coordinated effort across six police forces, the Health and Safety Executive and the Driver and Vehicle Standards Agency to reduce incidents on one of the most important routes across England: the M62 between Liverpool and Hull.

We are planning similar corridor-based road safety initiatives for later in 2020.

200
dangerous drivers pulled over, and safety tips and free tyre checks given to more than 750 drivers

37 million
people reached across 227 unique media sources, with features in regional and national TV, radio, print and online media

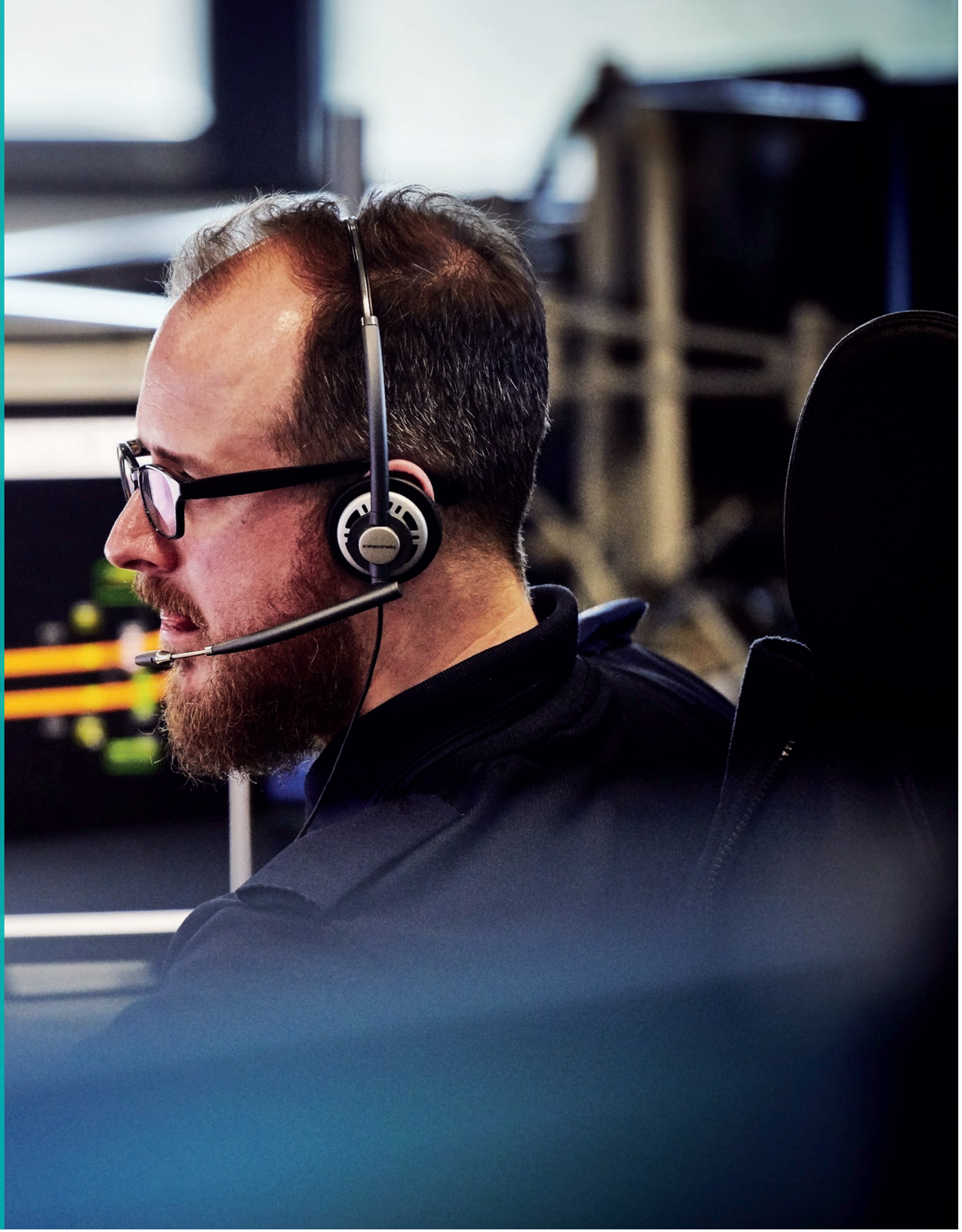
29%
reduction in collisions on the M1 during our week of action

"DURING OUR M1 WEEK OF ACTION, WE RECORDED THE FOURTH LOWEST NUMBER OF COLLISIONS OF 2019 AND SECOND LOWEST OUTSIDE THE SCHOOL HOLIDAYS."

CUSTOMER SERVICE

K 2 R 3,4,5

We want to meet and exceed the expectations of all those who use our network. There are many touchpoints for our customers, from the infrastructure we provide and facilities we support to the information we share and the control centres we operate. We have combined our own research and feedback with insight from others to improve and evolve our customer-facing services and approaches.



EMBEDDING OUR STRATEGY AND STANDARDS

We want our customers to feel safe, listened to, in control of their journeys and calm when using our roads. To help achieve this aim and improve the overall customer experience of our roads, we deliver against specific published strategies and standards.

Customer service strategy

We use our *Customer service strategy,* published in 2016, as the basis for driving improvements. Our focus is on consistently delivering the basics, providing a solid foundation for service and network improvements as well as building relationships with our customers.

To detail our specific activities, we produce an annual customer service plan, *Connecting our customers*. In 2019, we published our plan publicly for the first time, which was endorsed by both Transport Focus and ORR.

As we move into the second road period, we will look to drive real service improvement to meet our customers' expectations. For more information, please see our customer case study on page 88.

Improving customer satisfaction

Our published standards draw on customer insight to address customer needs and expectations. These standards are used by both our people and our supply chain to improve our customers' experience of our roads.

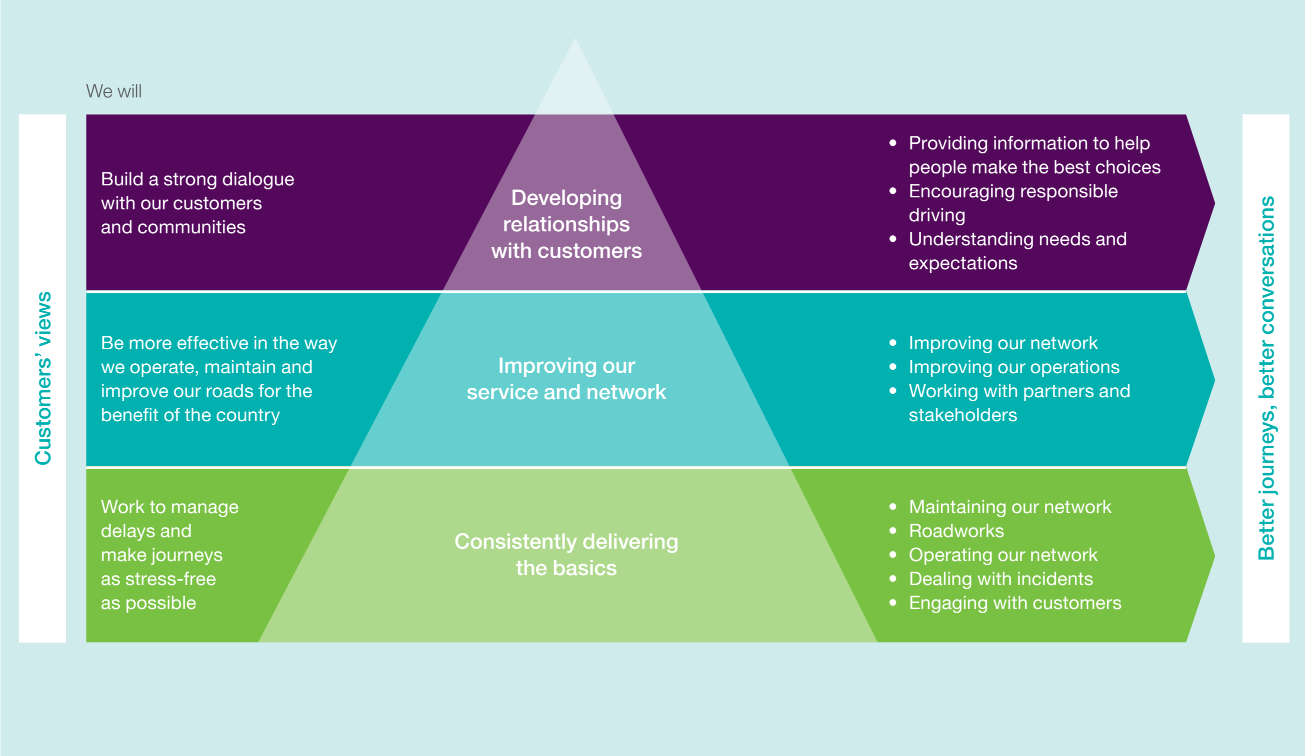
These include standards around:

- construction scheme billboards, to provide information to our customers on what we are constructing and when it will be finished
- accurate and advance notification of planned roadworks, to enable better journey planning, particularly for our freight customers who frequently use our roads overnight
- reducing litter on the SRN, and highlighting ways in which we can improve litter clearance and discourage littering from vehicles
- diversion routes for planned events, to provide suitable alternative routes for customers to avoid the congestion caused

"THIS IS PROBABLY THE FULLEST AND CLEAREST EXPLANATION OF THE RELATIONSHIP BETWEEN A HIGHWAY NETWORK PROVIDER AND DRIVERS THAT EXISTS IN THE WORLD.

Anthony Smith, CEO Transport Focus

Customer service strategy



IMPROVING CUSTOMER COMMUNICATIONS

We aim to provide accurate and simple information to our customers, using the most appropriate channels for them. We have embedded our customer contact approach into how we work. This is based on the key principles that: people feel their contact is important to us; they can trust what we say and do; and that we have listened and acted. We are also modernising our customer-facing services to improve how we engage with and gather insight from our customers.

Providing relevant, timely and accurate information

Our customer contact centre remains the primary channel through which customers find out information about our business. We receive over 40,000 contacts a month, which range from requests for traffic information and land enquiries to insurance-related claims and CCTV queries.

Our control centres carry out traffic monitoring and management, including signalling for incidents, roadworks and congestion. They take roadside assistance calls from the public and communicate with emergency and vehicle recovery services, as well as deploying the right people. Our control room operators use Twitter to engage with our customers, keeping them informed and answering questions.

Over the past year, we have introduced several initiatives to improve how we interact with our customers, including a new customer relationship management system. This has helped us understand our customers at a far more detailed level, enabling more meaningful and valuable conversations.

Over the second road period, we will work with stakeholders and customers to identify the type and quality of information they need. We will also increase use of voice recognition to help customers access information through self-serve channels, and implement our video relay service to support customers with hearing difficulties.

In 2019–20, we used our new customer feedback platform, Every Customer Has An Opinion (ECHO), to understand what our customers needed from our website. We are using this insight to redesign the online experience, and will launch our new website later in the year. It will be easier to use and more intuitive, with content relevant to our customers' needs.

Feedback and complaints

In 2019–20, we embedded our complaints process across our business and supply chain. We worked with the Parliamentary Heath Service Ombudsman to share best practice and learn from other organisations.

We worked to reduce the time it takes us to resolve customer queries from 15 to 10 days, as well as to improve the quality of our responses. In the UK Customer Satisfaction Index, based on 259 companies across 13 different business sectors, we scored 72.1 on our complaint handling. The average score was 58.8 and the public sector score was lower at 55.9.

We responded to
40,000 customers
per month through our customer contact centre

The table below sets out the number of complaints that we received this year. This includes those escalated through our own process, those referred to the Independent Complaints Assessor (ICA) and those referred to the Parliamentary and Health Service Ombudsman (PHSO).

We resolved 94% of complaints at the first stage of our process. We also improved the number of complaints resolved at stage 2, with fewer progressing to the Independent Complaints Assessor compared with last year.

Stage 1	Stage 2	Stage 3	Stage 4
Complaints received	Complaints escalated from stage 1	Complaints escalated to the ICA	Complaints escalated to the PHSO
5,457 (5,202 resolved)	**255** (209 resolved)	**46** (45 resolved)	**1** (case ongoing)

Since November 2019, we have actively sought near real-time feedback from our customers on the service they received from our traffic officers. This has helped us identify good practice and understand how we can improve our capabilities. Read more in our customer case study on page 88.

Roadside variable message signs

We measure and report on how quickly we set roadside variable message signs and signals, as well as on the accuracy of the message displayed. We have made steady improvements to our performance since June 2019.

We actively seek customer feedback on the messages we display on these signs. We have updated our policy to include new messages to better explain what is happening during and after incidents.

We have also increased the use of popular messages, such as 'Keep left unless overtaking', at locations at risk for poor lane discipline, and messages explaining how long a road is due to be closed for after an incident, or during roadworks.

We are applying the same approach to the smaller, black on yellow hard signs at the roadside to help make the wording more understandable.

Variable speed limits

Following last year's comprehensive review of variable speed limits, we have progressed an ambitious programme of improvement initiatives to ensure the speed limits we set are as appropriate and safe as possible. This year, our programme of improvements has saved over 2,500 hours of customers' journey time per day.

The improvements we have made this year include:

- reviewing and updating the calibration and performance of the systems that automatically set variable speed limits, ensuring they are reflective of traffic conditions
- developing improved processes for managing, resolving and taking action in response to variable signs and signals related to customer contact
- using new variable message signs to support customer awareness campaigns, including messages explaining Red X signs and why we set variable speed limits
- holding national trials to increase the speed limit from 50mph to 60mph for reported yet unconfirmed incidents, saving journey time without compromising safety

CASE STUDY

EVERY CUSTOMER HAS AN OPINION (ECHO)

It is important for us to understand what our customers think and feel about the services we provide. We knew from our existing customer contact approach that historically there was no easy way for customers to give us feedback, and no robust measure of satisfaction for our contact channels.

This year, for the first time, we introduced a real-time customer feedback platform: Every Customer Has an Opinion (ECHO). Our platform works across all our contact channels, and makes it easy for customers to tell us their views. This provides a robust measure of channel satisfaction as well as helping us understand the underlying reasons.

We trialled ECHO to gather feedback on our traffic officer service. The quick four-question text message survey had an industry-leading response rate of 20%, and we are now trialling this in two regions. The questions were based around our customers' expectations of traffic officer interactions and ECHO now allows us to measure ourselves against these expectations.

We have also used ECHO to gain targeted customer feedback to guide content on our corporate website. This has included understanding specific customer issues, such as broken links, inaccurate or difficult to find information and missing content. In two weeks, the web snippet gathered over 400 survey responses from our customers, giving the digital team new and valuable insights for immediate improvements.

We are planning to use ECHO in other business areas, including Dart Charge, customer correspondence and at key stakeholder events.

400
survey responses from customers in two weeks from our web snippet

Advanced notification of closures

We have made significant improvements in providing advanced notification of road closures to customers, including to the freight and road haulage sector.

In 2018–19, we had about 30% confidence in our road closure information. Having established a regional focal point network and introduced new supply chain processes for roadwork scheduling, we have increased accuracy to around 90% at the end of March 2020.

We produce a daily road closure report to provide our freight stakeholders with information on planned full closures on our network for that night. These daily reports are distributed to hundreds of our freight stakeholders and are also made available on our corporate website, where they are downloaded over 10,000 times each month.

IMPROVING CUSTOMER EXPERIENCE

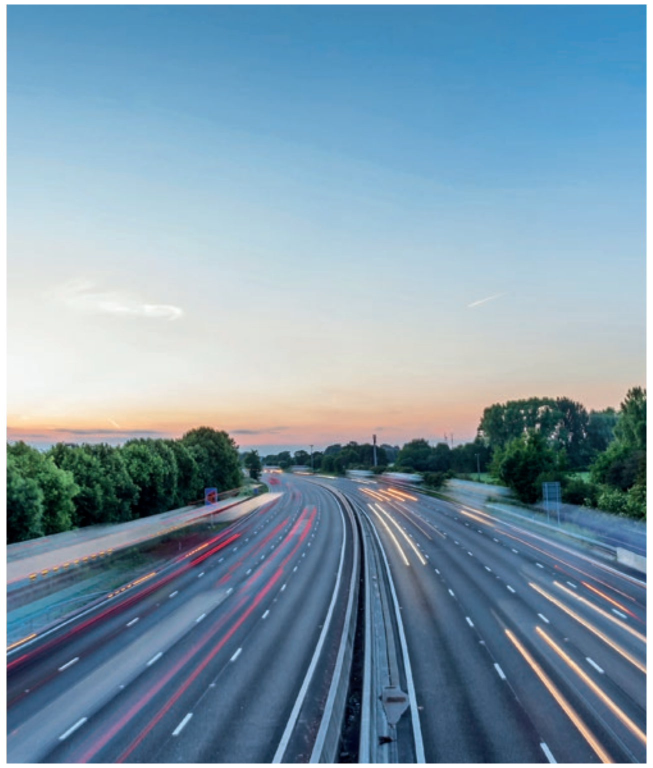
We know that the condition of our roads is an important part of our customers' overall experience, and we have increased our focus in this area, building in regional flexibility where appropriate.

Keeping the roads in good condition

In April 2019, we introduced new standards for asset maintenance and asset inspection requirements.

Our people in each operational area have been able to tailor how often maintenance is undertaken to meet the specific needs of their assets and customers. This targeted, intelligence-led approach prioritises defects by using local data, knowledge and customer insight, and allows resources to be focused on the most appropriate work.

As an example, our asset maintenance standards state that we should 'remove obstructions and maintain vegetation' on an annual basis between April and September. In the East Midlands, we received feedback from customers that suggested that the level of maintenance frequency should be increased, and that vegetation was becoming a safety hazard. Our experienced team suggested that increasing maintenance to three times per year would restore the vegetation to an acceptable level. As a result, we introduced two more visits to the 16 locations identified to carry out the maintenance activities.



> "ROADWORKS FORECASTING HAS SIGNIFICANTLY IMPROVED… NOW HIGHWAYS ENGLAND UNDERSTANDS YOU REMAIN A CUSTOMER WHETHER YOU'RE ON THEIR ROADS OR NOT.
>
> **Chris Floyd, General Manager, Linehaul, DPD**

ENABLING A FREE-FLOWING NETWORK

We have met our lane availability KPI of 97%, achieving 98.18%, and also our incident clearance target of 85%, achieving 89.07%. This year, we have opened several major schemes (see pages 42 to 49) which will help improve the flow of traffic on our network. We have also improved how we deliver our schemes and operate our network to provide quicker, more reliable journeys and better experiences for our customers.

Travel demand management

We have developed a travel demand management approach, which involves working with our partners to influence customer travel behaviour, delivering environmental, economic and social benefits. Ultimately this is achieved through reducing unnecessary journeys, re-routing to less congested roads, re-timing to avoid peak demand periods and suggesting alternative ways to travel. We are now implementing our requirement for all major schemes to develop and implement a travel demand management plan.

In March 2020, for example, we agreed funding of £1.7 million to implement a travel demand management programme on our M27 and M3 smart motorway schemes. Our aim is to enable sustained travel behaviour change, contributing to reduced emissions and improvements in local air quality.

Working in collaboration with Southampton City Council, Portsmouth City Council and Hampshire County Council, we held extensive engagement with local employers and other stakeholders along the M27 and M3 corridors. Of around 100 identified stakeholders, we have worked with 20 so far. We reviewed staff travel patterns, delivered travel action planning and scoped appropriate measures to improve travel choices, ensure business continuity and promote active travel.

Roadworks

We have made several improvements across how we plan and manage roadworks, including across the following areas:

Transforming roadworks

We are in the process of embedding our transforming roadworks approach. This aims to create a better experience for our customers when travelling through roadworks, by sharing best practice and innovations across our company. We will review our approach and opportunities for improvements annually.

National guidance

On behalf of DfT, we have updated the national guidance provided for roadwork design and operation, Traffic Sign Manual Chapter 8: *Traffic Safety Measures and Signs for Road Works and Temporary Situations*. We have also produced an internal document to help our project managers better understand the detail of this design guidance.

Speed limits within roadworks

We have piloted wider use of 60mph within our roadworks to improve our customers' journeys. Building on previously successful trials, we set this speed limit on roadworks across four schemes on the M49, M5, M20 and M1. This included using the 60mph limit within narrow lanes for the first time.

Our trials led to journey time reductions of 10% through the roadworks, saving up to 2,500 hours of customer journey time each day. Feedback from road users said they found 60mph appropriate and felt safe. Following the trials, we kept the limits in place across our schemes on the M49, M20 junction 10a and M1 junctions 13 to 16.

Our Chief Highways Engineer has communicated to our supply chain that we expect them to consider 60mph through roadworks, where safe and appropriate.

Network occupancy administration

We have created a new team to review and challenge road space bookings and report monthly on accuracy. This is helping to reduce cancelled roadworks, ensuring a more free-flowing network with works taking place as originally planned.

Roadwork embargoes

We have formalised our approach to limiting the use of roadworks during bank holidays, meaning most roadworks will be removed during these busy periods. In addition, we now produce and maintain an annual programme of significant local events, allowing us to plan regional roadwork embargoes.

Freight and logistics customers

This year, we undertook an internal scoping exercise to identify areas of our business which impact on freight. We engaged with these customers in several ways, including:

- 100 interviews with drivers
- attendance at 14 events with over 200 stakeholders engaged
- surveys with 30 hauliers

We also set up an industry panel to provide commercial customer insight and we are working with our partners, such as Driver and Vehicle Standards Agency, to provide a more robust service. This work has enabled us to understand the needs of the sector, their expectations and the focus areas for improvement. We have established a freight steering group to set our strategic direction and we are commissioning an internal working group to deliver the outcomes required to provide a better service to the sector.

One way in which we have sought to improve commercial customer engagement is by developing a stakeholder mapping tool. This identifies the key distribution hubs of our freight stakeholders to better understand pinch points when we are planning roadworks. The tool also tells us where we need to focus engagement with stakeholders at a local level.

> “I'D LIKE TO THANK YOU FOR THE CONSIDERATION SHOWN TO US DURING ROADWORKS. HIGHWAYS ENGLAND HAS TAKEN US INTO CONSIDERATION AT EVERY STAGE.
>
> **Kath Allaway, Customer and Local Community Member**

DELIVERY

K 7 R 4,6

Over the first road period, we delivered the biggest upgrade to the SRN in a generation. In our strategic report (pages 10 to 73), we discuss our progress and show how we have kept our roads running, opened schemes across the country and delivered improvements beyond the traditional focus of roads investment. In this section, we look at delivery through a different lens: how we have delivered value.

Progress on the A19 Testos junction scheme

DELIVERING GOVERNMENT'S COMMITMENTS

Over the past five years, we have worked within our £15.2 billion funding allocation to meet the objectives of government's RIS1 and deliver the biggest upgrade to the SRN in a generation. We have engaged with stakeholders to deliver a balanced portfolio of investment and benefits across the country.

Delivering government's RIS1

By the end of the first road period, we had started works on 68 schemes, including the A27 East of Lewes scheme, and opened 36 of these for traffic. We also delivered schemes beyond the traditional focus of roads investment, for example building 160 cycle paths and footways, mitigating noise on 1,174 parts of our network and launching 124 biodiversity improvement schemes.

In 2019–20, we spent £4.5 billion to operate, maintain and improve our network, which is the most we have ever invested in the SRN in a single year. With the help of our supply chain, we have invested over £12 million every single day. We began work on 24 schemes, with the majority of these scheduled to open in the second road period. We completed seven major schemes that added over 70 lane miles of capacity to our network.

For full details of our delivery and performance over 2019–20, and the first road period as a whole, please see pages 32 to 36 in our strategic report.

Preparing for Brexit

We have worked closely with DfT on the consequences associated with leaving the EU as part of Operation Yellowhammer. This has included working with stakeholders to plan for any disruption that could occur.

We have also responded to government's request to support the 'Get ready for Brexit' campaign by considering how we could use our existing assets to keep our customers informed about potential impacts. As a result, we have:

- displayed messages on 350 permanent variable message signs across the country
- deployed 19 portable variable message signs to locations which had no permanent infrastructure

DELIVERING VALUE TO THE COUNTRY AND OUR CUSTOMERS

Our network plays a critical role in the success of the UK economy. By enabling the safe and efficient movement of people and goods, our roads create jobs, provide connectivity to skills, open new areas for development, and allow businesses to access to national and global markets.

Supporting the country's economic growth

Our strategic economic growth plan, *The road to growth,* sets out our role across four areas:

- Enabling a high-performing SRN to support reliant business sectors' productivity and competitiveness
- Providing efficient routes to global markets through international gateways
- Stimulating and supporting the sustainable development of homes and employment spaces
- Providing employment, skills and business opportunities within our sector

Businesses need the SRN to provide fast and reliable routes to connect them to markets here and abroad. To enable them to prosper, we have delivered schemes to ease congestion, increase capacity and boost productivity. We have:

- **Supported business:** Small to Medium Enterprises (SMEs) play a key role in the economy, and we are opening up further opportunities for them to secure work from us. As part of our SME performance indicator, for example, we have provided SMEs with information about our procurement plans.
- **Provided access to markets:** We upgraded the M23 between junctions 8 to 10 to smart motorway, which opened in March 2020. This stretch, linking the M25 with Gatwick airport, now has over 20 miles of extra lane capacity with new technology introduced to control traffic flow, leading to journey time improvements.
- **Stimulated housing:** Over the first road period, our Growth and housing fund has supported the creation of over 45,000 homes and 44,000 jobs. This year, we have started work on 16 schemes, and completed work on two: A52 Wyvern and M58/M6 Wigan.
- **Provided employment:** As well as supporting the wider economy, our investment programme provides jobs, skills and opportunities for our supply chain. Projects such as our M6 junctions 2 to 4 smart motorway upgrade have allowed us to boost regional employment, as well as encouraging new careers in the sector through apprenticeships.

Delivering efficiencies for the taxpayer

We have an obligation to spend public money efficiently, and we have challenged ourselves to deliver the best value possible to the taxpayer. We report annually to our monitor, ORR, who independently assure our progress.

In 2019–20, we achieved £600 million of efficiency, against our in-year target of £490 million. Over the first road period, we delivered £1.4 billion of efficiencies, exceeding our £1.2 billion target.

We have constantly reviewed our programme to ensure it delivers value for money. We have chosen the best schemes to take forward, and cancelled or postponed around 10% of projects where it became clear the costs exceeded the benefits. Of the remaining schemes, we have built and opened 36% and are working on a further 31%, with the remainder programmed for delivery in the second road period. Overall, we realised over £2.50 of public benefit for every £1 spent on our major projects.

We have delivered efficiencies for the taxpayer over a number of areas, including:

- more efficient scheduling and delivery of schemes, including acceleration of smart motorways being delivered over a shorter timeframe
- use of Lean techniques to drive improvements, such as improving production of road surfaces laid in a shift through new innovative techniques
- introduction of new and improved contracts with our supply chain, including Asset Delivery and Regional Delivery Partnerships

EMBRACING INNOVATION TO DELIVER FOR THE FUTURE

Digital roads

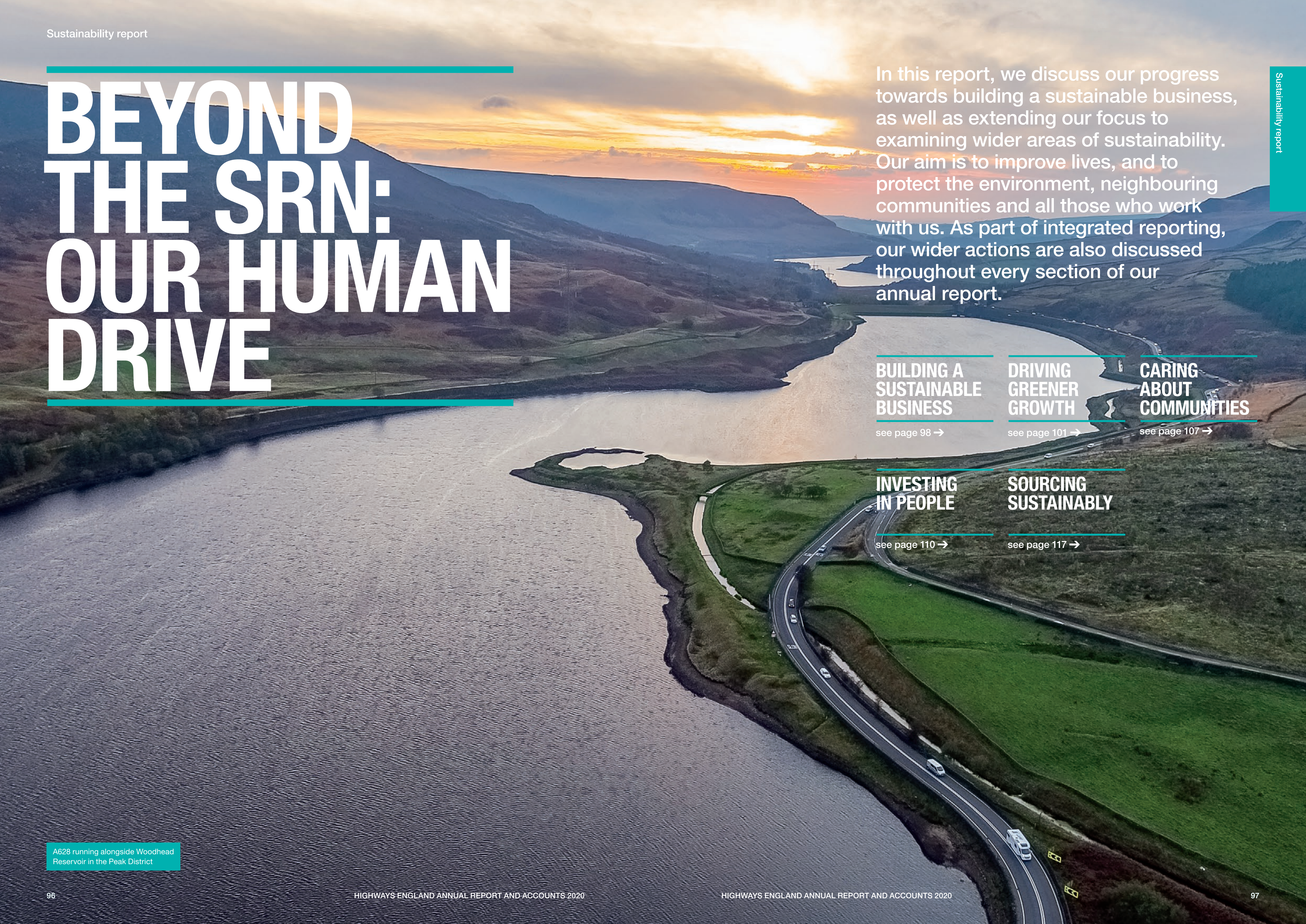
Over the last year, we monitored external events and research to identify new trends which may have the potential to impact our future operations and investment decisions. Consideration of these trends has led us to identify that digital roads will be the future of the SRN.

We are preparing a digital roads concept strategy, which will help us work towards delivering our vision of harnessing data, technology and connectivity to improve the way the SRN is designed, built, operated and used. This will enable a safer SRN, faster delivery and an improved customer experience.

In 2019–20, we have undertaken many projects to help evolve our understanding of digital roads and embrace innovation to deliver for the future. These have included:

- investigating the use of our Rapid Engineering Model for automated detailed design, providing the potential for greater efficiency and consistency in our approach
- supporting connected vehicle testing on our A2/M2 project, trialling in-vehicle technology's ability to communicate with roadside units and vice versa
- collaborating with Nissan to deliver the 230-mile autonomous 'Grand Drive' as part of its HumanDrive project
- supporting the Midlands Future Mobility project to provide a connected and autonomous vehicle testbed on urban and rural roads in the West Midlands
- working with the construction industry, industry bodies, equipment manufacturers, academia and others to trial autonomous dumper trucks
- designing an intelligent flood alert system, 'IDrain', to help prevent flood events on our network
- establishing a Digital Roads Design Authority, bringing together representatives from across our organisation to help achieve our vision for digital roads

We will build on this work over the second road period and beyond.



BEYOND THE SRN: OUR HUMAN DRIVE

In this report, we discuss our progress towards building a sustainable business, as well as extending our focus to examining wider areas of sustainability. Our aim is to improve lives, and to protect the environment, neighbouring communities and all those who work with us. As part of integrated reporting, our wider actions are also discussed throughout every section of our annual report.

Sustainability report

BUILDING A SUSTAINABLE BUSINESS

see page 98 →

DRIVING GREENER GROWTH

see page 101 →

CARING ABOUT COMMUNITIES

see page 107 →

INVESTING IN PEOPLE

see page 110 →

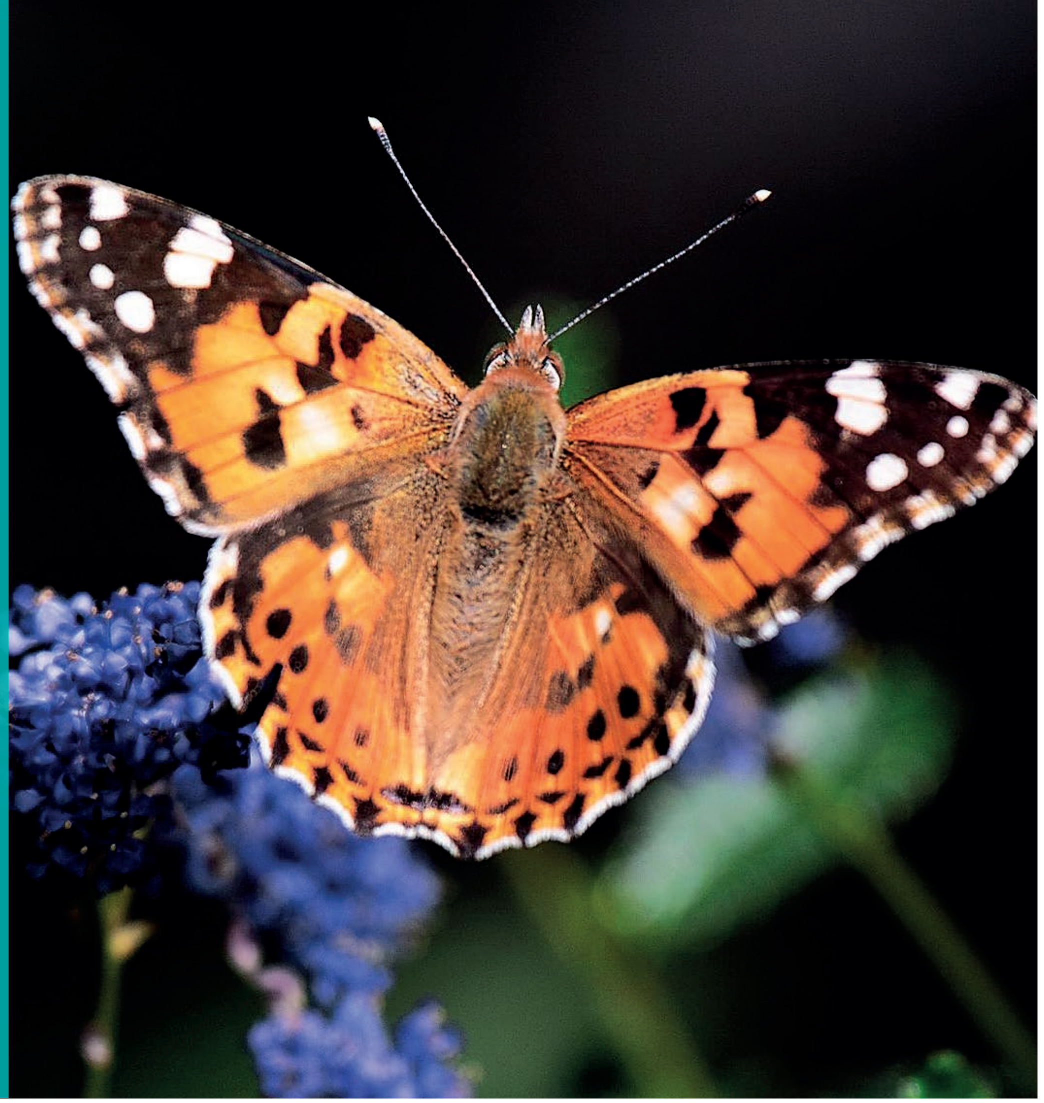
SOURCING SUSTAINABLY

see page 117 →

A628 running alongside Woodhead Reservoir in the Peak District

BUILDING A SUSTAINABLE BUSINESS

Sustainable development is defined in our *Licence* as ‘encouraging economic growth while protecting the environment and improving safety and quality of life for current and future generations’. It touches every aspect of our business, from how we design our schemes and connect the country to how we develop our people and work with our supply chain. R 8



OUR SUSTAINABLE DEVELOPMENT STRATEGY

In April 2017, we published our *Sustainable development strategy* and our *Environment strategy*, both of which were underpinned by a detailed action plan.

Aligning to the Five Capitals Model

Our *Sustainable development strategy* directly aligns with the Five Capitals Model of sustainability and the five priorities for sustainability defined in our *Licence*. As a business, we interact with each of the five capitals as we work to maintain and, where possible, improve these areas, rather than deplete or degrade them.

The table opposite shows our focus against each of the five capitals, along with our progress this year. It also signposts to where details about wider progress can be found, both within our sustainability report and across the rest of this annual report.

Sustainability governance

Strong governance structures and clear lines of accountability enable us to deliver on our strategic priorities. In 2019, we established a strategic leadership group to discuss sustainability and environmental challenges and opportunities. This has resulted in a more coordinated and proactive approach across the company in sharing and escalating key ideas.

Five capitals	Our focus area	Description	Our milestone	Date	Value created/ 2019–20 progress	Further information on wider progress in these areas
Natural capital The natural resources and services we benefit from	Carbon management	The UK has a legally binding commitment to achieve net zero greenhouse gas emissions by 2050. The infrastructure sector is responsible for almost one-sixth of total emissions and, as part of this sector, we have a role to play in contributing to the national reduction	Ensure timely and high-quality supply chain carbon submissions each quarter	October 2019	We published an updated version of our carbon tool, and we now publish the total carbon figure from our own activities, as well as from our supply chain, in our annual *Performance monitoring statement*	• ‘Supporting the Greening Government Commitments’ (strategic report): pages 58-63 • ‘Driving greener growth’ (sustainability report): pages 101-106
Human capital The knowledge and capacity of our people and stakeholders	Sustainability leadership	We need to protect and improve the safety of customers and road workers using sustainable methods and practices, and invest in our people’s health, knowledge and capabilities	Meet with our principal supply chain partners to ensure their commitment to sustainable development	July 2019	We set out our sustainable development goals as a standard which our supply chain will apply	• ‘In-year events’ (strategic report): pages 54-57 • ‘Safety first’ (operational report): pages 76-83 • ‘Customer service’ (operational report): pages 84-91 • ‘Investing in people’ (sustainability report): pages 110-116 • ‘Caring about communities’ (sustainability report): pages 107-109
Social capital The relationships, networks and communities that we rely on	Responsible sourcing	We will play our part to support the UK construction industry to responsibly source its materials and enable production processes that support workers, communities and the environment	Develop an agreed approach to ensure responsible sourcing and sustainability goals are reflected in model contracts	March 2020	We completed our project to establish best practice for embedding behavioural maturity measures	• ‘Sourcing sustainably’ (sustainability report): pages 117-121 • ‘Investing in people’ (sustainability report): pages 110-116
Financial capital Our capacity to invest	Climate change adaptation	We need to adapt our network and make effective investment decisions to become more resilient to future changes in climate, which may result in more frequent and severe weather events. Climate adaptation today builds resilience for tomorrow	Review climate risks to our network following the publication of the *UK climate projections 2018*	March 2020	We completed the first phase of *Adaptation reporting power* work (baseline analysis), ahead of distribution to asset technical leads and the 2021 reporting deadline	• ‘Enabling national schemes’ and ‘Delivering regional schemes’ (strategic report): pages 40-49 • ‘Keeping our roads running’ (strategic report): pages 52-53
Manufactured capital The infrastructure and technologies we manage	The circular economy	Investment in major infrastructure is increasingly putting pressure on the availability of the materials needed in construction, as well as increasing competition. Our challenge is to be increasingly efficient in our resource use and ensure recycled materials are reused for the highest value purpose	Collaborate with our supply chain and partners to demonstrate circular economy principles within pilot projects	January 2020	We identified opportunities at a circular economy workshop on our A303 pilot, which have been transferred into benefits capture and procurement clauses	• ‘Enabling national schemes’ and ‘Delivering regional schemes’ (strategic report): pages 40-49 • ‘Delivering value’ (operational report): page 94

SETTING INDUSTRY-WIDE STANDARDS AND RAISING AWARENESS

We have worked to integrate sustainable development principles into the design of our assets and infrastructure to help us deliver benefits for the environment, the economy and society as a whole. We also recognise the importance of ongoing education around sustainable development.

Updating the *Design manual for roads and bridges*

In July 2019, we published a new standard in our *Design manual for roads and bridges* called: *GG 103 Introduction and general requirements for sustainable development and design.*

This sets out requirements to be applied by our supply chain across the whole design lifecycle, based on our *Sustainable development strategy.*

Raising awareness across our company and supply chain

In 2019–20, we devised an approach to sustainable development and environment communications, which included establishing a strategic lead and launching our corporate training.

Amongst other activities, we delivered 17 training sessions on the environment design and assessment sections of the *Design manual for roads and bridges.* With around 100 attendees per session, these helped improve knowledge across our internal staff and our supply chain, as well as across Public Health England and the Planning Inspectorate.

GG 103 standard: supply chain – sustainable development goals

- Improve the health, safety and wellbeing of those affected by road infrastructure
- Improve land, water and air quality
- Support a sustainable economy
- Represent good 'whole-life' value across the design life of road infrastructure
- Embrace innovation
- Reduce inequalities and ensure access to all
- Use responsibly-sourced materials that minimise adverse impacts on people and their environment
- Be resource efficient and reflect a circular approach to the use of materials
- Minimise greenhouse gas emissions
- Be resilient to future climate change
- Protect and, where possible, enhance the surrounding environmental and cultural context
- Be shaped by the opinions of communities and road users

DRIVING GREENER GROWTH

We want our roads to work harmoniously with the communities that live alongside them, and the built, natural and historic environments that surround them. From 2015, we have invested through designated funds to deliver activities beyond the traditional focus of road investment. We have also had a wider focus on reducing carbon emissions from our company and from the operation of our network. K 5 R 8

INVESTING THROUGH DESIGNATED FUNDS

Over the first road period, we invested £654 million through five funds to make improvements unprecedented in the roads sector:

- Environment fund
- Air quality fund
- Cycling, safety and integration fund
- Growth and housing fund
- Innovation fund

We collaborated closely with partners, as well as with organisations outside our traditional supply chain, to ensure our funding has the maximum impact and benefit. Our work has been guided by specialists through our Designated Funds Advisory Group.

For examples of the wider improvements we have delivered, please see pages 42 to 44 in our strategic report ➔

Environment fund

We used our £225 million fund to help our roads work more harmoniously with their surroundings, creating environmental opportunities alongside our network and addressing historical environmental issues.

During the first road period, we delivered 291 projects, ranging from reducing our network's noise impact and improving biodiversity to increasing flood resilience and improving water quality.

In 2019, as part of our M25 junctions 15 to 16 scheme, for example, we realised that invertebrates using this area as habitat could not easily move along the verges. We created 3.79 hectares of species-rich grassland, which linked to just over a mile of wider grassland, opening ecological corridors for invertebrates and other species alongside our network. We will monitor these habitats over three years so that the grassland becomes properly established and can become a suitable habitat for bees and other pollinating insects.

Air quality fund

We want to do all we can to improve air quality for those who live near our roads, as we work to deliver a cleaner network and improve the health of our neighbours and customers.

Across the first road period, we investigated a range of measures, including supporting electric van centres of excellence and delivering 75 rapid electric vehicle chargers.

We have also invested in a wide range of research projects and pilot studies, to investigate how new and emerging technology could enable us to reduce the effect of vehicle emissions on our neighbours.

Cycling, safety and integration fund

Our network is important to everyone who uses it or crosses it. We want to improve everyone's journeys, regardless of how they are travelling.

Across the first road period, we used our £175 million fund to deliver safety improvement projects and cycle schemes, as well as helping address the physical barriers our roads can create.

For more details on how we are working to protect the environment, please see pages 58 to 63 in our strategic report ➔

Cycling

Our ambition around cycling, as set out in our *Delivery plan*, was to deliver 150 cycling facilities on our network by 2020. In 2019–20, we completed 59 schemes, taking our total delivery to 160 over the first road period.

We also embedded our *Cycling strategy* and *Accessibility strategy*. These link to government's ambition to encourage walking and cycling, as set out in DfT's *Cycling and walking investment strategy*. In 2019, we produced the *Walking, cycling and horse riding capital investment framework*. This details our process, including supporting tools and guidance, for supporting the development of high-quality schemes from feasibility through to completion.

We worked with our key stakeholders and partners, including Transport Focus, to better understand the needs and priorities for cyclists. We also worked closely with partners such as Sustrans, Cycling UK and Ramblers through our Walking, Cycling and Horse Riding Forum to gather insight.

Safety

Across the first road period, we used our fund to deliver over 110 safety improvement projects. In 2019, for instance, we improved safety on an 11-mile section of the A1 all-purpose trunk road, between the A603 Sandy roundabout and the B661 Buckden roundabout. The solution provided uniformity of road marking and signs, to help increase road users' awareness of hazards ahead by increasing the predictability of the road environment.

The combined package of measures is expected to improve journey time reliability because of fewer collisions, as well as a reduction in minor non-reportable collisions and near misses.

Integration

In line with our *Accessibility strategy*, we want to address the physical barriers our roads can create. We want to integrate with other transport networks and modes, and support multi-modal travel.

We contributed, for example, to the creation of a new multi-modal transport interchange alongside the A30 at St. Erth in West Cornwall. The project introduced a new junction with signals on the A30 and the approach to the station, including pedestrian crossings, a shared use cycle and pedestrian facility, improvements to local footway links, and new access for buses.

> THE VALUE OF DESIGNATED FUNDS GOES BEYOND THE FINANCIAL ASPECTS. IT HAS ENCOURAGED US TO HAVE CONVERSATIONS AND BUILD RELATIONSHIPS… AS WE THINK ABOUT PROJECTS IN A MORE HOLISTIC WAY.

Jon Powlesland, Head of Grants, National Trust

This project led to improved integration between the A30, rail main line, branch line and strategic bus services. We were one of multiple stakeholders, including Cornwall and Isles of Scilly Local Enterprise Partnership, Network Rail, European Regional Development Fund, and Great Western Railway.

We have also worked with Transport Focus to survey bus passengers. These have provided valuable insight into what our users want from us and how we should consider and plan for these journeys. We have developed partnerships with the bus and coach industry through our Bus and Coach Operations and the SRN Steering Group.

Growth and housing fund

We used our £80 million fund to support local development schemes and invest in vital infrastructure.

Over the first road period, we invested in 28 schemes on or near our network, allowing stalled housing developments to proceed. Eight of these are already open to traffic and nine are in construction, with the remaining 11 projects due to start in 2020–21. As well as encouraging local economic growth, these schemes will help increase safety, reduce congestion and increase access.

Once completed, our programme of work is collectively expected to attract up to £129 million in public contributions and £102 million in private funding. This will allow stalled developments around the country to be unlocked, eventually delivering up to 1.7 million square metres of commercial floor space, 45,000 homes and 44,000 jobs.

Incomplete work from the Growth and housing fund will be moved to our new Safety and congestion fund for the second road period.

Innovation fund

We used our £120 million fund to improve the way we construct and operate our network, and help shape the connected, digital roads of the future.

Over the first road period, we invested in more than 159 projects. These have allowed us to test and implement new solutions, including using emerging technologies.

We have, for example, made significant progress on digitising scheme design through automated design software, by making our design standards machine readable. This approach has been recognised by the Infrastructure Projects Association as industry best practice, and will release significant cost savings across our programmes as the technology matures.

This year, we also launched our first competition with InnovateUK, working directly with small businesses. The £10 million competition resulted in six pilot projects and seven feasibility studies across the themes set out in our long-term vision, *Connecting the country*.

Between 2018 and 2020, along with DfT, Transport for London and Kent County Council, we used our fund to help pilot technology that will provide wireless links between vehicles and road infrastructure along the A2/M2 corridor in the South East. This was part of a wider European initiative, and the technology is now being tested before further roll-out.

Initial studies[1] suggest that, by 2030, the predicted impact of connected and autonomous vehicles could be:

- £51 billion added value, every year
- 25,000 serious accidents prevented
- 25,000 jobs in automotive manufacturing created
- 320,000 additional jobs
- 1% impact on GDP

1 KPMG, Connected and Autonomous Vehicles: The UK Economic-Opportunity (2015).

A2/M2 TestFest workshop

CASE STUDY

LANDSCAPE DESIGN AND TREE PLANTING

We have undertaken a variety of activities to improve the natural environment around our network, working in collaboration with partners.

Collaborating to improve the natural environment

We have been working in partnership with organisations such as the National Trust, Natural England, Woodland Trust and the Tree Council to increase planting in and around our network. Work funded by our Environment designated fund, for example, is helping the Woodland Trust deliver their remit to plant 50 million trees through the Northern Forest project.

We have focused on improving local environments through our planting schemes, as well as addressing areas where our roads have had a negative impact.

In 2019–20, we delivered seven schemes as part of our Green Ribs project, which came from our A30 scheme in the South West. We have restored green infrastructure networks to create landscape corridors and connected wildlife habitats. Through these schemes, we have planted 13,000 new trees and created hedgerows and other field boundaries.

On our Green Ribs project, we have worked together with key organisations, such as Cornwall County Council, Cornwall Wildlife Trust, Historic England, Natural England and private landowners.

We have also supported better landscape design and greater engagement with the local community.

We are, for example, working with professional bodies, including the Landscape Institute, to promote better design and landscape assessment for road and rail projects. As part of this work, we have held training sessions on the *Design manual for roads and bridges*, and joined the Landscape Institute's Technical Committee's Infrastructure Working Group.

For more details on how we have protected the environment, see pages 58 to 63 in our strategic report.

Across the business:

we have planted

over 500,000 plants

we have delivered

over 200 hectares of species-rich grassland

"WE HAVE TAKEN SIGNIFICANT STEPS TO REDUCE SINGLE-USE PLASTICS IN OUR CATERING, OFFICE SUPPLIES, PACKAGING AND DAY-TO-DAY ESTATE MAINTENANCE.

SAFEGUARDING THE ENVIRONMENT: REDUCING OUR CARBON FOOTPRINT

In the challenge to reduce our carbon emissions, 2019–20 was a benchmark year. Through contributing to DfT's Greening Government Commitment around carbon savings and investing in energy efficiency measures, we have exceeded our 2019–20 target. Carbon emissions from signing, signalling and road lighting, for example, are 53% lower than the baseline ten years ago. As we move into the second road period, we will develop our approach even more strongly to support government's target of net zero greenhouse gas emissions by 2050.

Corporate initiatives

Over the past year, we have undertaken several initiatives to reduce the carbon emissions we generate through our day-to-day activities and help improve our impact on the environment.

We have replaced the lighting in some of our control centres with LEDs, which will reduce electricity consumption from 96,000 kWh to 9,500 kWh per annum. This will save approximately 86,500 kWh of electricity.

We have taken significant steps to reduce single-use plastics in our catering, office supplies, packaging and day-to-day estate maintenance. We have removed many items, and we are working with our supply chain to reduce our reliance even further. This includes removing items such as single-use coffee sachets, coloured pens, windowed envelopes, highlighters, desk wipes, plastic packaging and wrapping for brochures. We now supply 75% biodegradable pens to replace the plastic ones in use, and have replaced plastic cups with glassware. We have sent business-wide communications to raise awareness and, in January 2020, delivered a webinar on single-use plastics.

More widely, we have set up a green champions network. This network discusses our sustainability activities and suggests improvements to make our business a cleaner, greener organisation, as well as generate efficiencies.

Operational initiatives

We are continually looking at ways of innovating how we procure materials and deliver our schemes to reduce our carbon footprint, minimise waste and increase on-site recycling. We are working to understand how we could deliver fully carbon-neutral schemes.

A high number of the products we buy for schemes have already been recycled or contain recycled materials, for example the binder layers, tar and bitumen for road surfacing. We also work to recycle on-site, for example recycling materials used for road resurfacing, or cleaning and replacing stones in filter drains. We separate out materials which cannot be recycled on-site, for example timber, metal or plastics, to send for off-site recycling. As a result, on some schemes we are now recycling over 85% of materials.

We have invested in 34 hybrid vehicles, used by our people when undertaking asset inspections on our network. This will have a significant impact on our fleet emissions. We are also pursuing opportunities to install technologies to generate renewable energy. This includes assessing the feasibility of installing charging points at our office and depot locations for use by our people and our fleet vehicles.

We are working on other operational initiatives, including:

- supplying our network with green energy from April 2020, reducing our carbon emissions by approximately 52,000 tonnes annually
- working in partnership with our supply chain to increase the percentage of waste diverted from landfill to Energy from Waste sites (44% in 2019–20)
- installing more efficient LED lighting and smarter dimming controls on all new schemes, reducing our overall electricity consumption on our network
- implementing our *Workplace and location strategy* and Asset Delivery programme, including balancing delivery against ongoing evaluation and rationalisation of our estate

Reducing litter on our network

As part of our *Litter strategy*, we have an overarching vision for 'a network predominantly free from litter, without compromising safety, delivered affordably'.

Over the past year, we have developed a mandate for our business to implement this strategy. This includes securing funding to place car and lorry-height bins at motorway service areas.

During April 2019, we took part in Keep Britain Tidy's Great British Spring Clean campaign. We encouraged people to clean up the country and make littering socially unacceptable. We collected 19,000 bags of litter from across our estate, which included incidents of fly-tipping. During this period, we used social media to show how we were contributing to the campaign. Our social media posts gained 245,383 views, with 1,156 likes, 504 shares and 387 comments.

We expect to repeat our campaign annually and for it to become embedded in our 'influencing littering behaviour' workstream of our *Litter strategy*. Over the past four years, we have helped collect more than 39,000 bags of litter from our network through our participation in the spring clean.

Social media impact on our *Litter strategy* in 2019

245,383
views

1,156
likes

504
shares

387
comments

CARING ABOUT COMMUNITIES

We want to deliver a positive legacy for generations to come. We have made significant progress towards providing accessible and inclusive services for our diverse customers and neighbouring communities. Yet we recognise that there is still more we must do to increase the standard of network accessibility and inclusivity. We are also committed to providing valuable opportunities for our people to give back, including through volunteering and fundraising activities. S

Princes Quay Bridge, over the A63 in Hull

PROVIDING ACCESSIBLE AND INCLUSIVE SERVICES

Every day, drivers with a disability make around 200,000 journeys on our network. National disability statistics suggest that there could be a further 600,000 journeys taking place with a disabled passenger.

In 2019, we invited disabled customers to come and speak to us directly about their experience of driving on our motorways, and what we could do to help them. During Customer Service Week in October, for example, a deaf customer described the difficulties she had encountered when trying to contact our control room operators from the roadside.

Collaborating to improve our services

Our Roads for All Forum, established in 2018, brings together representatives from a wide range of organisations that represent or provide services to disabled road users.

In 2019, we broadened its membership. It now includes key providers, such as Motability and RAC, along with more representative groups, such as Disability Rights UK and the British Deaf Association.

Working together, we have delivered real improvements. These include:

- producing a video featuring Alan Norton from Disabled Motoring UK travelling on our smart motorway, informing customers about how to stay safe and highlighting the technologies we use to monitor traffic flows
- distributing a leaflet advising disabled road users about safety on our network, including preparing for journeys and what to do in the event of breaking down
- highlighting the issues disabled people may face when using tunnels on our network, especially in the case of a break down or evacuation, and using this information to inform our plans, including for the Lower Thames Crossing and Stonehenge tunnels
- identifying improvements to customer contact channels, for example, we are now developing a new facility so that deaf people can contact our customer services via a British Sign Language interpreter video link
- commissioning disability access guides to all motorway service areas to enable disabled road users to plan their journeys and rest breaks, which should go live in early 2021

Read about our equality, diversity and inclusion journey through the first road period on page 122 →

SUPPORTING OUR PEOPLE AND LOCAL COMMUNITIES

Volunteering

Everyone who works for Highways England can take up to three volunteering days per year. We believe that supporting volunteering brings greater links between our company and the communities we serve. In 2019–20, our people gave 1,885 hours to local communities, working with over 50 organisations and helping over 3,500 people. This is a 5% increase in volunteering hours from last year.

Our people have told us the top reason they wish to volunteer is to make a difference in the local community, and 94% said they value being able to volunteer in work time. Over half (57%) of our people used their volunteering time to improve and protect the environment, and 35% inspired young people about future career opportunities. Nearly all our people (93%) have shared that, following their experience, they would definitely volunteer again.

In 2019–20, we developed a focused approach to volunteering, helping increase take-up of the opportunities. In December, we refreshed our guidance to prepare for and align with our wider organisational plans for the second road period.

Our volunteering is now focused on four themes:

1. Exciting children and young people about careers in our company and the road sector
2. Supporting people wanting to return to work or change careers to join our company and the road sector
3. Protecting and improving the environment for communities who use and live alongside our network
4. Preventing loss of life or life-changing injuries on our network

As part of the first theme, for example, we launched our 'Give an hour' campaign. We worked in partnership with the Careers and Enterprise Company, a government-funded social enterprise that brings employers and education together.

Across the year, volunteers, teams and offices have supported communities in several ways. This included:

- sharing personal experiences to connect with children facing potential discrimination to build their confidence to succeed in secondary school
- engaging young people in building their skills around science, technology, engineering and maths
- team-led volunteering in Manchester at a local 11-acre ecology park, helping with improvements to support both wildlife and visitors to the park
- office-led volunteering in Darlington, in partnership with the National Trust, to improve the surroundings of a local Grade I listed monument

We also had 72 volunteers (46 supplier and 26 Highways England volunteers) at Highways UK in the NEC Birmingham. We worked with 15 suppliers to host interactive activities for 94 young people from five schools, showcasing innovations and exciting attendees about potential careers with us.

Charity partnerships

We work in partnership with charities to help our people and our local communities.

We are, for example, a 'Time to Change' business. Time to Change is led by two leading mental health charities: Mind and Rethink Mental Illness. As one in four people in our society will experience a mental health problem in any given year, we have pledged to tackle how we think and act as a business about mental health.

In 2019–20, as part of fulfilling our pledge, we have trained 169 managers in trauma diffusion and 227 of our people in trauma awareness. For more information on our activities in this area, including our training of mental health first aiders, see page 79 in our 'Safety first' section.

We also work in partnership with the Samaritans, the charity dedicated to reducing the feelings of isolation and disconnection that can lead to suicide. This year, we published an online toolkit for our operational and major projects teams to share best practice on suicide prevention, including structural design, site access, crisis intervention and support.

Fundraising

We encourage and support our people to fundraise and donate to charity. Highlights from 2019–20 include:

- In the South West, one regional control room operator committed to completing nine 500km hikes over five months to raise money for Mind.
- In the North East, colleagues from our operations teams completed the 26-mile Mighty Hike in the Lake District, raising funds for Macmillan.
- In the West Midlands, our regional operations centre collected toiletries, clothing and children's gifts for Women's Midlands Aid to support those fleeing domestic abuse.
- In the North West, colleagues joined together to support Mission Christmas, donating gifts for disadvantaged children and wrapping presents at the depot in time for Christmas.

CASE STUDY

TAKING ON THE A14 GREAT OUSE CHALLENGE

Around 1,700 runners and cyclists were among the first people to set foot on our brand new 12-mile A14 Huntingdon Southern bypass on Saturday 12 October, helping raise thousands of pounds for local charities.

The budding athletes were taking part in the A14 Great Ouse Challenge, ahead of the new bypass opening to drivers later in the year.

The nearly finished road was a perfect setting for a series of races. They were organised and marshalled by our project team, who were keen to give something back to the local communities that had supported them through the project.

Events included wheelchair athletes, cyclists and runners completing their choice of 7km or 14km courses, as well as a 1.4km fun run for children.

Together, they raised more than £17,000 for local charities, the East Anglian Air Ambulance and East Anglia children's hospices.

> COMPETITORS RAISED THOUSANDS OF POUNDS FOR LOCAL CHARITIES ON THE NEW ROAD, BEFORE IT WAS OPENED FOR TRAFFIC.

INVESTING IN PEOPLE

We have grown our business from 3,700 full-time equivalents to over 6,000 through the first road period, while developing key capabilities to enable our delivery. We use our *People strategy* to guide our development, including managing the careers of our people, attracting new talent and building capability to support a sustainable business model. We have embedded our values and behaviours in our culture and processes, and we work to offer an inspiring, open and inclusive environment. S

DEVELOPING OUR ORGANISATION

We are fully committed to making Highways England a great place to work. To achieve this, we are building diverse teams and an inclusive culture, developing our people, and establishing a sustainable pipeline of talent and capabilities. We want to help our people feel motivated, engaged and proud to work for us.

People strategy

Our *People strategy* for the first road period has been focused on creating a safe, high-performance organisation by improving capability, accountability and customer service.

We are now updating our *People strategy* to set out our vision to support the business and our delivery across the second road period. It focuses on ensuring we attract, develop, reward and recognise our people for the contribution that they make to our success.

It gives our managers the tools and skills they need to empower their people and build high-performing teams. It supports our aim to build an organisation where everyone can reach their potential, ensuring we have the roles and skills we require to meet the needs of our business both now and in the future.

Our strategy is built around the following key themes:

- A great employee experience
- Right people, right place, right skills
- Accountable leadership
- Rewarded for high performance
- Engaged and motivated colleagues
- A diverse and inclusive culture

Imperatives, values and behaviours

Our organisation has three imperatives which underpin everything we do: safety; customer service; and delivery. These are supported by our values of safety, ownership, passion, integrity and teamwork. They describe how we treat each other, how we want to be seen as an organisation, and how we do business. A set of behaviours support our values, together with examples of how they are demonstrated.

Our *People strategy*

Our *People strategy* for the first road period has been based on four key areas:

Accountable leadership

We require positive, proactive and engaging leadership to be demonstrated at all levels of our organisation. We want all our people to take accountability for delivery and for their responsibilities as individuals, teams and managers of people. We expect all our people to take accountability for their decisions, and for our leaders to empower their teams.

Capable employees

We will support the development of our people, 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 our people to provide the inspiration, coaching and recognition needed to manage and lead capable people.

Customer-focused delivery

We will organise ourselves to create a modern working environment that puts our people and our customers at the centre of the business. We will support our people to build stronger relationships, respecting and supporting one another to deliver services to our customers.

Rewarded for performance

We will recognise, reward and retain high-performing individuals who deliver excellent service to our customers and demonstrate our company values and behaviours. We will use a robust performance management framework, including financial and non-financial rewards and a recognition programme.

We have embedded these behaviours in our everyday processes, such as performance management, recruitment and learning. All our people are expected to live our values and demonstrate our behaviours in their roles.

Taken together, our imperatives, values and behaviours provide a guiding set of standards which will improve the performance of all our people and our organisation as a whole.

Employee engagement

We conduct an annual employee survey, including two key elements: employee engagement and enablement. This provides us with a comprehensive view of how our people are feeling about their work and how they do it.

Over the previous three years, we have been on a positive trajectory that has seen a 6% increase in engagement since 2016. This year, we have seen a decrease from 52% to 47%, which we attribute to a particularly challenging employee relations environment. There have been the constraints of a five-year pay budget of 1%, and the need to change operational practices to further improve efficiency in the second road period. Our people still have a positive view about our strategic direction and purpose, as well as our company's future, and our employees' commitment towards our three imperatives remains strong.

We are working to build a strategic working relationship with our recognised trade unions: PCS and Prospect. The Involvement and Participation Association, a leading charitable organisation which supports companies in delivering engagement and partnership working, is helping us to develop a more focused *Employee relations strategy*. The association has already met with our Executive team and trade unions to gain their views.

Every area of our business has action plans to improve engagement. Throughout 2019–20, communication and collaboration between directorates were key themes of these actions plans. In 2020–21, these themes will remain the same.

GROWING SUSTAINABLY

We are a business that works to cultivate an environment where individuals can flourish and develop, taking pride in the long-term retention of many of our people.

Developing our capability

Helping our people progress through development and promotion is essential to ensuring we have the right capabilities to deliver our investment programme.

Our ability to adapt to future challenges, such as creating a digital network, responding to climate change or delivering more efficient, safer ways of working, will be key to us achieving success through to 2025.

Over the first road period we have built capability in a number of core areas, including:

- **Portfolio, programme and project management:** We have recruited around 120 graduates and apprentices to our project management schemes and we are investing in this pipeline of future talent. Our Major Projects directorate has also trained and qualified 314 programme and project managers
- **Asset management:** We have transferred 346 people from our supply chain into our organisation to take full accountability for our assets in four of our regions. We will transfer people from a further three regions over the next two years
- **Commercial management and IT:** We have developed our supporting functions to enable major projects and operations delivery, with significant focus on commercial management and IT skills
- **Core capabilities:** We have invested in core capabilities across our organisation, such as health, safety, wellbeing and customer service

Talent and succession

We have improved our workforce planning capability to enable more effective talent acquisition, talent management and succession planning processes. This means we can attract new talent and capabilities, better develop the careers of our people and manage retention risks.

We have developed a strong pipeline of emerging talent for our core capability areas. We also run talent schemes that underpin our early careers and future capability pipelines.

We apply our talent and succession processes across our organisation at mid-year and year-end. We assess potential for more senior roles and track retention risk and impacts.

At year-end, we had 67% of our eligible people talent mapped, with succession plans in place for our Executive team, senior leadership and management. We categorise roles in our succession plans as 'operationally critical', 'transformational' or 'sustaining' to highlight any key risks to managing our business.

Throughout 2019–20, we talent appointed approximately 80 people into roles across the organisation and managed 22 retention risks.

We have also implemented an objective 'potential' assessment programme for our Executive succession pool. This gives a robust assessment of an individual's potential to deliver at the next level and a tailored development plan to help realise that potential. Having trialled this programme, we will implement it across our succession plans for senior leadership and management.

In 2020–21, we will focus on further embedding and developing our talent and succession processes.

Learning and development

Training

In the last year, our people spent 11,021 days on learning and development, which represents an average of 1.9 days per person. The key focus areas in 2019–20 were:

- Leadership and management: 51%
- Customer service and operating our network: 26%
- Technical capabilities: 16%
- Health, safety and wellbeing: 5%
- Personal development and career progression: 2%

We have reviewed the mandatory training requirements for all roles and, from April 2020, all our people will have refreshed learning plans to complete.

We will also roll out a behavioural safety programme focused on health, safety and wellbeing leadership across our organisation and our supply chain. We have already started the programme in our Major Projects directorate, and we are currently adapting it for Operations and our support functions.

We have also designed and delivered commercial and procurement modules for our people within our Commercial, Procurement and Major Projects directorates.

In 2020, we will improve our employees' access to learning, including the supplier framework we are using for external learning and development.

Management development

In 2019–20, we delivered our third Management Development Programme, MDP: Deliver, to over 5,000 colleagues. We focused on helping our people prioritise their effort for the final year of this road period and set themselves up for the next. In 2020–21, the next stage of this programme will focus on supporting our managers in building and sustaining high-performing teams.

This year, 27 newly appointed or promoted line managers attended our core management programme.

We also launched a management essentials toolkit, which provided learning, support and guidance on all aspects of people management.

We have supported specific leadership and management development across our directorates. As an example, we provided targeted support to over 200 of our senior leaders and managers as they led changes in ways of working, structures or capabilities.

Over the first road period as a whole, we have embedded our company values and behaviours. They are now a central part of our management development programme, and we have incorporated them into our corporate induction, our people processes and our communications. We developed them further this year so that they are aligned with other organisational approaches, such as *Home safe and well*.

Roads Academy

We use our cross-sector Roads Academy, established in 2009, to develop skilled and influential leaders, equipped to tackle complex challenges and drive change.

Through the first road period, we have developed our academy into four distinct programmes, providing a clear progression pathway from entry level to senior leadership. Roads Academy also focuses on increasing leadership capability across the sector through membership and masterclasses.

We now have 25 members, 72 current learners on our leadership development programmes, and an alumni community of 199 graduates. From our alumni:

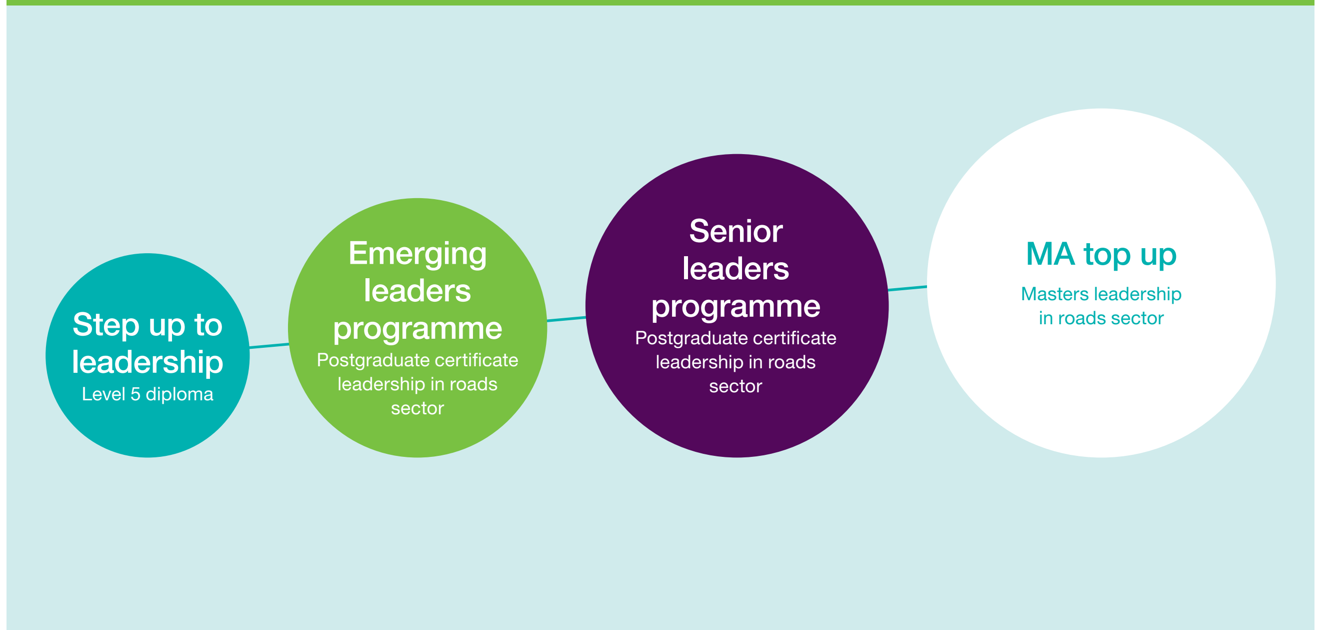
- **97%** have confirmed that their ability to 'work collaboratively' is excellent or very good after the completion of the course
- **75%** have received a promotion since the completion of their Roads Academy experience
- **89%** agreed that they have explored new ways of doing things and challenged existing processes based on their learning

Graduate and apprentices

Since 2016, we have developed a pipeline of graduates and apprentices to support our growth. We have recruited over 300 people into programmes such as project management, quantity surveying, network planning, IT, finance, HR and customer service. Many have transitioned from programmes to fill key roles in our organisation including assistant project managers, structural advisers, commercial managers and assistant finance business partners.

In 2019–20, we recruited 21 apprentices and 30 graduates on project management, business administration, civil engineering, quantity surveying, accountancy and health and safety programmes. This means we currently have 74 apprentices and 69 graduates.

Roads Academy progression pathways



CIVIL ENGINEERING GRADUATE PROGRAMME

SUFIAN SUFIAN

Following university and completing my PhD, I wanted to pursue a career in a non-academic engineering environment, and therefore researched graduate scheme opportunities which could give me a taste of what the sector had to offer.

I joined Highways England on the Civil Engineering graduate programme, which supported my goal by providing the support and guidance I needed. In the early stages, I was seconded to ARUP, an independent firm of designers, engineers and architects, where I designed surface and foul water drainage systems, attenuation tanks and interceptors, working from concept to construction stage. I also learnt more about flood risk assessments, flood models, concepts and theories.

I then moved to work on the A14 Cambridge to Huntingdon enhancement scheme as a site engineer. I was able to put my technical flood and drainage experience into practice by managing the construction of drainage networks, completing risk assessments and method statements, raising permits and working with our supply chain partners.

Finally, I worked in the Commercial and Procurement directorate within the financial accounts team. This enabled me to gain experience of how costing models work, including by reviewing and verifying costs, and completing audits and reports, for both corporate and operations projects.

After completing the graduate scheme with the flexibility, professional development and reassurance offered by Highways England, I have successfully secured a permanent role as a Drainage Adviser within the Safety, Engineering and Standards directorate.

ASSISTANT PROJECT MANAGER

DAVID CROSER-DRAKE

I began my career with Highways England five years ago. I initially joined as a Procurement Officer within the Operations directorate. Over the last three and a half years, I have been working on smart motorways, progressing from Business Support Manager to Project Management Office Support Team Leader, and latterly promoted to Assistant Project Manager. Currently I am on a secondment working with the Smart Motorways Alliance.

Throughout my time with Highways England, I have been encouraged to invest in my professional development and take advantage of training opportunities. For example, while working in procurement I was able to complete the NEC3 Project Manager qualification training. As a manager, I was also able to take part in the management training programme and, as I moved into project management, I completed the Association for Project Management (APMP) qualification along with health and safety accreditations.

By advancing my skills through professional qualifications and learning, the experience has helped me to better understand and appreciate my roles and how I can use this training day-to-day. It has enabled me to have credibility with external partners and our supply chain. It has ultimately given me the opportunity to progress and secure promotion in project management.

QUANTITY SURVEYING HIGHER DEGREE APPRENTICE

ROSIE HARDIE

I began my Quantity Surveying and Commercial Management apprenticeship in September 2019. At Highways England you are always encouraged to be the best you possibly can. Whether this is through training courses, shadowing a colleague or going to visit the regional control centre to better understand what the company does and how we work together.

Prior to starting, I was a personal trainer with no experience in infrastructure and construction. I have learnt an abundance of new skills in just a few months and I am grateful for the time taken by my peers and managers to help build my knowledge.

Working as part of the Commercial and Procurement directorate, my day-to-day tasks include reviewing target prices and new rates, checking drawings for schemes and reviewing final accounts. After a year we are encouraged to change directorate so we get a taste of other areas of Highways England. I am really looking forward to what lies ahead.

We are part of the strategic apprenticeship taskforce, led by DfT. This was set up to deliver on the commitments in government's *Transport infrastructure skills strategy* and support the development of talent across the sector. We will drive this commitment through our supply chain contracts.

This year, we also took the lead on a cross-sector apprenticeship engagement event to embed the legacy of the 'year of engineering' in 2019. For National Apprenticeship Week we organised an apprenticeship engagement event in partnership with HS2. There were 13 exhibitors from our supply chain, showcasing the range of opportunities available in the transport sector. We had 168 attendees throughout the day who participated in workshops, listened to guest speakers and found out more about the more than 50 apprenticeship vacancies that were being advertised.

We are now focusing more on placements into higher level and degree apprenticeships.

PERFORMANCE AND RECOGNITION

We want to make sure that we recognise and reward our people for the contribution they make. By developing a total reward offering which celebrates employee performance, as well as motivates and engages our people, we can help create high-performing teams which support our business objectives.

Our reward offering is not just about pay and benefits. It incorporates support for flexible working, a commitment to inclusion, and promotes the health, safety and wellbeing of all our people.

Performance

We have a fair and effective performance management process. It gives our people managers the tools to hold effective reviews and performance conversations alongside a commitment to give timely feedback to their team members throughout the year.

During 2019, we wanted to complete our first full cycle of annual performance reviews using our Oracle Human Capital Management system. All our people had planned an end-of-year review conversation with their line manager to review their overall performance and delivery against the year's goals. However, due to the Covid-19 crisis and the consequent lockdown, we have had to suspend the process. It will be resumed in 2020–21.

In principle, employees are allocated a personal performance rating based on individual goals and our values and behaviours. These ratings guide individual pay reviews and determine payment levels for performance-related pay, our variable bonus payment which links corporate performance to KPIs and personal performance. In addition to remuneration, we use the performance ratings to underpin our talent management and succession planning processes.

Recognition and benefits

It is important we celebrate success and reward our people for a job well done. High5, our recognition platform, provides an opportunity for any employee to acknowledge an individual or team from any part of our organisation who they feel have gone the extra mile, or reflected our values in the work they do. In total, 18,405 recognitions have been posted since April 2019 and 2,920 financial awards made.

Extra Mile, our employee benefits platform, gives our employees access to over 3,000 discounts and offers. Since its launch in April 2019, 5,531 employees have registered. During 2019–20, our people spent £420,217 on gift cards and via retailers offering discounts, providing over £29,460 worth of savings. A further £145,605 has been spent with retailers who offer cashback, providing £4,715 in cashback.

Extra Mile also includes information about our other benefits including access to childcare vouchers, a cycle to work scheme and season ticket loans.

EQUALITY, DIVERSITY AND INCLUSION

We want everyone across our organisation to feel valued, thrive and grow along the way with us, encouraged to work innovatively and trusted to succeed.

Embedding our principles

We aim to embed equality, diversity and inclusion principles across our business, driving change in how we work together.

In 2019–20, we made progress across several areas, including:

- **Returners:** We developed our award-winning returners programme, and had a total of five returners over the year. Four people stayed with us at the end of the programme.
- **Armed forces:** We attracted nine new people, working across a variety of roles.
- **Employee networks:** We developed our employee networks, including launching our Carers network and our BAME network, sponsored by our Chief Executive, in June.
- **Diversity:** In May 2018, we signed up to the Clear Assured Inclusive Recruitment Standard. In July 2019, we achieved Silver in this global, pan-diversity assessment framework, supporting organisations to become diversity-confident recruiters. Our diverse workforce is currently made up as follows:
  - 35% female
  - 9% Black, Asian and minority ethnic
  - 3% have a disability
  - 2% lesbian, gay, bisexual or self describe.

Read about our equality, diversity and inclusion journey through the first road period on page 122 ➔

SOURCING SUSTAINABLY

Over 90% of the investment in our network is delivered through our supply chain. We are working together to source more sustainably in a way that supports new entrants to the market, builds capacity for growth, delivers more through innovation and generates cost reductions. We believe that it is critical not only to set the right environment and incentives, but to role model the behaviours for sustainable long-term success. Transforming the sector is likely to take time and can only be achieved by working collaboratively. S

DEVELOPING A SUSTAINABLE SUPPLY CHAIN

As a sector, we need to address challenges around raw materials, people and skills, and plant and equipment capacity. There are also industry-wide challenges around age, demographics, physical and mental health, wellbeing, diversity, working terms and modern slavery. We are working on this at a sector and strategic supplier level, at a cross-transport level, and at an individual level through our strengthened contractual requirements.

We have already increased our scrutiny of our supply chain's commercial health, including margins, work volumes and levels of debt. We have also made steps to develop sustainable commercial models through our procurement. Our Regional Delivery Partnerships and Smart Motorways Alliance model incentivise and accelerate innovative approaches around digital design, off-site manufacture, modular construction and smarter materials.

Our roll-out of Asset Delivery within our maintenance and operations activities is also helping us grow our understanding of our supply chain in terms of efficiency and utilisation.

Understanding and mapping our supply chain

Our supply chain must operate with integrity, fairness and transparency, actively engaging with and contributing to society. We recognise the need for ethical supply and the increasing value placed on social enterprise and the environment.

We are conducting more robust assessments, including overlaying our supply chain information to industry systems. This will provide us with up-to-date intelligence on business, regulatory, cyber-security and social risks.

We are mapping our supply chain beyond Tier 1 to understand where value is created, and anticipate potential constraints with future supply.

In parallel, we are strengthening our category management capability, working with our supply chain and new markets to resolve constraints and prevent issues with delivery. This mapping also highlights differences within how our Tier 1 suppliers are engaging and developing their supply chains. This will be instrumental in shaping our supplier development.

Through segmentation and criticality mapping, we are aligning our organisation closely to our supply chain for future performance, risk and resilience. By delegating a specific person within Highways England to be the single owner by supplier, we have increased our visibility of supplier plans over the next three to five years. Building on lessons learnt to manage overall market resilience and viability has further strengthened our approach to: financial viability testing; due diligence on supplier fragility; and contingency planning.

Supply chain equality, diversity and inclusion

We are working with our supply chain, including through our Supplier Diversity Forum, to create a more inclusive and diverse industry. We have undertaken research to understand the current position on equality, diversity and inclusion, and we are now using this insight to drive change.

This year, our Supplier Diversity Forum hosted an event where 57 companies shared good practice and confirmed our joint commitment to improve. Through this work, we increased our reach into our supply chain.

In June 2019, to help share inclusive recruitment approaches, our supply chain delivered a webinar with the Infrastructure Clients Group, covering all key clients across the infrastructure sector. In November 2019, they also ran a masterclass attended by 40 suppliers.

This year, we also began collaborating with other transport infrastructure clients such as HS2, Transport for London, Network Rail and their supply chains on workforce data collection. This has helped us create a more robust picture of who currently works in our sector.

By changing our contract and procurement approaches, we have increased the number of companies within our supply chain whose performance we monitor against equality, diversity and inclusion criteria from 57 to 100, an increase of 40%.

This monitoring has led to more suppliers taking meaningful action in these areas and a growing number of good practice examples. Suppliers are now openly sharing their learning with their peers, recognising the benefit for customers and the wider sector.

Using key industry event, Highways UK, as a platform, we have worked with over 15 members of our supply chain to develop relationships with schools and deliver activities to inspire the next generation of innovators.

Similarly, in June 2019, we ran an International Women in Engineering Day, where 20 female role models from our organisation and our supply chain had conversations with 48 young women from diverse backgrounds about working in our sector.

Read about our equality, diversity and inclusion journey through the first road period on page 122 ➔

Supporting our supply chain maturity

Our supply chain is at different stages of maturity in their sustainability evolution, and we are working together to improve and evolve to meet our collective needs. This includes providing our employment and skills maturity matrix, which sets out what 'good' looks like and the stages of maturity needed to achieve this.

Our new supplier guide, which we have developed in collaboration with industry, also signposts the key aspects our supply chain need to be aligned to when working with us.

A14 Cambridge to Huntingdon – River Great Ouse Viaduct

We are working with our supply chain in a number of ways to share learning, raise minimum standards and increase maturity:

- We are working with supplier leadership, via our Collaboration Board and Engagement Council, to drive consistent approaches and help those within our supply chain who are less advanced on their journey.
- We share best practice and progress joint sustainability actions through our Sustainable Supply Chain Group.
- To increase skills across our supply chain, we are a partner in the Supply Chain Sustainability School.
- Every year we invite our supply chain to participate in our Highways England Awards. In 2019 we saw 29 entries in our Excellence in Environment and Sustainability category. Submissions included whole company sustainability policies, electric vehicle trials and road material recycling.

DEVELOPING SOCIALLY RESPONSIBLE ROUTES TO MARKET

In the early years of the first road period, we engaged extensively with our supply chain to find out what worked well in the way that we procure and what needed to change. We also looked to other major infrastructure organisations to understand good practice across the industry.

We have taken this learning and developed a way of working with our supply chain that is grounded in long-term investment and focused on working as a single team and enterprise delivery.

In preparing sustainable and socially responsible new routes to market, we researched how to drive sustainable development through procurement and commercial management. Combined with behavioural economic drivers and feedback from the market and practitioners, we have developed a new family of commercial delivery models.

We believe these new commercial delivery models will place us as a client of choice in the market. We are now better prepared to respond to predictions of demographic labour challenges, and to deliver against our ambition to use technology and innovation to achieve rapid increases in productivity.

Regional Delivery Partnerships and Alliance model

Since 2019, we have been delivering our Regional Investment Programme programme of work through new Regional Delivery Partnerships. These:

- challenge our supply chain to buy better and more locally
- encourage innovation and best practice
- place greater emphasis on social impact and local employment strategies
- reward suppliers who up-skill from our communities to do business and buy within their regions

In 2020, we finished work on our first Alliance contract partnership, for contract award and completion in April and May 2020. The new partnership, set to deliver government's Smart Motorway Programme, brings us together with designers, construction partners and a new role of production partner to deliver a common vision and goal under a single leadership board.

This partnership also supports our ambitious efficiency programme. It will help implement innovative and new working methods, including digital design, off-site and modular construction and automated production.

Both our new commercial strategies align incentivisation and long-term sustainable outcomes. They bring supplier communities into the development process earlier and focus on value rather than cost.

These models refocus us collectively on outcome thinking to achieve predictability, efficiency and value-based decisions, in turn creating an environment for sustainable success.

In both our Regional Delivery Partnerships and our Alliance model, integrated project delivery teams will be encouraged to use rapid design techniques, increase off-site manufacture, reuse materials and drive efficient circular economy decision-making.

The models share similar features:

- **Visibility of work:** They provide long-term visibility of the pipeline of work, allowing our supply chain to invest in people, plant and materials.
- **Performance-based work allocation:** Once appointed, work is allocated based on performance, encouraging partners to focus on delivery rather than on competing for the next scheme.
- **Sustainable procurement:** With the establishment of sustainable procurement hubs for all partners, there is a focus on coordinating activities to identify and deliver efficiencies.
- **Collective responsibility:** Supply partners are collectively responsible and, to varying degrees, rewarded based upon delivering efficiencies to budget and performance.

Asset Delivery

Asset Delivery is our approach to maintaining and improving our assets. It has already improved the way that we deliver our services and how we contract with our supply chain.

Our move to Asset Delivery was based on lessons learnt from our earlier delivery model: Asset Support Contracts. These passed on responsibility for asset data, network stewardship, asset needs and programme development to single suppliers through relatively short-term contracts.

The Asset Delivery model comprises a wider supply chain, reducing risk from single supplier market failure and providing opportunities for SMEs. A more collaborative delivery approach across numerous suppliers gives us better scope to spread the risk and workload planning. Our supply chain can focus solely on the cost of delivery rather than make judgements on risk vs reward, which can lead to under-pricing and ultimately delivery failure.

With Asset Delivery, we are more effective and intelligent. We contract directly, and consequently work more closely, with the companies who undertake the work on the ground. This opens opportunities for us to drive productivity, identify innovations, improve quality and increase value for money. It also provides opportunities for SMEs to work directly with us, unlocking new technologies and innovations in areas such as surveying, data collection and specialist surfacing.

Through Asset Delivery, we have greater visibility of cyclical maintenance activity, such as drainage cleaning, grass cutting and litter collection. Better information transparency has also helped us increase our asset knowledge and control, including over the planning and management of activities and resources.

In 2019–20, we rolled out Asset Delivery across five operational areas:

- Full implementation in Greater Manchester and Merseyside (Area 10) and the East (Areas 6 and 8)
- Partial implementation through progressive asset delivery in the Home Counties (Area 3) and West Midlands (Area 9)

For more details on Asset Delivery, see page 53 in our strategic report ➔

Category management road surface framework

During 2019–20, we implemented our new category management road surface framework across all of our regions.

This framework allows us to allocate work based on performance, not competition. This enables us to source the best supplier, identify the most relevant plant and use local people and materials. As well as increasing efficiencies, this reduces haulage distances, CO_2 and vehicles on our network.

Of our 11 framework suppliers, eight are SMEs. We have nurtured relationships with these new suppliers and our framework community is now thriving across all lots, sharing best practice, innovation and health and safety improvements. We have run mobilisation training sessions nationwide, and developed robust processes and procedures.

We have used this framework to support our Regional Delivery Partnerships and Asset Delivery, as well as seven smart motorway schemes. We have achieved savings of around £7 million.

Annual Highways England Awards ceremony to recognise excellence across our people and supply chain

Our framework suppliers are also working closely with our Safety, Engineering and Standards directorate to deliver road surfacing through alternative methods. This includes low temperature, sustainable asphalt and trialling cold in-situ recycling.

Working with new partners

We are increasing our efforts to stimulate a new supplier market. This includes organising 'meet the buyer' events and trialling new entrance methods, such as Dragons Den-style competitions. We have also partnered with Innovate UK to stimulate interest and engagement with technology firms, start-ups and SMEs.

Our target for spend with SMEs in our extended supply chain is 25% and we have consistently exceeded this:

April 2017 to March 2018	April 2018 to March 2019	April 2019 to March 2020
27.55%	26.24%	29.86%

We have also collaborated with our supply chain to produce a supplier guide. This aims to make it easier for companies to find work and to do business with us and our direct suppliers.

Our target for paying invoices to terms is 98% and we have consistently exceeded this target. We have also exceeded our aspirational target to pay 80% of invoices within five working days.

Project bank accounts

We use project bank accounts on all construction-based contracts for the design and provision of technical services, unless there are compelling reasons not to do so, such as lack of supply chain.

Project bank accounts encourage a healthy supply chain by:

- ringfencing money so that it can only be paid to lower tier suppliers and cannot be accessed by Tier 1 suppliers
- ensuring prompt payment for goods and services
- reducing credit risk
- increasing confidence in supporting cash flow
- allowing small businesses to grow as monies are not tied up
- holding funds in trust, reducing risk around lead contractor insolvency

Through project bank accounts, we can simultaneously pay suppliers to Tier 3 level, with payments being sent to the supply chain within 18 calendar days.

In 2019–20, we spent £2 billion via project bank accounts. Over 80% of Tier 2 suppliers and contractors have signed up to project bank accounts.

Read more about how we use project bank accounts and support government's fair payment charter in our financial review on page 12 ➔

OUR EQUALITY, DIVERSITY AND INCLUSION (EDI) JOURNEY

The infographic presented here summarises our EDI journey through the first road period and across our stakeholders.

People

2015–16

- Launched our values and behaviours
- Won the Bronze Award from the Defence Employer Recognition Scheme, for organisations which support the defence and the armed forces community
- Joined the Business Disability Forum
- Became members of Women in Science and Engineering

2017

- Signed Armed Forces Covenant to demonstrate commitment to the Armed Forces family
- Recognised with Disability Confident Committed Award
- Set up returners programme for anyone who has taken a career break of two years or more
- Launched our LGBT+ Network
- Joined Clear Assured, a diversity and inclusion standard
- Became a member of Employers Network for Equality and Inclusion

2018

- Re-signed the Time to Talk pledge
- Launched EqIA e-learning module
- Launched our menopause Yammer group
- Launched our Armed Forces recruitment programme
- Won the Silver Award from the Defence Employer Recognition Scheme

2019

- Launched our Black, Asian and minority ethnic (BAME) Network and also our Carers Network
- Won Employers Network for Equality & Inclusion Award for our Returners programme
- Achieved Clear Assured Silver, a diversity and inclusion standard
- Published our Gender Identity/Transgender Policy and guidance
- Launched our Access for All Network

Customer and community

2015–16

- Developed annual delivery plan for customer and communities, with EDI objectives
- Developed EDI tool to support scheme design and construction
- Developed EDI advocate roles, as well as identifying and training volunteers
- Developed disability awareness toolkit for our schemes
- Published our *Accessibility Strategy*, supported by investment in cycling safety integration through our designated funds

2017

- Published *Little guide to a big issue* to help embed EDI across project and scheme delivery and governance
- Developed innovative tools to gain feedback from different groups in society, winning the Market Research Society Award for work on increasing speed limits through roadworks

2018

- Held EDI customer awareness sessions in contact centres
- Launched engagement van to improve community consultation with hard-to-reach groups of people
- Established Roads for All Forum to support engagement with key disability groups, providers and stakeholders
- Introduced roadworks communications toolkit
- Signed up to support DfT's *Inclusive transport strategy*
- Worked with Transport Focus on recommendations from their report on accessible and inclusive motorways for disabled people

2019

- Procured access guides to motorway service areas
- Embedded Public Sector Equality Duty performance reporting in key strategic business plans and our *Annual report and accounts*
- Built diverse customer scenarios into our traffic officer training
- Produced video and leaflet through Roads for All Forum to explain how to keep safe using motorways
- Shortlisted for Business Disability Forum Disability Smart Award for our disability video
- Increased provision of 'changing places' facilities at motorway service areas (MSA), working in partnership with DfT and the MSA operators

Supply chain

2015–16

- Engaged 50 suppliers through our Supplier Diversity Forum
- Recognised good EDI practice through our supplier awards
- Developed EDI e-learning package
- Developed collaborative performance framework metric to measure EDI performance
- 27 companies took part in our annual workforce data collection activity

2017

- Undertook research through our Supplier Diversity Forum into why people are not attracted to working in our sector
- Held Supplier Diversity Forum event: 'Making difference in leadership'
- Began strategic alignment review toolkit assessments for key suppliers
- Held deep dive into recruitment and attraction activity, resulting in a best practice report
- 38 companies took part in our annual workforce data collection activity

2018

- Increased supplier engagement and good practice sharing through the annual Supplier Diversity Forum event, Chief Executive roundtable event, two masterclasses and one webinar
- Attended Year of Engineering events, reaching 850 pupils
- Ran sessions at schools and invited them to attend Highways UK
- 44 companies took part in our annual workforce data collection activity

2019

- 300% increase in companies engaged through our EDI events since 2016
- 40% increase in our supply chain being measured against the EDI metric on our collaborative performance framework since 2016
- Increase in our Supplier Diversity Forum membership to 345
- Tripled reach of shared learning activity since 2015
- 68% of our supply chain increased their strategic alignment review toolkit score by 15% since 2016
- 55 companies took part in our annual workforce data collection activity – a collaborative effort this year with HS2, Network Rail and Transport for London, in which participating suppliers also attended an event, which included a recruitment masterclass

Executive and Board visit to the Severn Bridges

GOOD GOVERNANCE

The Highways England Board balances bold ambition with a realistic view of risks to deliver the best possible results for all our stakeholders, including our customers, the country's taxpayers and our Shareholder. The Board has maintained its focus on our three imperatives of safety, customer service and delivery, while also looking to the future, including strategic planning for the second road period.

Governance report

Q&A WITH COLIN MATTHEWS

1
HOW HAS HIGHWAYS ENGLAND PERFORMED IN 2019?

Overall, well. Some things have gone very well – I am especially pleased to report improved safety amongst colleagues in Highways England. Even so, we are a young company on a long journey and there are many things we need to work on. Our aim is to improve each year and I believe we have done so across many important measures.

Highways England spent £4.5 billion this year to operate, maintain and enhance our network. Through careful financial management we remained within 1% of our capital funding overspending by only £15 million against a £3.5 billion budget.

Opening the new Cambridge to Huntingdon section of the A14 for traffic in December 2019 was a personal highlight. This project was little more than a gleam in someone's eye when Highways England was formed, and it is a privilege to have seen it through from start to finish. I enjoyed regular visits to the site over the last five years. The diverse team from many organisations has been united behind a single objective: to deliver our road scheme safely and successfully. That is what they have done: delivery with a good safety record, ahead of schedule, within budget.

2
HAVE THERE BEEN ANY CHANGES TO THE BOARD THIS YEAR?

On 31 March 2020, Elaine Holt stepped down from the Board. I thank her warmly for all she has contributed during her time in office, and wish her all the best in her future endeavours.

3
WHAT WERE THE KEY ISSUES IDENTIFIED BY THE 2019 BOARD EVALUATION, AND WHAT ACTIVITIES WERE UNDERTAKEN TO ADDRESS THESE ISSUES?

The last Board evaluation was positive while helpfully pointing us towards opportunities to improve. We decided to spend more time with key stakeholders, which in practical terms has meant inviting major customer organisations, suppliers and representatives from our Shareholder to join sections of our Board meetings. In the early years of Highways England, we had to focus on getting new processes up and running. Now we are better placed to look outwards and to listen. I feel we've made good progress in this area over the year. We have had a number of visitors to the Board from stakeholder organisations over the year. It has been helpful to gain this external perspective.

4
HOW HAS ENGAGEMENT WITH STAKEHOLDERS DURING THE YEAR HELPED THE BOARD?

The Board has become a little more externally focused. People coming to the Board is just one example of this. In any organisation it's easy to listen to the echo of one's own view, so it is important to be grounded. Hearing well-informed external views has helped our Directors think afresh about our performance.

As our Shareholder, the government is an essential stakeholder. Government sets overall objectives and decides how much money to invest. As a delivery organisation, it is our job to develop options, provide expert opinions and ultimately achieve government's objectives as efficiently as possible. Hearing directly from government about their priorities and concerns has been both helpful and impactful.

5
HOW HAS THE BOARD LED THE COMPANY THROUGH THE YEAR, ESPECIALLY IN THE CONTEXT OF THE CHALLENGING AND CHANGING INFRASTRUCTURE SECTOR AND CONSTRUCTION INDUSTRY?

The Executive team leads the company directly and through their relationships with our supply chain; the Board supports and challenges. Non-Executive Directors contribute experience from other sectors, and offer encouragement and challenges as appropriate, for example on contracting with our supply chain.

We have been a reliable source of work for large and small companies up and down the UK. We have stuck closely to the five-year plan laid out in 2015. On that basis, our supply chain has been able to invest in skills needed to deliver our roads programme. The stable five-year plan has been good for us and good for our supply chain.

6
AS CHAIRMAN, WHAT IS YOUR VIEW ON THE ROLE OF BOARD GOVERNANCE?

The role of the Board is to cause the organisation to succeed. The Board must appoint the right Executive leaders, and ensure that they in turn build and develop an organisation with the capability to deliver. The Board must in equal measure support and challenge the Executive team as they debate strategy, develop plans and start delivery. The Board works together to balance bold ambition with a realistic view of risks to deliver the best possible results for all our stakeholders, including road users, taxpayers and our Shareholder.

7
HOW SATISFIED IS THE BOARD WITH DELIVERY OVER THE FIRST ROAD PERIOD?

We are satisfied overall. Pleased, in fact. At the start of the five years, I could see the mountain our young company had to climb. While establishing our new company, we had to improve safety and increase the rate of road building and maintenance from a little over £1 billion per year to today's £4 billion. I am proud of what has been achieved. Equally, I am determined that we improve year by year; the second five-year period presents a fresh set of challenges which demand as much effort as the first.

I believe our first road period will be judged a success. Good leadership is essential for success, as is the individual contribution of everyone who works for us and our partner organisations. I thank every single person.

8
THE BOARD IS ACCOUNTABLE FOR THE COMPANY'S MANAGEMENT OF RISK. HOW COMFORTABLE IS THE BOARD THAT IT DOES SO EFFECTIVELY? R

Our job is never to be comfortable. The Board is always looking at the known risks and trying to anticipate risks which aren't yet apparent. I know that our risk management has become more systematic and rigorous, but I'm never confident that we can see every eventuality. We can point to stable delivery of our investment plans in the face of some turmoil in the construction industry, but you won't catch me saying that we're comfortable.

9
IN YOUR FINAL YEAR AS CHAIR, WHAT HAVE YOU FOUND MOST REWARDING OVER YOUR TIME? WHAT LEGACY DO YOU LEAVE FOR THE NEXT CHAIR?

I am privileged to have been involved from start to finish of the first five-year plan. Professional life is a journey of improvement, and I feel that Highways England has taken big strides. There remains limitless possibility for further improvement from new technology, and fresh ingenuity. I believe that the opportunities are so interesting and important for our country that talented people already in our organisation, and those yet to join, will enjoy tremendously rewarding careers.

I believe that my successor's priorities as Chair will remain the same: to make the roads safer, to make them friendlier for customers, and to deliver in ways that are ever-more efficient.

THE BOARD

The Board's purpose is to ensure the long-term success of Highways England, and it is accountable to our Shareholder for all aspects of our activities and performance. The Board is responsible for the overall strategy and direction of our company, and it is our primary governance arm.

Colin Matthews CBE N R S I

Chairman

- British, aged 63
- Appointed December 2014, previously Chair of Highways Agency from July 2014
- Career includes: Non-Executive Chairman roles at EDF Energy Holdings Limited and Renewi plc; a Non-Executive Director role at Johnson Matthey plc; Chief Executive Officer roles at Heathrow Airport, Severn Trent Water plc and Hays plc; a Managing Director role at Transco Ltd; and an Engineering Director role at British Airways plc
- Qualifications include: an MA in Engineering; FREng (Chartered Engineer); and an MBA
- Stepped down 30 April 2020

Jim O'Sullivan S I

Chief Executive

- British, aged 60
- Appointed July 2015
- Career within transportation, asset management and utility organisations, including: Chief Engineer for Concorde at British Airways; Executive Director roles at National Grid Gas and Central Networks; and Managing Director at Edinburgh Airport
- Qualifications include: a BSc (Hons) in Air Transport Engineering; an MBA; CEng (Chartered Aeronautical Engineer); and Senior Executive Academy alumni at Massachusetts Institute of Technology, Boston

Vanessa Howlison S I

Chief Financial Officer

- British, aged 53
- Appointed June 2016
- Career includes several Finance Director roles in government departments, including DfT, Department of Energy and Climate Change, and Ofsted
- Previous finance roles in the NHS and the Audit Commission
- Currently an independent member of the Audit and Risk Committee at Ofwat, and a member of The Chartered Institute of Public Finance and Accountancy (CIPFA) Institute Council

Roger Lowe AR N R I

Senior Non-Executive Director

- British, aged 54
- Re-appointed Senior Non-Executive Director February 2019, having previously been the DfT-appointed Non-Executive Shareholder Representative from July 2016
- Lead director for employee engagement
- A partner with Capstar Advisers, a specialist communications firm; from May 2010 to February 2019, Roger was a Director at UK Government Investments
- Career in corporate finance, specialising in acquisitions and disposals, joint ventures and restructurings, with roles including Group Director of Corporate Finance at TI Group plc and investment banking at Lazard, including two-year secondment to Lazard Freres New York

Carolyn Battersby AR N R I

Non-Executive Director

- British, aged 44
- DfT-appointed Shareholder Representative from February 2019
- Currently Executive Director at UK Government Investments, which she joined in 2011
- Career in corporate finance and strategy, including roles at Tesco, The Prince's Trust, Schroders and Permira
- Qualifications include an MChem (Master of Chemistry) degree

Kathryn Cearns OBE AR N S I

Non-Executive Director

- British, aged 55
- Appointed April 2018
- Member of DfT's Group Audit and Risk Committee, Chair of the Office of Tax Simplification, member of the International Monetary Fund External Audit Committee, Non-Executive Board member at Companies House, Non-Executive Director at Crossrail and Non-Executive Board member of the UK Supreme Court
- Previous Chair roles at the Financial Reporting Advisory Board, HM Treasury and The Institute of Chartered Accountants in England and Wales (ICAEW) Financial Reporting Committee
- Qualifications include: FCA (Fellow Chartered Accountant) and FCCA (Fellow Member of the Association of Chartered Certified Accountants)

Committees

- N Nominations Committee
- S Safety Committee
- R Remuneration Committee
- AR Audit and Risk Committee
- I Investment Committee
- Committee Chair

Alan Cumming N S I

Non-Executive Director

- British, aged 57
- Appointed September 2017
- Director of Nuclear Operations at the Nuclear Decommissioning Authority (NDA) and appointed the NDA-nominated Non-Executive Director at Sellafield Ltd in April 2018
- International career within engineering and energy
- Qualifications include: CEng (Chartered Engineer); MICE (Member of the Institute of Civil Engineers); MIStructE (Chartered Structural Engineer); and an MBA

Janette Beinart AR N S I

Non-Executive Director

- British, aged 64
- Appointed January 2019
- Background in information technology, with a long international career working for Shell, culminating as Global Upstream Chief Information Officer
- Previous role in the savings and investment business as interim Group Chief Information Officer for M&G Prudential
- Qualifications include: an Economics degree

Elaine Holt N R S I

Non-Executive Director

- British, aged 53
- Appointed April 2015, previously Non-Executive Director of Highways Agency from 2014
- Career includes roles in travel and transport, including Chair, Chief Executive and Managing Director roles at Directly Operated Railways, East Coast and First Capital Connect, and Executive Vice-President at Carnival UK
- Currently undertakes a number of Non-Executive, advisory and Chair roles in both the public and private sectors
- Qualifications include: FCILT (Fellow of the Chartered Institute of Logistics and Transport)
- Stepped down 31 March 2020

Gender

Male	4
Female	5

Tenure

1–2 years	4
3–4 years	3
5–6 years	2

Experience

Engineering, strategy and infrastructure	4
Finance and corporate services	4
Information technology	1

OUR EXECUTIVE

Our Executive Directors support our Chief Executive in leading Highways England and delivering our company's strategy. They individually lead directorates to implement the Board's strategic decisions and manage risks.

Jim O'Sullivan

Chief Executive

Vanessa Howlison

Chief Financial Officer

For more information, see 'The Board' on page 128 →

Elaine Billington MBE

Executive Director, Human Resources and Organisational Development

- Appointed September 2019
- Responsible for developing and leading Highways England's *People strategy*, including building a diverse, capable and engaged workforce, developing effective leaders, and creating a high-performing culture underpinned by our values
- Career includes several senior roles at United Utilities plc, including HR Director, and various roles at VERTEX, Cable & Wireless Communications and Rentokil Initial
- Qualifications include FCIPD (Fellow of the Chartered Institute of Personnel and Development) and an MBE for services to early careers and apprenticeships

Nick Harris

Executive Director, Operations

- Appointed September 2016
- Responsible for the operational leadership of Highways England, delivering day-to-day operation of the network, customer service and maintenance services, and also responsible for the development and delivery of our company's five-year capital maintenance and renewals programme
- Career includes senior operational roles in water utilities across the UK and overseas
- Qualifications include CEng (Chartered Aeronautical Engineer); and MICE (Member of the Institute of Civil Engineers)

Peter Allen

Executive Director, Corporate Affairs and Communications

- Appointed July 2016
- Responsible for Highways England's engagement with a wide range of stakeholders, media and government, and our public engagement across projects, campaigns and consultations
- Career includes many years in central banking: with the European Central Bank in Germany during a period of high volatility, advising on communications to reach new audiences; and at the Bank of England, where he was involved in resolving some of the biggest challenges following the financial crisis
- Qualifications include: an MBA; member of CIPR (Chartered Institute of Public Relations); and member of EACD (European Association of Communication Directors)

Malcolm Dare

Executive Director, Commercial and Procurement

- Appointed January 2019
- Responsible for all aspects of the Commercial and Procurement directorate, with particular focus on: employee development and professional qualifications; the strategy and implementation of acquisition programmes; strategic sourcing, supply chain development and supplier relationships and performance; cross-functional efficiency and cost reduction activities
- Career includes Chief Procurement Officer at Thales UK, Supply Chain Director at BAE Systems Submarines, and other roles across the FMCG, technology and engineering industries
- Qualifications include: an MBA; FCIPS (Fellow of the Chartered Institute of Procurement and Supply)

Victoria Higgin

Chief Information Officer

- Appointed September 2019
- Responsible for the provision and operation of Highways England's operational and business information technology, data strategy, and cyber and information security
- Career includes Chief Information Officer and Vice President of IT Transformation at National Grid, as well as leadership roles across network strategy, control room operations, process excellence and customer service
- Qualifications include: a BA (Hons); FBCS (Fellow of the British Computer Society)

Peter Mumford

Executive Director, Major Projects and Capital Portfolio Management

- Appointed September 2017
- Responsible for leading Highways England's delivery of government's £15.2 billion investment in the SRN over the first road period, including flagship schemes such as the A14 and Lower Thames Crossing
- Prior to this role, Peter held a number of senior positions as Partner or Director at leading international engineering and construction consultancy organisations, working both in the UK and internationally
- Qualifications include a BSc

Elliot Shaw

Executive Director, Strategy and Planning

- Appointed September 2016
- Responsible for the strategic development of the SRN, Highways England's organisational transformation agenda, our analytical and economist functions, and our relationships with key statutory and regulatory bodies
- Career includes Transformation Director at the Ministry of Justice and a number of Senior Civil Service positions at the Ministry of Justice and the DfT, with his early career spent as a management consultant at Accenture
- Qualifications include: a BA in Economics and Politics; a Masters in Public Administration (MPA) from Harvard University; and FCIHT (Fellow of the Chartered Institute of Highways and Transportation)

Tim Reardon

General Counsel

- Appointed March 2015
- Leading a team of 23 lawyers and the company secretariat, with responsibility for providing advice to Highways England's Executive and Board on the full range of legal issues, including: commercial and procurement; planning; highways law; and health and safety
- Career includes roles at British Railways Board, Clifford Chance, the Strategic Rail Authority, and DfT
- Tim was called to the Bar in 1981, and admitted as a Solicitor in 1996
- Attends the Board

Mike Wilson

Chief Highways Engineer

- Appointed April 2014 (joined Highways Agency in September 1991)
- Responsible for providing Highways England's technical requirements, along with technical assurance, advice and change management; leading across the business on Health, Safety and Wellbeing, Customer Service, Asset Management and Designated Funds
- Previous roles at Highways England include Regional Divisional Director for the South West
- Qualifications include: a BEng (Hons); CEng (Chartered Aeronautical Engineer); FICE; and FCIHT (Fellow of Chartered Institution of Highways and Transportation)
- Attends the Board

Gender

Male	8
Female	3

Tenure

1–2 years	3
3–4 years	5
5–6 years	3

Experience

Engineering, strategy and infrastructure	5
Finance and corporate services	4
Information technology	1
HR and organisational development	1

CORPORATE GOVERNANCE REPORT

R 6

INTRODUCTION

Governance statement

Highways England was established under the Infrastructure Act 2015, and appointed and licensed as a strategic highways company by the Secretary of State for Transport on 1 April 2015. We are the highway, traffic and street authority for England's motorways and certain major A-roads known as the strategic road network (SRN).

We are a government-owned, arm's-length company, delivering and contributing to government's long-term plan for the SRN. Our performance is monitored by the ORR and Transport Focus, the consumer watchdog. Both organisations provide advice to the Secretary of State for Transport on our activities.

Governance framework

The Infrastructure Act 2015 sets out our overall governance framework, including the *Licence* and the *Road investment strategy* (RIS).

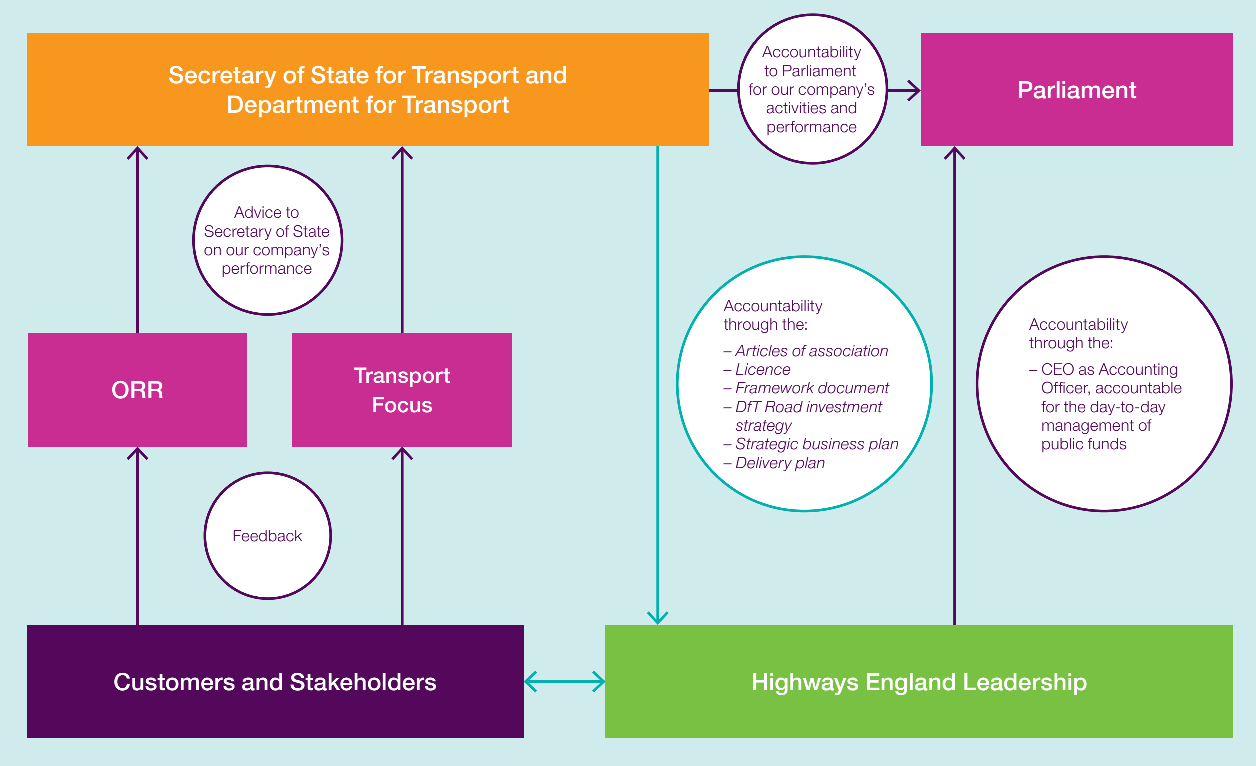
Under the *Licence*, the Secretary of State sets directions and guidance for us about how we must act, and defines the process for setting and changing the RIS.

DfT's *Framework document* sets out our roles and accountabilities, along with those for the Secretary of State for Transport and DfT. The *Framework document* provides clarity of purpose as we work to achieve the shared objective of delivering a network that provides the best possible service for customers and stakeholders, and supports broader economic, environmental and safety goals.

DfT's *Framework document* also recognises our functional and day-to-day operational independence, sets out how financial control and accountability is achieved, and recognises the governance and decision-making arrangements of the Board.

Our *Delivery plan* explains how we will meet the specific requirements of the road period. The Board reviews the plan annually and agrees refinements in line with our annual objectives and other strategies, including our approach to safety. We publish an annual Delivery plan update, describing the programme for the current year ahead.

Governance overview



In this section

Compliance with the UK Corporate Governance Code 2018 ('the Code')

Our company is expected to comply with the Code, or specify and explain any non-compliance in our *Annual report and accounts*. Our company believes that the adoption of the principles of the Code is a means of recognising and embedding best practice in corporate governance. The Board considers that, for the financial year ending 31 March 2020, Highways England was fully compliant with the Code, except for the following six areas that it cannot comply with:

Board Leadership and Company Purpose Provision 3: This requires our company to maintain a dialogue with its shareholders, based on a mutual understanding of objectives. We have built, and maintained, our relationship with our Shareholder, the Secretary of State for Transport, with frequent contact with DfT as its representative. The Board recognises that this sits outside of the corporate norms contained within the Code.

Board Leadership and Company Purpose Provision 4: This provision is not applicable to us as the Secretary of State is the company's sole Shareholder.

Division of Responsibilities Principle F: Although it did not occur within the financial year to 31 March 2020, the company was operating for a time after year-end without a Chair in post for the period 1 May 2020 (after Colin Matthews stood down on 30 April 2020) to 22 June 2020, when Roger Lowe was appointed as Interim Chair by the Secretary of State for Transport. On 21 July 2020, government announced the appointment of Dipesh Shah as the new permanent Chair with effect from 1 September 2020.

Division of Responsibilities Provision 12: Our company has appointed a Non-Executive Director to act as the Senior Director. However, given his previous role as the Shareholder-appointed Non-Executive Director of our company, he would not be considered 'independent' on the basis of the definition set out in the Code.

Succession and Evaluation Provision 18: This provision is not applicable to our company as all Non-Executive Director appointments, extensions and terminations are confirmed by the Secretary of State as the company's sole Shareholder.

Audit Risk and Internal Control Provision 36: This provision is not applicable to our company as all Executive Directors have no shareholdings as part of their remuneration.

Section 172 statement

s172 Directors' Duties

The Directors have regard to the interests of our company's employees and other stakeholders, including the impact of its activities on the community, environment and our company's reputation, when making decisions. The Directors, acting fairly and in good faith, consider what is most likely to promote the success of our company in the long term.

- Read more about our stakeholder engagement on pages 138 and 139
- Read more about building a sustainable business on pages 98 to 100
- Read more about how we manage risks on pages 64 to 66
- Read more about our governance on pages 132 to 142

Fair and balanced statement

The Directors consider that this *Annual report and accounts*, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the Shareholder to assess our company's position, performance, business model and strategy.

BOARD LEADERSHIP AND COMPANY PURPOSE

OVERVIEW

The Board's purpose is to ensure the long-term success of Highways England and the Board is accountable to our Shareholder for all aspects of our activities and performance.

The Board is our primary governance arm. Maintaining the highest standards of governance is integral to the effective delivery of our strategy. Ensuring the Board takes decisions that create sustainable long-term value for the benefit of our Shareholder, our customers, our people and our supply chain is centrally important.

The operation of the Board is supported by the collective experience of our Directors. This enables the Board to reach decisions in a focused and balanced way, supported by independent thought and constructive debate between members. The Board supports open and honest conversations which, in turn, ensure decisions are made for the long-term benefit of our company in full consideration of the impact on all stakeholders.

The requirements of the Board are documented in the Highways England *Articles of association*, *Schedule of matters reserved for the Board* and *Framework document*.

As at 31 March 2020, the Board was made up of: the Chairman; six Non Executive Directors; and two Executive Directors. The details of their careers, relevant skills, committee membership, tenure and external appointments can be found in their individual biographies on pages 128 and 129. Further details on the role of the Chair and members of the Board can be found in the following pages.

The Board recognises the importance of considering all stakeholders in its decision-making, as set out in s172 of the Companies Act 2006, and the new reporting legislation around stakeholder engagement.

The Directors are entitled to require from our company all such information they may reasonably request to be able to perform their duties as Directors, including advice from an independent adviser at our company's expense.

The work of the Board

- In Board decision-making, the relevance of any particular stakeholder group may vary depending on the subject in question so the Board seeks to understand the needs of each stakeholder group as part of its decision-making. Board papers demonstrate that stakeholder considerations have been taken into account as part of the Board decision-making process.
- The safety of our people, supply chain and customers is paramount and the Board Safety Committee has a key role in monitoring safety performance and supporting a safety culture of improvement. Further information on the work of the Safety Committee can be found on pages 144 and 145.
- The Board delegates capital investment decisions to the Investment Committee, which monitors our progress in delivering our capital programme to ensure good governance and value for money. It bases its decisions on our Executive Investment Decision Committee's recommendations. Further information on the work of the Investment Committee can be found on page 150.
- Our company's approach to audit and risk is overseen by the Audit and Risk Committee. This committee plays a key role in providing oversight in respect of financial reporting, risk management, internal controls (including internal audit) and in managing the relationship with the NAO, our external auditor. Further information on the work of the Audit and Risk Committee can be found on pages 146 to 149.
- Our capacity and capability are integral to our ability to deliver current and future investment strategies. The Board monitors progress on recruitment, retention and reward through its Remuneration Committee and Nominations Committee. Further information on the work of both committees can be found on page 151 (Nominations) and pages 152 and 153 (Remuneration).
- On behalf of the Board, the Senior Non-Executive Director leads on employee engagement. Over the course of the year, he held face-to-face meetings with our people in offices and at operational sites. He also joined some of the regular liaison meetings between the company and trade union representatives. Following each engagement he updated the Board with the feedback from those meetings.
- The Board reviewed and approved for publication the company's performance against its KPIs and other performance indicators.
- The Board carried out other activities during the year, including reviewing the committee structure to ensure their ongoing effectiveness.
- The Board provided input to the development of the company's investment plan for the second road period. Further information can be found in the Leadership In Action case study on page 136.

Overview of the work of the Board

The Board has maintained its focus on our three imperatives: safety; customer service; and delivery. We have set out some of the key topics discussed at Board meetings during the year in the table below.

Standing items

Chief Executive report
An overview of the key activities occurring during the previous month, such as: safety; customer service; communities; operations; capital delivery and supply chain; and government and regulatory matters

Chief Financial Officer report
Monthly updates to the Board on our company's capital and operational expenditure and pay controls

Legal report
Update on key legal issues which have arisen over the past month, or which are ongoing

Strategic engagement report
Monthly updates on key issues in public affairs and the media of relevance to the company and the company's communication activities

Strategic items

Planning for the second road period
Updates and requests for advice on engagement with DfT on the development of the second *Road investment strategy*

Strategic business plan* and *Delivery plan
Updates and requests for input into the development of the *Strategic business plan* and *Delivery plan*

Digital roads and developments in technology
Updates on emerging trends, and requests for input into the company's proposed responses to these trends

Board and Executive strategy away day
See further information below

Brexit/Future Relationship planning
Updates on our company's plans and the liaison with key stakeholders, including DfT and the Kent Resilience Forum

Corporate items

Health, safety and wellbeing

Designated funds
Update on programme progress and plans

Green claims recovery
Update on changes to our company's approach to green claims recovery and proposed future plans

Our people
Updates from the Chair of the Remuneration Committee and updates on the delivery of our *People strategy*

People, finance and procurement
Update on the status and next steps for managing the people, finance and procurement service

Asset Delivery performance
Presentation on the system for monitoring KPI performance in Asset Delivery regions

Cyber security awareness
Facilitated discussion on the NCSC Toolkit for Boards

Smart motorways
Progress with the Smart Motorways Alliance and more recently updates on government's smart motorways stocktake

Financial and risk items R

Business plan
Updates on and requests for input into the company's annual business planning cycle

Monthly Board performance updates, including on KPIs
Regular updates on our company's performance against our KPIs

Annual report and accounts
Regular updates and requests for input into the development of our company's *Annual report and accounts*

Corporate risk register
Requests for input to regular refreshes of our company's corporate risk register

Board engagement with key stakeholders

Shareholder/government/monitor
Considered as part of Chief Executive and strategic engagement reports, including attendance of Board representatives at quarterly Shareholder meetings

DfT's Permanent Secretary and Roads Director General attended Board meetings during the year

Customers
Detailed quarterly customer service updates and monthly headlines in the Chief Executive report

Supply chain
Updates on key suppliers from the Chief Executive

Employees
Monthly headlines through the Chief Executive report and detailed quarterly people updates, as well as a review of the employee engagement survey results

The Senior Non-Executive Director acts as the lead director for employee engagement

The Board and our Executive team held an off-site strategy away day session in November 2019. This session covered key topics including: our long-term vision, as set out in *Connecting the country*; our internal organisational transformation plan, *Highways England 2025*; our IT vision; the transition to the second road period; and the corporate risk register.

The Board found the day beneficial as it allowed for in-depth, joint discussions with our Executive team on these long-term topics in a less formal setting than a Board meeting. It also helped ensure that the development and delivery of key strategies and activities remain aligned to our imperatives and strategic aims.

CASE STUDY

LEADERSHIP IN ACTION

The second road period presented us with both an opportunity and a challenge: we had to undertake a full strategic planning process for the first time, to create a detailed investment plan (in the form of our *Strategic business plan* and *Delivery plan* publications) for the 2020–25 five-year period, supported by robust evidence from our first five-year cycle.

Establishing early governance and ways of working

For the first road period, a relatively self-contained team created the plan. For the second road period, we gathered experts from across our business, allocated ownership at senior levels and established regular governance:

- **Daily progress** through a central 'Future RIS' team, supported by weekly contact with subject matter experts and a consortium of technical experts
- **Regular review** at Director level, with explicit senior leadership team ownership
- **Monthly** business review sessions at Executive to informally shape ideas, as well as 21 formal approval points from 2018–20
- **Regular Board contact, who were** consulted 10 times from 2018–20 for steers and updates, as well as formal approvals
- **Strategy discussions** at six Executive and Board joint away days

Having this structure in place from early on in the process enabled us to be confident and clear in our approach to information sharing. We were able to take content through the proper channels, internally testing new ideas and approaches before communicating externally.

Developing an interrelated suite of strategic documents

We needed to be clear about what we could deliver over the five-year period, and how it would be funded. We developed this information through creating a suite of documents, which built on each other to present an evidenced approach to the second road period:

2017

Our *SRN Initial report*, published December 2017, set out our proposals and recommendations for the second road period, building on our *Route strategies.*

2018

DfT's *Draft road investment strategy 2 (RIS2)*, published October 2018, outlined government's objectives for the SRN.

Our *Draft strategic business plan* provided detailed evidence to government and ORR in January 2019, and outlined our developed thinking in response to Draft RIS2.

2019

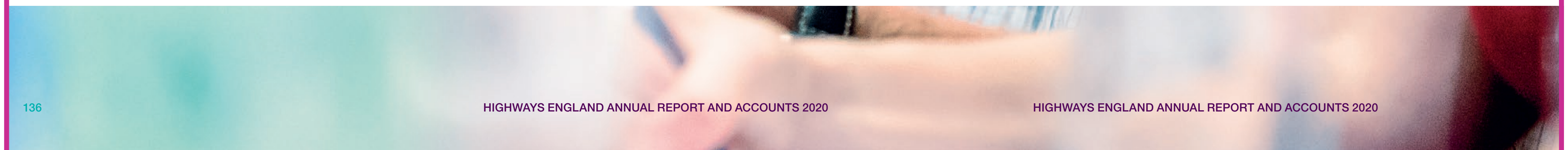
Government's RIS2, published March 2020, set their final objectives and long-term approach to the SRN.

Our *Strategic business plan*, will be published in July 2020 and will set the direction for every part of our company for the five-year period.

Our *Delivery plan* will be published in July 2020 and will specify the detail of what we will deliver, including activities, projects and funding allocation. This was developed alongside our annual business planning for a smooth transition from the first to the second road period.

While our *Licence* sets out broad timings, we have had to be flexible. With the understandable focus of government and Parliament on Brexit and the General Election, for example, RIS2 was published later than originally planned. To manage these risks, we started early and worked with government on emerging documents, rather than waiting for final publications, and responded collaboratively to changes along the way.

One of the reasons we exist as a company is to improve performance for customers. We used our analysis and evidence, gathered over the first road period, to set challenging yet achievable performance targets. This was supported by engagement by all levels of our organisation with government, the ORR, and Transport Focus.



Working collaboratively with government

Through collaborative working with government, we were able to plan the next five years together. This helped us combine the priorities of our customers and stakeholders with the priorities of government.

We contributed to a monthly RIS2 steering group, chaired by DfT and attended by senior representatives of partners such as ORR, Transport Focus and HM Treasury. We also contributed to the monthly operational working group. We held early technical workshops briefings with ORR, and implemented a formal process for information requests with both ORR and DfT. During the development of our *Draft strategic business plan*, we answered 181 requests for information, responding to over 70% within 10 days.

Bringing our people on board

To be successful, our whole company needed to understand and support our plans. To help achieve this, we ran a comprehensive internal engagement programme.

In 2018 and 2019, we held a range of activities, including 26 roadshows across 13 locations and three webinars for the whole business, reaching over 850 people. We also briefed all senior leadership across two away day sessions and 12 directorate briefings.

We have made an important step forward this time. We will work to build even more awareness as we move into delivery.

CASE STUDY

ENGAGING WITH OUR STAKEHOLDERS

The Board engages with key stakeholders to understand their views, which is an essential part of gathering insight and monitoring our company's performance.

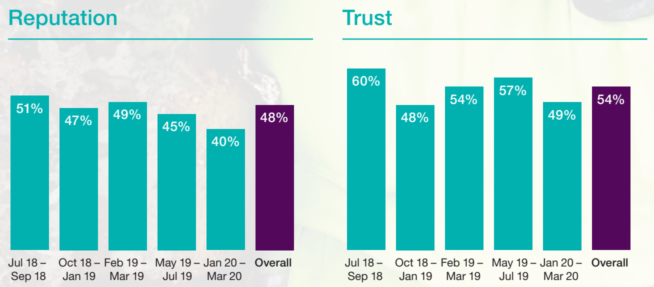
Results of our stakeholder survey

Our stakeholder survey helps us understand our reputation, levels of trust, engagement and what we need to change to improve our relationships.

We undertake full surveys on a periodic basis, with a sample pulse survey in 2019.

The figures to the right show our results from July 2018 to March 2020, and we recognise that there is a need to improve our results in both areas.

We surveyed 693 people across 30 stakeholder groups in total.



48%
of respondents indicated that we have a good reputation

54%
of organisations trust us

CUSTOMERS

The Board receives:

- regular customer service updates
- regular updates on technological innovations
- the results of National Road User Satisfaction Survey
- quarterly reports from Customer Service Directors

The Board supports technological innovations that benefit customers.

Safety measures are considered by the Safety Committee on behalf of the Board.

COMMUNITIES

The Board held off-site meetings in Salisbury and Amesbury during the year and received a tour of the A303 Amesbury to Berwick Down scheme. The A303 tour was run collaboratively with the National Trust, Historic England and English Heritage. It included the Stonehenge World Heritage Site and visitor centre, as well as presentations about our scheme.

The Board receives monthly updates on community activities via the Chief Executive report. The Investment Committee considers the impact of investment proposals on communities on behalf of the Board.

Regular updates are also provided to the Board on the performance of our designated funds programme.

OUR PEOPLE

The Board receives reports on staff-related topics on a quarterly basis. The Board considered LGBT+ and BAME matters, with our internal networks giving presentations to the Board.

The Board reviewed the results of the employee engagement survey and the action plan. The Senior Non-Executive Director is the designated lead on employee engagement. Following site visits, he feeds back to the Board on key issues raised by our people.

The Board also met with trade union representatives.

SUPPLY CHAIN

The Investment Committee oversees the performance of our company's major programmes on the Board's behalf. This includes the Complex Infrastructure Programme, Smart Motorways Programme, Regional Delivery Partnerships, Asset Delivery and Smart Motorway Alliance.

Board members attend the annual Highways England Awards, which recognise the contribution of our supply chain.

STATUTORY STAKEHOLDERS

DFT, ORR, NATIONAL AUDIT OFFICE, TRANSPORT FOCUS AND OTHERS

Our Chief Executive and Chairman meet with Ministers and senior DfT officials regularly throughout the year. They also meet quarterly with ORR and Transport Focus.

Regular updates are provided to the Board on company interactions with government, ORR and Transport Focus at a senior level.

DIVISION OF RESPONSIBILITIES

As at 31 March 2020, the Board comprised the Chairman, six Non-Executive Directors and two Executive Directors.

The Board is expected to have no more than 10 and no fewer than five members, with a balance in favour of independent Non-Executive Directors.

There is a clear division of responsibilities between the roles of Chairman and Chief Executive, and they have regular discussions together outside of Board meetings. The Chairman and six Non-Executive Directors meet after each Board meeting without the Executive Directors.

At least once a year, the Non-Executive Directors meet without the Chairman. In addition, individual Directors meet routinely outside Board meetings as part of each Director's contribution to the delivery of our company's strategy and review of the business.

The Board is confident that the Non-Executive Directors have sufficient time to meet their Board responsibilities.

External appointments held by our Directors are set out on pages 128 and 129 ➔

Board and Executive committee framework

Board

Executive committee

Governance committees

Safety Committee
Oversight of our: 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

Investment Committee
Oversight of investments within delegated authority thresholds of £200 million to £500 million

Nominations Committee
Oversight of Board and Executive appointments

Remuneration Committee
Oversight of remuneration framework, including performance-related pay, Board and senior pay decisions

Executive committees and Executive groups

Executive Health and Safety Committee
Oversight of: safety management and leadership; strategy development; performance monitoring; and compliance

Anti-economic Crime Group
Oversight of systems, measures and a culture that counters the risk of economic crime

Executive Customer Service Group
Oversight of the development of effective relationships with customers and communities

Supply Chain Group
Oversight of work to develop and manage an effective supply chain

Reward and Resourcing Executive
Workforce planning, including decisions under the remuneration framework

Executive Finance Committee
Planning, control and manage of resources to support decision-making and delivery over the short, medium and long term

Information Leadership Group
Oversight of data improvement and assurance of quality of reporting and internal decisions in support of our investment programme

Investment Decision Committee
Oversight of investments within delegated authority thresholds of £50 million to £200 million

Legal Affairs Sub-Committee
Decision-making body of last resort in the contract standardisation project

Security and Business Continuity Group
Oversight of the company's security and business continuity arrangements

Asset Management Steering Group
Oversight of the company's end-to-end asset management approach

The details of Board and Executive careers, relevant skills, committee membership and tenure can be found in their individual biographies on pages 128 to 131 ➔

Role of Non-Executive Chairman

The Secretary of State for Transport appoints the Chairman. This is a non-executive and part-time role, at a minimum of one and a half days per week.

The Chairman leads the Board and is responsible for ensuring we conduct our affairs openly, transparently and with probity. He is also responsible for ensuring our policies and actions are appropriate to those of a government-owned company, and supportive of the objectives of the Secretary of State for Transport.

The Chairman sets agendas and, with the Company Secretary, ensures timely communication of information to the Board to support sound decision-making. He allows sufficient time in meetings for constructive and challenging discussions, seeking contributions from all Directors, and ensures that effective relationships exist between them. He is also responsible for overseeing the annual Board effectiveness evaluation process.

Role of Chief Executive

Our Chief Executive has day-to-day responsibility for our performance, leading our Executive team and overseeing operations. Our Chief Executive develops and implements our company's strategy, as approved by the Board.

He sets the cultural tone of our organisation and facilitates an effective link between the business and the Board.

In compliance with government requirements, he is also the Accounting Officer responsible to Parliament for the stewardship of the public funds under the company's direction.

Role of Senior Non-Executive Director

The Senior Non-Executive Director, in addition to his other responsibilities as Non-Executive Director, provides a sounding board for the Chairman and supports the delivery of his objectives.

He also acts as an alternative contact for our Shareholder or Non-Executive Directors, should they have any unresolved concerns relating to the Chairman, Chief Executive or Chief Financial Officer.

He leads the appraisal of the Chairman's performance with the Non-Executive Directors and plays a key role in Board succession planning. He is the Board's designated Non-Executive Director on employee engagement.

Role of Non-Executive Directors

The Secretary of State for Transport approves all Non-Executive Director appointments and, as Shareholder, appoints a further Non-Executive Director as his representative.

The Non-Executive Directors bring valuable independent expertise and external experience to the Board. They assist and provide challenge in the development of strategy, as well as monitoring our Executive team's delivery.

They each serve on a variety of Board committees and have direct access to our senior management. We encourage both formal and informal contact with our wider business to develop a deeper understanding. They feed back insights to the Board following engagement with internal and external stakeholders, including about our people and our company's culture.

Role of Executive Directors

The Secretary of State for Transport approves all Executive Director appointments to the Board. They support our Chief Executive in delivering our company's strategy, individually leading directorates to implement the Board's strategic decisions.

Board attendance

During the year, the Board met 13 times. We expect all Directors to attend Board meetings and relevant committee meetings, unless prevented by prior commitments, illness or a conflict of interest. We send all relevant papers to Directors who are unable to attend specific Board meetings and ask for comments in advance. We send all Board and committee members the minutes of meetings.

Board and committee attendance

	Colin Matthews	Roger Lowe[1]	Elaine Holt	Alan Cumming	Kathryn Cearns	Janette Beinart	Carolyn Battersby	Jim O'Sullivan	Vanessa Howlison
Board (Chair: Colin Matthews)	13/13	13/13	13/13	12/13	13/13	12/13	13/13	13/13	13/13
Audit and Risk (Chair: Kathryn Cearns)	N/A	6/6	N/A	N/A	6/6	5/6	6/6	6/6[2]	6/6[2]
Nominations (Chair: Colin Matthews)	2/2	2/2	2/2	2/2	2/2	2/2	2/2	2/2[2]	N/A
Remuneration (Chair: Elaine Holt)	8/8	7/8	8/8	N/A	2/2	N/A	8/8	8/8[2]	N/A
Safety (Chair: Alan Cumming)	7/7	1/1[2]	7/7	7/7	7/7	7/7	2/2[2]	7/7	7/7
Investment (Chair: Janette Beinart)	8/8	7/8	8/8	7/8	8/8	8/8	7/8	8/8	6/8

1 Roger Lowe serves as the Senior Non-Executive Director to the Board
2 Not a committee member – in attendance only

COMPOSITION, SUCCESSION AND EVALUATION

COMPOSITION

The composition of the Board and its committees can be found on pages 128 to 129, and the attendance at Board meetings on page 141. Regular attendees include the General Counsel and Chief Engineer, with other Executive team members and senior leaders joining from time-to-time on specific items of business.

Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that the Board operates in line with our governance framework. The Company Secretary also manages the flow of information to and from the Board, its committees and our Executive team.

SUCCESSION

Board changes during the year

Elaine Holt served on the Highways Agency and Highways England Boards for a period of six years, and retired from the Board in March 2020.

Board induction

No new Directors were appointed to the Board during the year.

The formal induction programme for new members is organised by the Company Secretary. Each induction is tailored to the needs of the individual joining the Board and includes:

- the provision of key corporate, strategic and financial documents
- one-to-one meetings with Executive team members and senior leaders
- site and safety tours
- ride-outs with traffic officers on our network
- meetings with stakeholders

As part of the induction process, Directors are briefed on their duties including their responsibilities under s172 of the Companies Act 2006.

EVALUATION

The results of the November 2018 evaluation provided helpful pointers to improvements to be made during the 2019–20 reporting year:

- We received quarterly customer service updates to understand and provide strategic input to the company's activities in this area.
- Non-Executive Directors attended Quarterly Shareholder Meetings on a rotating basis.
- We invited DfT's Permanent Secretary and Roads Director General to a Board meeting.
- We made improvements to the stakeholder management plan.
- The Board received informative presentations from both internal and external stakeholders.
- The Board held one of its meetings off-site close to the A303 scheme to gain insight into the site and the project.
- The Board supported development of a RIS1 narrative and facilitated the RIS2 settlement.

In November 2019, we held our next internal Board evaluation exercise. Our Company Secretary sent a questionnaire to each Board member and regular attendee, and compiled responses. An analysis of themes and proposed actions, along with an anonymised report detailing responses, was sent to the Chairman and the Senior Non-Executive Director for consideration, before being discussed by the Board.

The evaluation concluded that the Board, its committees and committee chairs were effective, and that all Directors had demonstrated considerable commitment and time to their roles. The evaluation identified four areas for increased focus in 2020–21:

- Environmental issues and sustainability
- Digitally-enabled customer service
- External stakeholder engagement, including with key customers
- Diversity considerations when making senior appointments

Following the evaluation, the Chairman held one-to-one performance review meetings with each of the Non-Executive Directors.

The next Board evaluation will be held in late 2020 and will be facilitated by an external Board evaluator.

Board Diversity Policy

Our organisational commitment to diversity

As an organisation, we work to offer an inspiring, open and inclusive environment in which people feel valued for who they are, and the skills they bring. We want everyone to thrive and grow along the way with us, encouraged to work innovatively and trusted to succeed. We aim to embed the principles of equality, diversity and inclusion across all areas of our business, driving real change in how we work together.

We want to ensure that diversity, in its broadest sense, remains a significant feature of the Board. We believe a broad range of skills, backgrounds, knowledge and experience are key drivers of an effective Board. The Chairman leads our Board diversity agenda and sets measurable objectives with the aim of improving diversity, bringing different perspectives and stimulating debate to enable better decision-making.

These objectives are:

GENDER: Keep a level of at least 30% female Directors on the Board over the short to medium term

PIPELINE: Encourage a broad range of senior individuals within our organisation to gain Board experience, helping create a pipeline of high-calibre candidates

BREADTH: Consider candidates for Non-Executive Director roles from a wide pool, including those with little or no previous Board experience, or from social backgrounds which are not already represented on the Board

DIVERSITY: Ensure Non-Executive Director 'long lists' are gender balanced, and include candidates from BAME communities

BEST PRACTICE: Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice

BENCHMARK: Ensure our recruitment processes are inclusive by assessing them against suitable benchmarks, with our suppliers also meeting or working towards a suitable benchmark

WORKFORCE: Actively engage with our people to gain insight and influence employee engagement through employee networks and groups, including trade unions

SPONSORSHIP: Assign Executive sponsors to each formally-recognised employee network to enable two-way dialogue, and periodically rotate these sponsors to develop breadth of perspective

COMMITTEES: Ensure Board member representation on key committees, such as the Remuneration Committee and Nominations Committee, to enable diverse perspectives and influence decision making

TRAINING: Ensure all members of our Non-Executive, Executive and senior leadership teams complete unconscious bias training as part of their induction into the role, in the same way as expected of our entire workforce

ATTRACT: Attract a diverse range of candidates for any Board roles so that we see representation from other protected characteristic areas, such as disability and sexual orientation, in the candidates and in the make-up of the Board

LEADERSHIP: We expect all our leaders, from the Board through to our senior leadership team, to demonstrate inclusive leadership aligned to the company's values

As summarised in the evaluation section, the Board is evaluated annually across many areas, including its composition and structure. The Board reports on the outcome of this evaluation, as well as on any issues or challenges it faces when considering the diverse make-up of our organisation. The Board will also report annually against these diversity objectives and other initiatives taking place within our company that promote gender and other forms of diversity.

SAFETY COMMITTEE REPORT

K 1 R 1,2,7

Alan Cumming
Committee Chair

Responsibilities

The Safety Committee ensures that the Board fulfils its leadership responsibilities in relation to our health, safety and wellbeing ambition, including strategy and management arrangements.

The committee works closely with our Executive team to monitor safety performance so that we have a strong, robust and continuously-improving safety culture, together with our supply chain. Safety risks cannot always be eliminated so the committee provides leadership to ensure that key risks are identified, appropriately managed and mitigated. The committee is responsible for setting clear expectations to improve safety standards across our business, supply chain and the SRN.

Composition

Member	Meetings attended
Alan Cumming (Chair)	7/7
Colin Matthews	7/7
Roger Lowe	1/1[1]
Elaine Holt	7/7
Kathryn Cearns OBE	7/7
Janette Beinart	7/7
Carolyn Battersby	1/1[2]
Jim O'Sullivan	7/7
Vanessa Howlison	7/7

Members of the committee include: the Chairman; six Non-Executive Directors, including the Committee Chair; our Chief Executive; and our Chief Financial Officer.

Our Chief Highways Engineer, our Health, Safety and Wellbeing Director and our General Counsel attend each meeting. Other members of our Executive team and senior managers with safety responsibilities attend the committee when required.

1 Roger Lowe stepped down from the Safety Committee in May 2019 but was present as an attendee for one meeting in February 2020.
2 Carolyn Battersby stepped down from the Safety Committee in May 2019 but was present as an attendee for one meeting in February 2020.

WORK

The committee's work is divided into four areas:

1. Our people's safety and wellbeing

The safety and wellbeing of our people, both physical and mental, is a priority. The committee regularly monitored accident frequency rates and reviewed major incidents reports.

The committee also monitored a range of health, safety and wellbeing work, with the aim of highlighting issues in this area and developing the required capability to deal with them. During the year, the committee received regular updates on mental health, wellbeing and suicide. A robust plan around wellbeing and managing sickness, specifically in relation to mental health, is being developed.

2. Road user safety

The committee challenges our approaches to improving road safety. It also monitors performance against our KPI to reduce the number of people killed or seriously injured on our network by 40% by 2020.

The committee reviewed regular reports on accident statistics and updates on the implementation of a new reporting methodology, including how the system will impact the classification of serious injuries.

The committee reviewed the progress of our safe systems approach, which is focused on safer roads, safer people and safer vehicles. To bring outside perspective and support strategy discussions, guest speakers from Thatcham Research and the Road Haulage Association attended the committee meetings during the year.

New legislation came into effect on 10 June 2019 which allowed automatic detection of motorists who ignore lane closures on smart motorways. In June 2019, we also highlighted the benefits of driving on smart motorways through a communications campaign, which was supported by the committee. The campaign included messages around Red X, variable speed limits, breakdowns and 'keep left'. The campaign was supported by the Freight Association, AA and RAC, and involved work with Disabled Motoring UK.

During the year, Highways England's 'Distressed' marketing campaign around motorcycling safety won the Best Content Marketing Campaign award at the Chartered Institute of Marketing's Marketing Excellence Awards 2019.

With growing media interest around smart motorways, the committee participated in a number of discussions on this area. They also gave their support to DfT in their smart motorways evidence stocktake.

3. Safety performance of our supply chain

Recognising that there are still too many avoidable incidents in our supply chain, the committee regularly reviews safety performance and how to help our supply chain make improvements. Committee members take part in leadership tours of our major schemes to see how safety arrangements are working on the ground.

The committee closely monitored accident frequency rates, progress on investigations, incident reporting and outcomes. To help reduce incidents, a number of actions were taken. This has included writing to the supply chain on load security and meeting with our smart motorway supply chain to discuss safety.

The committee also reviewed regular updates on mental health, wellbeing and suicide prevention within our supply chain and the wider construction industry. Activities during the year around this area aimed to provide a shared vision across the supply chain.

Two new initiatives were introduced:

- Perfect Days Supplier Award, recognising and awarding suppliers free from incidents
- Mandated stand downs, where, in the event of a safety incident, suppliers are required to undertake a safety stand down

4. Health and Safety Five-Year Plan/Home Safe and Well

Published in 2015, our *Health and safety five-year plan* set out how we planned to achieve our safety ambition within the first road period. The committee was pleased to note the progress made on the completion of the actions in the plan.

In June 2019, we published a new approach: *Home safe and well.* This approach is owned by our Executive team and overseen by the Board. Along with the *Health and safety five-year plan,* it supports our ambition that "no one should be harmed when travelling or working on the SRN".

Home safe and well aims to:

- build a positive health, safety and wellbeing culture
- promote greater ownership
- embrace innovation
- place more importance on health and wellbeing

The committee assisted with the launch of this approach, which has been well received across our business.

For committee Chair Alan's biography, go to page 129 ➔

AUDIT, RISK AND INTERNAL CONTROL

AUDIT AND RISK COMMITTEE REPORT

R

Kathryn Cearns OBE
Non-Executive Director

Role

The Audit and Risk Committee's principal role is to assist the Board's oversight of:

- **Financial reporting:** The committee reviews significant accounting judgements and policies, and assesses compliance with accounting standards and consistency in application on a year-to-year basis.
- **Narrative reporting:** The committee considers whether the *Annual report and accounts* is fair, balanced and understandable, and whether it provides sufficient information to stakeholders to assess our in-year performance.
- **Internal controls and compliance** (with statutory, regulatory and *Licence* requirements): Alongside considering the adequacy and effectiveness of our company's financial reporting and internal control framework, the committee also considers the systems and controls for preventing and detecting fraud, bribery, theft, money laundering and modern slavery.
- **Risk management:** The committee reviews the efficacy of our company's risk assessment, management and monitoring processes.
- **The Corporate Assurance function:** As well as reviewing the completeness of the Corporate Assurance programme, reports and management's responses, the committee also considers whether the function is adequately resourced and is appropriately independent from management.
- **The National Audit Office:** The committee approve the nature, scope, approach and the fees applied for our external auditor's annual financial audit. They consider the auditor's independence, objectivity, expertise and resources, and review the results of their work and how any weaknesses are addressed.
- **Cyber security:** The committee provides assurance that cyber risk is being appropriately managed.

The committee also advises our Chief Executive in his role as Accounting Officer on any of the above subjects. Following each meeting, the Chair summarises the committee's activities, main discussion points and findings at the next Board meeting, making recommendations as appropriate.

Composition

Member	Meetings attended
Kathryn Cearns (Chair)	6/6
Roger Lowe	6/6
Janette Beinart	5/6
Carolyn Battersby	6/6

To provide effective oversight of financial and operational risk, and to advise the Board accordingly, members collectively have a broad range of financial, commercial and IT expertise.

The committee is chaired by Kathryn Cearns, who is joined by three additional Non-Executive Directors. This includes the Shareholder-appointed Non-Executive Director, in accordance with the requirements of the *Framework document*.

As part of the role, the Chair is also a member of DfT's Group Audit and Risk Assurance Committee, representing Highways England as well as performing a similar check and challenge role to DfT's senior management.

Regular attendees include our: Chief Executive; Chief Financial Officer; Financial Controller; and Corporate Assurance Director. The National Audit Office's Financial Audit Director also regularly attends. Other senior management may be called to attend as necessary.

The committee also meets with our Corporate Assurance Director and the National Audit Office's Financial Audit Director to discuss any matters without Executive management present. The Chair meets separately with our Chief Financial Officer and our Corporate Assurance Director, and will liaise with other senior managers and our Company Secretary as required.

WORK

At each meeting, the committee receives updates from Finance, Corporate Assurance and the National Audit Office. They discuss the management of emerging and principal risks facing our business and elevate these to the Board, where necessary. Progress on agreed actions is monitored by the committee throughout the year.

The significant issues considered by the committee during 2019–20 were:

Accounting standards and judgements

The committee assessed whether suitable accounting policies had been adopted and whether management had made appropriate judgements and estimates. Following discussion, the committee was satisfied in the following areas:

- The changes in IFRS 16 Leases are not expected to have a material effect on Highways England's accounts. They will increase net debt, and non-current assets and budgetary implications will need to be considered when entering future leases. See note 19.1 to the accounts on page 206.
- Management's simplified approach to revaluing the land and pavement (road) asset was appropriate. See note 6.2 to the accounts on page 181.
- Compliance and sign-off of the Dartford-Thurrock and Severn River Crossing statutory accounts was achieved.

Review of the *Annual report and accounts*

In September 2019, at the request of the Board, the committee considered the proposed structure and outline content for the 2019–20 *Annual report and accounts*.

Full drafts were submitted in May and June 2020, prior to their final review. The committee's assessment drew on:

- the work of the Company Secretary, responsible for the report's production
- senior management confirmation that the content was fair, balanced and understandable
- the verification of core content, including KPI and key performance figures, completed by Corporate Assurance

Following its review, the committee was content that the 2019–20 *Annual report and accounts* was fair, balanced and understandable. On this basis, they recommended that the Board approve the final version at the July 2020 meeting.

The committee is also responsible for reviewing the final validated position on our company's performance, published separately within Highways England's *Performance monitoring statements*. Members reviewed this document at their June 2020 meeting and recommended that the Board should also approve its publication.

Our external auditor

In accordance with the *Framework document*, the Comptroller and Auditor General is our appointed external auditor. The external audit work is carried out by the National Audit Office on behalf of the Comptroller and Auditor General. The National Audit Office does not provide non-audit services but is responsible for carrying out value-for-money reviews, according to their statutory responsibilities.

During the year, the committee received the National Audit Office's 2018–19 final management letter and reviewed management's response to their findings. In December 2019, they reviewed the 2019–20 audit planning report and monitored progress throughout the remainder of the year. In June 2020, the committee considered the Auditor's Report as part of the final sign-off and approval of the accounts.

In May 2019, a National Audit Office value for money review of the A303 Amesbury to Berwick Down project was published. The committee considered its key findings and was content that it presented a fair assessment of the project at that point in time.

Our policy on provision of non-audit services

We use professional firms when specialist advice is required, engaged through our established procurement framework. This year, Highways England engaged Deloitte LLP to provide advice in relation to VAT, corporation and employment taxes, to refresh our internal policies in these areas.

The work of Corporate Assurance, including internal audit

Corporate Assurance's primary purpose is to provide an objective and independent opinion on the effectiveness of our internal control, risk management and governance framework. The committee approves their charter, which defines the function's purpose, authority, responsibility and position within our company.

The function comprises:

- corporate risk assurance, overseeing corporate risk management and management assurance processes
- audit and assurance, incorporating internal audit, contract and IT assurance activity
- programme assurance, assuring major project schemes at appropriate lifecycle stages
- health and safety assurance, assuring company compliance with appropriate safety legislation
- the counter-fraud team, assuring core control and investigating allegations

The committee reviewed and endorsed the Corporate Assurance programme in May 2019 and September 2019, ensuring it aligned with our company's strategic priorities and key risks. They discussed the results from their work and monitored the close out of agreed management actions, focusing on those that were overdue.

At each meeting, the Corporate Assurance Director updated the committee on key themes and issues arising from the function's work. These included:

- project and contract management control improvements
- the effective operation of key financial controls, such as payroll, contingent liabilities and management accounting
- the control of operational and non-operational hardware and software assets

This year, the committee noted and discussed the following individual reports:

- **Estates management of core health and safety systems (office building and control centres):** The review highlighted that on-site staff demonstrated a poor understanding of the Legionella Regulations, an absolute duty under current regulations. Management improved the control framework and incorporated lessons learned from the review across the estate management function.
- **Major Projects' wider review of defined costs (M1 junction 13–16 and M20 junction 10a):** Issues identified included inaccuracies in plant and people cost invoicing. As a result, the programme manager negotiated appropriate compensation and awarded quality management points directly to the main contractor.
- **Financial management in the supply chain (East Midlands):** Testing identified a significant backlog in payments. The region worked hard to reduce this and introduced tighter payment controls to ensure that they are in a much better position at year-end.
- **The North West regional technology management contract:** The review found that the region was unable to validate the contractor's performance. The stock management process was inefficient and did not accommodate new assets being handed over from construction into maintenance. This contract model is being refreshed in the second road period. In the interim, new measures were implemented to strengthen current contractor compliance for the remainder of the contract period (circa 18 months).

Programme assurance, covering our major project schemes, comments on the confidence in a project's delivery, based on the effectiveness of risk management, governance and control compliance. During the year, the committee noted several projects had received red-rated reviews, reflecting weaknesses in governance and control. Each project was subject to an additional review. In most cases, the assurance rating was raised to reflect the improvements made since their original review.

We also participate in DfT's management assurance process. This allows us to evaluate whether our company operates appropriate levels of governance, risk management and internal control against a series of pre-defined categories. The committee reviewed and endorsed the quarterly updates and the final submission to DfT, noting the improvements made or required across several categories.

Evaluating the effectiveness of internal audit

The committee assesses the effectiveness of our internal audit team as part of their ongoing assessment of the Corporate Assurance function. In 2019–20, the committee Chair met with the Corporate Assurance Director without management present to assess the role and effectiveness of the function.

In March 2019, the Institute of Internal Auditors completed a review of our internal audit section's effectiveness and processes. They awarded a 'generally conforms' rating, the top rating provided.

The committee considers it appropriate for the next independent review to be commissioned in the 2021–22 financial year, covering the whole function, not just internal audit. As such, the committee is satisfied that Corporate Assurance is operating effectively.

Risk management

The Board has delegated detailed oversight of risk management functionality to the committee, who, in turn, reports their findings back to the Board. Our approach to risk management is provided on pages 64 to 66.

The committee regularly received updates on the embedding of internal processes. At each meeting, they invited an Executive Director to present on a specific risk or risk theme. These 'deep dives' were important for the committee to understand whether identified mitigations were suitable.

This year, members focused on understanding:

- our supply chain operating model, determining the potential risk to delivery if skills and resource shortages occur
- the risk exposure if deficiencies in our processes occur for improving the environment, including their identification, prioritisation or design
- cyber threats, and whether there is the potential for inappropriate information, data governance, security and management to impact on achieving our business objectives
- the approach taken to manage the materialisation of the risk relating to a reinterpretation of VAT treatment for hybrid schemes and our PFI contracting model as it unfolded

In all cases, they were satisfied that our company's risk processes were robust, with appropriate plans and monitoring in place.

Economic crime

The committee reviews and informs the Board about our company's Raising Concerns at Work (Whistleblowing) procedures, including arrangements for investigating concerns raised. More information on the management of economic crime can be found on page 70.

Over the year, the committee discussed findings from internal investigations and management's response to them. The committee also reviewed the company's overarching economic crime strategy.

This year, our company received 82 referrals. While there were no cases of economic crime proven to the required criminal standards, investigations completed during the year prevented £3.9 million of losses, which was reclaimed.

The committee noted the one potential money laundering incident identified by the Dartford Crossing team, who manage the collection of fees from the public, including the monitoring of customer accounts. The incident was reported to the National Fraud Agency, in accordance with the Proceeds of Crime Act 2002. This protects us from any legal action taken against the perpetrator.

We fully align with the Cabinet Office's work in improving counter-fraud capability across government. This year, the committee reviewed our company's self-assessment against the Government Functional Standard 'GovS 013'. They agreed that we were 'fully compliant' with the standard, which was substantiated by the Cabinet Office later in the year.

The committee noted that our company has improved understanding of internal and external economic crime risks. The information collated is updated on an annual basis and used to carry out proactive testing of control activity to improve resilience.

Statement on company effectiveness

Our Corporate Assurance Director's annual assurance statement provides an overall opinion and offers reasonable, rather than absolute assurance on the efficacy of risk management, internal control and governance arrangements. It draws from Corporate Assurance activity and other assurance work available to the Director.

The statement was discussed by the committee in June 2019, who noted this year's 'Moderate' assurance rating and recognised that Highways England has:

- a good governance structure to help us carry out our activities
- a maturing approach to risk management
- demonstrated a sound control environment

Based on the arrangements set out above, and the information provided to the committee and our Chief Executive, the committee consider that there is a sound system of internal control, risk management and governance in place and working effectively across Highways England.

For committee Chair Kathryn's biography, go to page 128 ➔

INVESTMENT COMMITTEE REPORT

Janette Beinart
Committee Chair

Responsibilities

The committee supports the Board in exercising its investment decision-making authority. It advises the Board on investment approvals over £200 million and on other matters relating to the delivery of the investment programme.

On decisions relating to schemes over £500 million, or where the treatment is considered novel or contentious according to the HM Treasury definition, the committee advises DfT's Investment Portfolio and Delivery Committee on whether the investment is appropriate.

The committee works closely with the Executive Investment Decision Committee to ensure effective governance of public expenditure. The committee also supports our Chief Executive in discharging his Accounting Officer responsibilities.

This assurance regime meets the criteria outlined in the *Framework document,* as agreed with DfT.

Composition

Member	Meetings attended
Janette Beinart (Chair)	8/8
Colin Matthews	8/8
Roger Lowe	7/8
Elaine Holt	8/8
Alan Cumming	7/8
Kathryn Cearns	8/8
Carolyn Battersby	7/8
Jim O'Sullivan	8/8
Vanessa Howlison	6/8

The committee is chaired by Janette Beinart. Members include: the Chairman; five Non-Executive Directors (including the Shareholder-appointed Non-Executive Director); our Chief Executive; and our Chief Financial Officer.

Our General Counsel and other members of our Executive team who are responsible for the programmes and contracts under consideration will also attend meetings as required.

WORK

The committee met eight times this year and can meet more frequently if required. The work of the committee covered three areas:

1. Monitoring the investment programme

At each meeting, the committee reviews the capital portfolio progress and status, scrutinising capital forecasts and considering delivery risks.

During the year, the focus was on delivering our commitments by the end of the first road period and managing the transition to the second. The committee also reviewed and commented on the development of our Executive team's proposals for capital portfolio reporting in the second road period.

The committee also provided input into proposals from our Executive team for the organisational structure of our Lower Thames Crossing project, as this scheme moves into delivery.

2. Reviewing proposed investments

The committee reviews our Executive team's investment proposals and plans for project delivery, making recommendations to the Board in line with its delegations. The committee scrutinises these proposals and considers value for money assessments, forecast benefits and independent review outcomes.

During the year, the committee endorsed the outline business cases for the Lower Thames Crossing and for the A417 Missing Link. They approved the full business case for our Smart Motorways Alliance model and the initiation of the tenders for our A303 Amesbury to Berwick Down scheme.

The committee approved construction phase contract awards under our Regional Delivery Partnerships, including the M42 junction 6 and the A30 Chiverton to Carland Cross.

The committee also approved construction phase funding for the A63 Castle Street, development and construction phase funding for the M62 junctions 20 to 25 and development phase funding for the A66 Northern Trans-Pennine.

3. Monitoring performance

The committee sets aside time for in-depth reviews of the performance of projects and major programmes that are in construction, covering forecast costs, completion dates and outstanding risks. The committee also considers emerging strategies for delivering future programmes and the overall performance of our supply chain.

The committee received regular updates and reviewed the performance of our A14 Cambridge to Huntingdon scheme, the Regional Investment Programme, Asset Delivery and our Smart Motorway Programme. They also reviewed the ongoing development of the A303 Amesbury to Berwick Down scheme.

The committee reviewed our Executive team's approach to independent assurance reviews undertaken on schemes in the programme portfolio.

For committee Chair Janette's biography, go to page 129 ➔

NOMINATIONS COMMITTEE REPORT

Colin Matthews CBE
Committee Chair

Role

The committee's role is to make Board and Executive appointments. This is subject to approvals required by the *Articles of association*, the *Framework document*, and our Shareholder.

Specific responsibilities include:

- Approving recommendations for the appointment of Executive Directors and Non-Executive Directors
- Keeping the structure, size and composition of the Board and its committees (including their chairs) under review
- The continuation in office of Directors, and the appointment process for Board members and Company Secretary
- Succession planning for the Board and for posts reporting to our Chief Executive, as well as ensuring planning arrangements are in place for the level immediately below
- Giving full consideration to the challenges and opportunities facing our company and future skills needed

Composition

Member	Meetings attended
Colin Matthews (Chair)	2/2
Roger Lowe	2/2
Elaine Holt	2/2
Alan Cumming	2/2
Kathryn Cearns	2/2
Janette Beinart	2/2
Carolyn Battersby	2/2

The committee is chaired by Colin Matthews. It comprises six other Non-Executive Directors, including the Shareholder-appointed Non-Executive Director.

Our Chief Executive, our Executive Director of Human Resources and Organisational Development, and our Company Secretary also attend meetings.

WORK

The committee met twice during the year to consider talent planning and succession planning, both immediate and longer term, for our senior leadership team. This includes our Chief Executive and his direct reports.

During the year, members of the committee participated in the recruitment process for a new Executive Director for Human Resources and Organisational Development and for a new Chief Information Officer, after both roles became vacant during the year. The committee considers all recruitment in accordance with the Board's diversity policy, as set out on page 143.

The committee also considered the composition of the Board and confirmed that the current structure remained fit for purpose.

For committee Chair Colin's biography, go to page 128 ➔

REMUNERATION

REMUNERATION COMMITTEE REPORT

Elaine Holt
Committee Chair

Role

The committee establishes a robust, transparent and formal procedure for developing policy on Executive remuneration. This includes the total reward packages for our Chief Executive, Executive Directors and Non-Executive Directors, subject to the approval of our Shareholder.

The committee is also responsible for keeping the *Remuneration framework*, required under the *Framework document*, under review. Any amendments must be agreed with our Shareholder, including recommending performance targets.

The committee is responsible for deciding or recommending proposals for approval by the Board and providing guidance to the Executive on company-wide reward and incentive plans and the structure of remuneration packages for senior management.

Composition

Member	Meetings attended
Elaine Holt (Chair)	8/8
Colin Matthews	8/8
Roger Lowe	7/8
Carolyn Battersby	8/8
Kathryn Cearns	2/2[1]

The committee is chaired by Elaine Holt. Members include four other Non-Executive Directors, including the Board Chairman. Our Chief Executive attends all meetings, except when his own remuneration is under review. The DfT Director General, Resources and Strategy Group attends meetings as an observer on behalf of our Shareholder. The committee is advised by our Executive Director of Human Resources and Organisational Development. Our Director of Reward also attends meetings.

EY have been appointed advisers to the committee on a call-off basis. In 2019–20, EY provided advice to our Executive team and Remuneration Committee on the design of the performance-related pay scheme for the second road period.

1 Kathryn Cearns stepped down from the Remuneration Committee in June 2019.

WORK

The committee maintains close oversight on organisational initiatives relating to staff performance and reward.

The committee follows the requirements of the *Remuneration framework* and broad policy for the remuneration, including basic pay, performance-related pay (bonus) and pensions, of:

- our Chief Executive
- the members of our Chief Executive's team, some of whom will be Board Directors
- the senior management population, ie Director graded roles

This framework and policy takes into account DfT and HM Treasury guidance and rules on senior pay for arm's length bodies.

All Directors, including our Chief Executive, are excluded from any discussions and decisions on their own remuneration.

Our company operates within the *Remuneration framework,* as agreed with our Shareholder. The *Remuneration framework* is designed to promote the long-term success of our company and includes the criteria for performance-related pay, which is designed to be transparent, stretching and rigorous.

The committee is sensitive to the wider pay and employment conditions elsewhere in the business when determining annual salary increases for our senior leadership team. We operate a consistent approach to performance management that applies to all employees, which links to pay and performance-related pay awards. Details of our pay review percentage matrix and performance-related pay scheme rules are available to all staff, and published on our internal portal along with frequently asked questions. The committee reviews and approves senior population performance ratings and pay review proposals. The committee also reviews the performance ratings for the general staff population and the proposals for their pay review.

In 2019–20, no discretion was applied to the pay review proposals for Executive Directors. The committee applied discretion in confirming the corporate KPI performance at 80.2% to be applied to all performance-related pay scheme members for the 2018–19 financial year. This is due to the delay in the reporting of the final results for the number of people killed or seriously injured KPI to achieve payment in July 2020 for 2018–19 performance.

The rules of our company's performance-related pay scheme limit the maximum payment to 20% of base salary for our senior group. As a government-owned company, where long-term incentives such as shares or share options are not available as part of remuneration packages, performance-related pay is the sole variable remuneration element within the reward design for senior roles.

Chair's highlights

The committee reviewed the corporate KPI performance and its impact on performance-related pay for 2019–20 for all our people, including Executive Directors.

Mid-year and year-end performance ratings for Executive Directors and our senior management group were also scrutinised to ensure they were appropriate and in line with the *Remuneration framework*. The committee also reviewed the year-end performance ratings for employees other than the senior group.

The committee reviewed the following standing items at each meeting during the year:

- Use of contingent labour and consultants, including the development of plans to further reduce reliance on interim staff
- Use of specialist pay freedoms
- An assessment of all perceived senior flight risks, along with retention and resilience plans in place to manage these risks
- Activity and decisions of the Reward and Resourcing Executive Committee, which considers remuneration issues for staff below Executive level
- Membership and management of pension schemes

The committee also considered the following items:

- Guidance to the Executive on the pay review approach for employees other than the Executive and senior management group for 2019–20
- Proposed changes to the *Remuneration framework* submitted for approval by DfT
- Governance of the Highways England Pension Plan

For committee Chair Elaine's biography, go to page 129 ➔

Executive remuneration (audited)

	Year	Salary	Performance-related pay	Pension benefits	Taxable benefits	Total
Jim O'Sullivan	2019–20	£382,500	£75,000	£30,000	–	£487,500
	2018–19	£375,000	£51,727	£30,000	–	£456,727
Vanessa Howlison	2019–20	£201,903	£36,693	£20,190	£15,206	£273,992
	2018–19	£198,919	£26,017	£19,892	£32,367	£277,195

Notes:
1 Jim O'Sullivan received £30,000 in lieu of pension payments.
2 Vanessa Howlison is a member of Highways England Defined Contribution Group Pension Plan. Employer contributions are equal to 10% of salary.
3 The performance-related pay paid in 2019–20 related to performance within the financial year 2018–19 and that paid in 2018–19 related to performance in financial year 2017–18.
4 The 2019–20 performance process is being finalised and the value of payments have yet to be determined. Payments will be made in 2020–21.
5 'Other' amounts relate to travel expenses for secondary workplaces as defined by HMRC (expense grossed up by 45%).
6 Only those members of our Executive team who are (or were) also members of the Highways England Board have their remuneration reported.

Non-Executive remuneration (audited)

The remuneration of Non-Executive Directors for 2019–20 was as follows:

	Year	Fee	Taxable benefits	Total
Colin Matthews (Chairman)	2019–20	£130,000	–	£130,000
	2018–19	£130,000	–	£130,000
Elaine Holt	2019–20	£28,000	–	£28,000
	2018–19	£28,000	–	£28,000
Roger Lowe	2019–20	£25,000	–	£25,000
	2018–19	£3,423	–	£3,423
Kathryn Cearns	2019–20	£28,000	–	£28,000
	2018–19	£25,639	–	£25,639
Janette Beinart	2019–20	£28,000	–	£28,000
	2018–19	£4,906	–	£4,906
Alan Cumming	2019–20	–	–	–
	2018–19	£233	–	£233
Carolyn Battersby	2019–20	–	–	–
	2018–19	–	–	–

Notes:
1 Service details for Directors are shown on page 128.
2 From 1 April 2017, the fees were updated to £25,000 plus an additional £3,000 for chairing a committee. These fees remain unchanged for 2019–20.
3 Elaine Holt is the serving Chair on our Remuneration Committee, a position she has held from February 2018.
4 Janette Beinart is the serving Chair on our Investment Committee, a position she has held from March 2019.
5 Alan Cummings is the serving Chair on our Safety Committee, a position he has held from January 2018. He ceased being paid by Highways England on 3 April 2018 when he became an Executive Director at the Nuclear Decommissioning Authority.
6 Kathryn Cearns is the serving Chair on our Audit and Risk Committee, a position she has held from September 2018. At the same time she has served as a member of DfT's Group Audit and Assurance Committee. She was paid a fee of £5,000 for her DfT services.
7 Carolyn Battersby became the Shareholder-appointed Non-Executive Director representative from 11 September 2019. She is not paid for serving as Shareholder-appointed Non-Executive Director and did not receive any fees in the 2018–19 or 2019–20 financial year.

Pay multiples (audited)

	2019–20	2018–19
Chief Executive	£457,500	£426,727
Number of staff	5,866	5,644
Lower quartile point[5]	1,466	–
Lower quartile remuneration[5]	£28,896	–
Chief Executive ratio[5]	15.83	–
Median point	2,934	2,823
Median remuneration	£34,934	£31,214
Chief Executive ratio	13.10	13.67
Upper quartile point[5]	4,399	–
Upper quartile remuneration[5]	£45,013	–
Chief Executive ratio[5]	10.16	–

Notes:
1 The median remuneration of our company's staff in 2019–20, as shown in the table above and based on annualised full-time equivalents, is £34,934.
2 The ratio between the median remuneration and the remuneration of the highest paid Director is 13.10. This has decreased from 2018–19 figure of 13.67.
3 In 2019–20, no employee received remuneration in excess of the highest paid Director (2018–19 nil). Full-time equivalent remuneration ranged from £14,089 to £278,029 (2018–19 £14,089 to £270,821).
4 Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.
5 A change in the legislation required the reporting of lower and upper quartile figures from this reporting year – this change was not retrospective.

DIRECTORS' REPORT

Highways England is the highways authority, traffic authority and street authority for England's motorways and major A-roads, termed collectively as the SRN. In this section, the Directors present their report on the performance of our company, together with the financial statements and the Auditor's Report, for the financial year ending 31 March 2020.

Our strategic report, pages 10 to 73, provides detailed information relating to our business, including our business model, strategy, future developments, principal risks and uncertainties, and the results and financial position of the company ➔

Our governance report, pages 126 to 155, is incorporated by reference into this report and, accordingly, should be read as part of this report ➔

OUR PEOPLE

The Board

The Board is responsible for the strategy and direction of our company. We set out the Board's role, composition and responsibilities on pages 128 and 129, along with the Directors and corporate governance requirements on pages 132 to 142.

Our employees

The commitment of skilled and experienced people is essential to the efficient and effective operation, maintenance and improvement of the SRN.

Further information about our company's employment strategy, including diversity and employee engagement policies, can be found on pages 110 to 116 ➔

The number of employees, as at 31 March 2020, was 5,895: 2,063 women; 3,830 men; and 2 people who do not identify as male or female. These figures exclude secondees.

Gender pay gap

We are committed to building an inclusive culture that encourages, supports and celebrates people from across our organisation. We want to create a workplace where everyone feels valued and empowered to fulfil their potential.

We published our gender pay gap report in March 2019. Our 2019–20 gender pay gap is based on data taken on 31 March 2019, at which point we had 5,287 full-pay relevant employees. This refers to those who received a normal month's salary, excluding those on long-term sick or parental leave and employees with a change in pay that month. Based on this population, our mean gender pay gap is 5.9%. This compares favourably to the national private sector benchmark of 16%, based on the Office of National Statistics' *Annual survey of hours and earnings.*

This year, we have taken further steps to encourage gender balance, actively supporting our growing internal networks. These include: Leading Women; LGBT+; BAME; Menopause and Hormone Conditions; Armed Forces and Veterans; and Access for All. We formed two new networks to represent carers and part-time workers.

We have also focused on attracting apprentices and graduates from a variety of backgrounds, helping us break down the barriers of a traditionally male-dominated engineering environment. We supported the development of people across the sector. We worked as part of DfT's strategic apprenticeship task force to deliver the commitments in government's *Transport infrastructure skills strategy.*

We know that with the right initiatives in place we will be able to further reduce our pay gap, and to make positive changes to support our people.

We're an organisation of 5,895 people with

5,722

FTEs (full-time equivalent) employees

Over the last 12 months

938

new starters have joined us on our journey

We had a

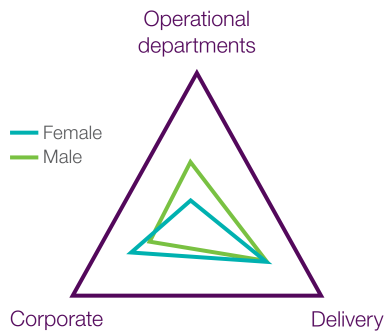
11.3%

attrition rate over the last 12 months with employees leaving our organisation

Gender

Across our organisation, **6%** are senior managers with **23%** in line manager positions. Of the senior managers, women account for **34%** and men for **66%.**

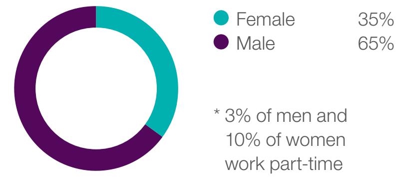
Gender split by function



47% of male employees work in **operational** departments.

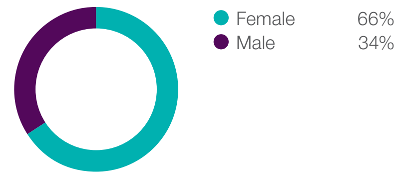
52% of female employees work in **delivery.**

Gender split across our organisation



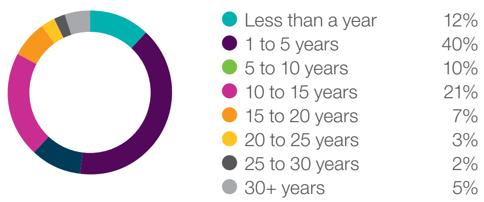
* 3% of men and 10% of women work part-time

New joiners gender split



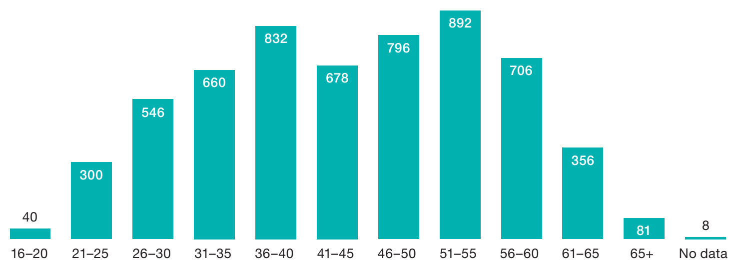
Age and tenure

Length of service



16% of our employees joined us in the **last year,** with **53%** being with us for less than **5 years.**

Our age profile



We have a well-balanced workforce, with **65%** of our employees **being under 50** and an average **age of 44.**

Diversity

Ethnic diversity

Of our total workforce, **9% are BAME**. This has **increased by 11.8%** over the last 12 months.

Disability

Of our total workforce, **3% are disabled**. This has **decreased by 7.9%** over the last 12 months.

Sexual orientation

Of our total workforce, **2% are LGBT+**. This has **decreased by 1.5%** over the last 12 months.

Inclusive environment

We are committed to providing an inclusive work environment in which individuals' differences are understood, respected and valued. We have a framework for timely actioning of adjustments for people with disabilities to create the right working conditions. We also have a well-established internal disability network, Access for All, where our people can work together to share experiences and address issues.

As at 31 March 2020, 199 people have declared themselves to have a disability, 2,741 declared themselves not to have a disability and 2,955 did not specify.

Employee engagement

We engage with our people in a variety of ways, including through engagement with the lead Non-Executive Director for employee engagement, engagement with employee networks and discussions with Trade Union representatives.

We share details about the financial performance of our company with all our people at the appropriate time using the methods listed above. We provide opportunities for them to give feedback, which include team or shift meetings, directorate events, 'town hall' events with the Chief Executive and other senior leaders, 'Calling All Colleagues' teleconferences and the annual employee engagement survey.

We have provided more information on employee engagement on pages 110 to 116.

Economic crime (including whistleblowing)

We refer to the collective of fraud, bribery, corruption, money laundering and modern slavery as economic crime, and we take any allegation of fraud and impropriety seriously. Our policies and procedures reflect current UK legislation and fully comply with the Cabinet Office's Functional Standards (Gov13).

Most allegations are received through our Raising Concerns at Work (Whistleblowing) channels. They are logged and investigated by a professionally-trained team. Our detailed approach can be found in our principal risks section on page 70.

As a public-sector body, we do not fall within the remit of the regulated sector, as defined by Money Laundering Regulations 2017. However, we apply the regulations in our approach on a best practice basis. Any potential incidents identified by our control framework are reported to the National Fraud Agency, in accordance with the Proceeds of Crime Act 2002. This protects us from any legal action taken against the perpetrator.

OUR COMPANY

Sustainability, corporate responsibility and the environment S

We are committed to ensuring that activity on the SRN does not harm the environment. Our measures to reduce impact on both the built and natural environment can be found in 'Delivering value' (pages 94 and 95) and 'Driving greener growth' (pages 101 to 106).

Human rights and the Modern Slavery Act

Our supply chain must comply with all legal requirements. We use contractual arrangements and regular meetings to remind the supply chain of the need to comply with all legislation, including the Modern Slavery Act.

Our detailed approach to modern slavery can be found in our principal risks section, on page 71.

Payment to the supply chain

We aim to pay our supply chain promptly through our payment systems. We monitor this through the use of project bank accounts, as well as through our financial systems. More detail can be found within our financial review on page 12.

Charitable and political contributions

Our company made no charitable or political contributions during 2019–20.

Results, going concern, share capital and dividend

We have prepared our company's financial statements for the reporting period ending 31 March 2020 in accordance with International Financial Reporting Standards rules as adopted by the EU, and in accordance with applicable law. The audited financial statements for this period are set out on pages 171 to 213.

The Directors have a reasonable expectation that our company has adequate resources to operate for the foreseeable future. Our viability statement is available on pages 72 and 73.

The financial statements have been prepared on a going concern basis and note 11 to the financial statements (see page 201) outlines the basis of this view. Our company did not pay a dividend during the financial year.

We are a government-owned, not-for-profit company, incorporated by shares and funded by grant-in-aid. Our sole Shareholder is the Secretary of State for Transport and the authorised and paid-up share capital is £10. Note 11 of the financial statements highlights the funding our company receives from government, through DfT.

Our financial statements are consolidated into the DfT Group Accounts, which will be published at www.gov.uk/government/collections/dft-annual-reports-and-accounts once they are laid in Parliament.

DISCLOSURES AND STATEMENTS

In-year events

In July 2019, HM Treasury elevated our A358 Taunton to Southfields improvement scheme to Tier 1 control. This meant that an HM Treasury approval point would be required before the preferred route announcement could be made. As this was not formally communicated to us, we exceeded our delegations by proceeding with the announcement in June 2019. We received retrospective approval from HM Treasury in August 2019.

In July 2019, a disclosure of salaries over £100,000 by job title was released pursuant to a Freedom of Information request. This constituted a breach of the Data Protection Act 2018. The breach was investigated by the Corporate Assurance Director, who concluded that it was a non-reportable breach, as determined by the Information Commissioners' Office guidance. As a result, current practices were reviewed, and action taken to strengthen our internal processes to limit the potential for similar incidents to occur in the future.

Directors' third-party indemnity provisions

We have appropriate Directors' and Officers' liability insurance in place in respect of legal action against our Executive and independent Non-Executive Directors. The company did not indemnify any Directors during 2019–20.

Conflicts of interest

We have established procedures in place, in accordance with our company's *Articles of association*, to ensure compliance with our Directors' conflicts of interest duties within the Companies Act 2006. This includes procedures 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 our company.

At the date of this report, there are no conflicts of interest. It is however appropriate to disclose that Kathryn Cearns is a Non-Executive Board member of Companies House and a member of DfT's Group Audit and Risk Committee.

Directors' responsibilities statement

Our Directors are responsible for preparing this *Annual report and accounts* in accordance with applicable law and regulations.

Company law requires Directors to prepare the financial statements for each financial year. Under company law, 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, 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 International Financial Reporting Standards 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 remain 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 viability to ensure that the financial statements comply with the Companies Act 2006. The Directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each Director, whose name and function are described in this *Annual report and accounts*, has confirmed that to the best of his or her knowledge:

- the financial statements have been prepared in accordance with International Financial Reporting Standards rules, as adopted by the EU, and give a true and fair view of the assets and liabilities, financial position, and the profit or loss of our company
- the Directors' report and strategic report include a view of the development and performance of the business and the position of our company, together with a description of the principal risks and uncertainties that our company faces

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on our company's website. The Directors consider that this *Annual report and accounts*, taken as a whole, is fair, balanced and understandable, and provides the information necessary for our Shareholder to assess our company's position, performance, business model and strategy.

Compliance with UK Corporate Governance Code

Information on our company's compliance with the UK Corporate Governance Code 2018 can be found on page 133.

Accounting Officer's responsibilities statement

The Permanent Secretary of DfT appointed Jim O'Sullivan as Accounting Officer for our 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 our company's assets. These responsibilities are set out in full in Managing Public Money, published by HM Treasury.

Events after year-end

Colin Matthews stepped down from the Board on 30 April 2020 and Roger Lowe became Interim Chair on 22 June 2020. On 21 July 2020, government announced the appointment of Dipesh Shah as the new permanent Chair with effect from 1 September 2020.

The company's response to the Covid-19 pandemic is outlined on page 56.

Disclosure of information to auditors

The company's auditor is the Comptroller and Auditor General.

In so far as each person serving as a Director of our company is aware, at the date of approval of this Directors' report by the Board, there is no relevant audit information (needed by the auditor in connection with preparing their report) that the company's auditor is unaware of.

Each Director confirms that they have taken all the steps necessary as a Director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report, and its content, are the Board's statement of compliance with our company's *Licence* and *Framework document* obligations. To the best of the Board's knowledge and belief, having made all reasonable enquiries, the information contained in this document and the accompanying Performance Monitoring Statements is set out appropriately. It also constitutes our company's annual progress report under clause 6.26 of the Licence.

As Accounting Officer, I confirm that to the best of my knowledge and belief, this *Annual report and accounts* as a whole is a fair and balanced reflection of our company's performance this year. I take responsibility for this report and the judgements taken.

The Board approved this Directors' report on 29 July 2020. It is signed by:

Jim O'Sullivan

Jim O'Sullivan, Chief Executive
in his role as Accounting Officer on behalf of the Board

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Highways England Company Limited ("Highways England" or "the company") is a private company limited by shares, 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.

The company registration number is 09346363.

The registered office of the company is Bridge House, 1 Walnut Tree Close, Guildford, Surrey GU1 4LZ.

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.

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT TO THE SOLE SHAREHOLDER OF HIGHWAYS ENGLAND COMPANY LTD

Opinion on financial statements

I have audited the financial statements of Highways England Company Ltd (the Company) for the year ended 31 March 2020 which comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows and Changes in Taxpayers' Equity and the related notes, including the significant accounting policies. 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 and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Remuneration Report that is described as having been audited.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 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.

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether I have anything material to add or draw attention to:

- the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation in the annual report as to how they have assessed the prospects of the group, 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.

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 Company 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.

The regularity framework described in the table below has been applied:

Regularity Framework	
Authorising legislation	• Infrastructure Act 2015 • The Delegation of Functions (Strategic Highways Companies) (England) Regulations 2015 • The Licence issued by the Secretary of State for Transport providing statutory directions to the Company
HM Treasury and related authorities	• The Framework Document between the Department for Transport and the Company • HM Treasury guidance, including *Managing Public Money*, and Cabinet Office Spending Controls, to the extent they are made applicable to the Company by the Framework Document
Authorities for a company	• Companies Act 2006 • Articles of Association

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

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. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

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 Standards on Auditing (UK) 240, the Auditor's Responsibility Relating to Fraud in an Audit of Financial Statements, an area where my work has not identified any matters to report.

The areas of focus were discussed with the Audit and Risk Committee; their report on matters that they considered to be significant to the financial statements is set out on page 147.

Comparison to key audit matters communicated in prior year

In this year's report the following changes to the risks identified have been made compared to my prior year report. For each new or continuing audit matter, further detail is available below.

Additional audit effort on continuing areas reflected in this year's key audit matters

My work on the valuation of the Strategic Road Network (SRN) was more extensive this year because of the revaluation of the costing rates for the biggest asset categories for the network. I also improved the coverage of management's estimate for the condition of the network's structures.

As a result of the company's advancing progress with high value road schemes involving property acquisition, I expanded procedures in respect of the related balances, including provisions for statutory blight and compulsory purchase.

My team also expended significant effort in auditing the valuation of the company's accruals. I assessed the inherent risk of misstatement as broadly similar to 2018–19, noting that significant valuation complexity exists in only a minority of accruals. However, I was acutely conscious as my team conducted sample testing of the need to ensure capital accruals reflected actual delivery positions at the Balance Sheet date, given the introduction during March of significant restrictions related to the COVID-19 pandemic. My team also carried out additional testing on the smaller non-capital accruals population in response to errors identified during testing.

New matters driven by material accounting policy changes

Highways England adopted IFRS 16 – Leases for the first time in 2019–20. My team performed focused work in this area, particularly around the valuation of lease liabilities at the point of transition.

Matters on which risk has reduced compared to 2018–19

I continued this year to focus significant audit effort on Highways England's PFI accounting. Having reviewed in detail in 2018–19 the measurement of the three largest PFI schemes, including for the M25 scheme the impact of an in-year refinancing, my focus this year narrowed to a detailed periodic review of the remaining schemes.

I previously reported on the key audit matters of the Oracle Fusion Implementation and Potential VAT liabilities. This year I found that there were limited changes made to Oracle Fusion during the year, and the VAT liabilities had been settled with HMRC. I have therefore not highlighted a key audit matter in these areas.

1. Valuation of the Strategic Road Network (SRN)	
Description of risk	**Revaluation of costing rates – land and road categories** The SRN is the dominant component of the accounts (£123.2 billion as at 31 March 2020 inclusive of the technology asset category, which is not included within the scope of the significant risk I raised with the audit committee). The valuation comprises an estimate of the depreciated replacement cost of the SRN, as a proxy for its fair value in the absence of income- or market-based sources. The estimate uses the best information available on the actual cost of recent schemes, together with records about the number, type and condition of physical assets. A number of assumptions are implicit in determining the SRN valuation, the validity of which needs keeping under review; for example, whether costing rates for material SRN elements remain a reasonable basis for valuing a modern equivalent asset. In 2019–20, management carried out a full revaluation for the land and road asset categories. These rates are constructed by analysing previous scheme costs and making adjustments in line with generally accepted depreciated replacement cost principles, such as the use of a greenfield basis. Management also consider other evidence on cost estimation as they apply the new rates. In addition to the core rates, management also used recent scheme outturns to recalculated uplifts including: • land compensation costs, reflecting the additional costs of compulsory acquisition; • preparation and supervision rates which are applied to all asset categories to reflect greenfield-relevant costs outside of direct labour & materials; and • an uplift for Smart Motorways, reflecting the additional replacement cost for these assets compared to the baseline measurement. Management also chose to use a different index to uplift costs, HECI, which is specific to Highways England's programme of work. This was relevant for this year's exercise, since in order to maximise the reliability of the valuation procedures, management chose to baseline the full revaluation of costing rates as at 31 March 2019, and to use indexation to adjust these to current cost as at the Balance Sheet date. **Condition assessment – road and structure categories** Management adjust the valuation of the network based on the observed condition of its assets. This measurement is most sensitive to change in respect of the road asset category – into which management have added additional condition indicators during this year – and structures, where management use a cost-weighted analysis of physical inspection data to estimate the useful life remaining for its portfolio of road structures. **Further detail on judgements and estimates** The SRN valuation contains multiple areas of judgement and estimation uncertainty. I treat this area as a significant matter for audit because of the inherent complexity and estimation uncertainty. The Company details the critical judgements and estimates they have made in relation to the SRN at note 6.2 and note 9 in the financial statements.

1. Valuation of the Strategic Road Network (SRN) (continued)	
How the scope of my audit responded to the risk	My procedures on the SRN valuation are geared towards evaluating the reasonableness of management's estimate of its value, to assess: • the quality of source data in the underlying databases; • the reasonableness of revised costing rates (land, road) and cost indexation factors applied in-year; • and the adjustments made in respect of the network's condition based on the available evidence from asset management activities, amongst other key assumptions. I also considered whether any of my findings were indicative of management bias. **Revaluation of costing rates – land and road** My team evaluated management's revaluation of its land holdings with reference to a reputable independent set of rates. The greatest part of my audit effort was directed towards the more complex revaluation of road costing rates. On this, I: • reperformed management's calculation of the costing rates from underlying data; • engaged an auditor's expert to review the appropriateness of the costing rates and the main uplifts applied; • assessed the reasonableness of management's statistical analysis which transforms historically derived rates for the most common road types to the full set of road types; • with the assistance of the auditor's expert, evaluated the appropriateness of 'modern equivalent' costing rates in the context of actual network characteristics, principally in valuing the technical valuation adjustment in respect of central reservation barriers; and • evaluated the application of the calculated costing rates in the valuation model. **Condition assessment – road and structures categories** I assessed the reasonableness of the use of new condition indicators in the valuation of the road network, as well as addressing the reliability of key source data. In respect of structures, with the assistance of a civil engineering focused auditor's expert, I: • confirmed the reasonableness of management's cost-weighted condition methodology; • evaluated the reasonableness of management's analysis of its inspection data; and • considered the reliability and relevance of that data. **Key observations** During the year, the net SRN valuation increased by £4.6 billion. The main driver of this increase was the full revaluation of the road asset, as the costing rates increased across all road types, and both the preparation and supervision and land compensation uplifts increased, and these are applied to all asset categories. In the course of completing this work, I worked with management to identify a number of adjustments to ensure that the costing rates properly reflected the overall network, including adjusting for the specific features of schemes used to construct costing rates, and where the modern equivalent differed from the actual network. Following adjustments, I did not identify any material misstatements in the valuation of the road network recognised and disclosed in the financial statements.

2. Implementation of IFRS 16 Leases	
Description of risk	Highways England implemented the new IFRS 16 Leases accounting standard on 1 April 2019. The new standard requires lessees to recognise nearly all leases on the Statement of Financial Position, both as an asset representing their right to use an asset for a period of time, and a liability representing its obligation to make the associated lease payments. The company recognised £60 million of right of use assets and £64 million of lease liabilities on transition. The implementation is data-intensive, with the company having to collate data from around the business and make judgements, for example on the appropriate incremental borrowing rate and whether they are reasonably certain that break or extension clauses will be enacted to determine the lease term. Although the balance of assets and liabilities recognised on transition is immaterial, I identified this area as a significant area of focus given the significant change brought about by this accounting standard.
How the scope of my audit responded to the risk	I reviewed the processes and controls implemented to capture and assess arrangements that could contain a lease or an embedded lease. This included a review by the Company, which my team reperformed, of significant construction contracts. I reviewed the lease register used against listings previously provided for audit, as the company applied the practical expedient as allowed by IFRS 16 to transition only leases previously identified as such under IAS 17. I performed a sample test of historical leases and tested all new leases in-year, and reviewed management's judgements around lease terms. I also reviewed the appropriateness of the incremental borrowing rate used which is theoretically based since the Company is funded entirely by contributions from its controlling party. **Key observations** Having evaluated my team's work on the implementation of IFRS 16, I did not identify any material misstatements in the completeness or valuation of the lease assets and liabilities recognised and disclosed in the financial statements.

3. Accounting for Land and Property Purchases	
Description of risk	The company recognised provisions of £237.6m at 31 March 2020 for land and property acquisition. These relate to the estimated cost of planning blight, discretionary and compulsory acquisition of property and compensation for property owners arising from physical construction of road schemes. Given that the provisions balance is increasing as the company progresses significant projects such as the Lower Thames Crossing, I considered there to be an increasingly relevant element of judgement and uncertainty within this balance. Further information on the accounting for land and property purchases is included in notes 7.4 and 9.3 of the financial statements.
How the scope of my audit responded to the risk	I performed the following procedures over the accounting for land and property purchases: • engaged an auditor's expert to review the company's own expert's work against the Compensation Code; • reviewed the accounting treatment of provisions and contingent liabilities against IAS 37 and challenged the company on the appropriateness of its accounting for blight; and • tested a sample of provisions at year end to agree the valuation and existence to supporting information. **Key observations** My work concluded that the company's accounting policy is within the range permitted by IAS 37. In the course of completing this work, I did not identify any material misstatements in the provisions balance recognised and disclosed in the financial statements.

4. Private Finance Initiative (PFI) contracts	
Description of risk	Following recognition in previous years, the company has on Balance Sheet £1.4 billion of PFI liabilities as at 31 March 2020. I reviewed the three largest – M25, A1(M1) and A1 Darrington to Dishforth – in detail last year. During the year, the company reviewed their accounting model for the remainder for any anomalies, and against the financial close models which describe the basis on which unitary payment streams were originally set. A number of these contracts are nearly 25 years old and the company was required to make judgements using the best information available. Further information on PFI contracts is included in note 7.5.2 in the financial statements.
How the scope of my audit responded to the risk	In respect of PFI contracts on which I had not performed a detailed periodic review in the prior year, I: • reviewed the financial close models, and using information from these, calculated an auditor's range for the plausible closing balance obligations at 31 March 2019 and 31 March 2020 for each contract (the key variable being the extent of apportionment of the contractor's profit element to capital elements of the contract); and • reviewed the disclosures made in the financial statements against each model and supporting information. **Key observations** I identified for some contracts that the end dates per the company's accounting models were not consistent with the financial close model, or the company's own forecasted payment schedule. The company made an adjustment for £66 million to correct this, as disclosed in note 7.5.2. When corrected for the above issue, I concluded that the closing balance of £1.4 billion was within the auditor's range. I also confirmed that there was no material prior year error as a result of the incorrect end dates.

5. Accruals	
Description of risk	Where work has been performed by the company or its contractors by the year end, but an invoice has not been raised, the company raises an accrual for the expected costs. The largest balances relate to for accruals relating to its capital investment in the road network, for example on renewals and enhancement projects. The company expects to be well informed about these costs, but there remains a level of estimation at the year end about the amount of work delivered. This may differ from plan, for example as a result of unexpected under or over-delivery by Highways England's contractors. Both controllable factors (e.g. contractor project management) and uncontrollable factors (e.g. ground conditions and weather) provide a level of estimation uncertainty which the company addresses through a post Balance Sheet review exercise. These factors are part of the estimation uncertainty outlined by the company under the comments concerning cost of work done in the 'Critical accounting judgements and key sources of uncertainty' section in Note 9.2.
How the scope of my audit responded to the risk	I substantively tested the accruals balance using a stratified sample testing approach, which allowed me to focus on higher value accruals and split resource and capital accruals. This testing identified that the company does not always update the valuation of their accruals for information that comes to light after the balance sheet date. It also identified a higher level of estimation uncertainty in projects that are nearly completed, where the company and its contractors are negotiating the final settlement. I performed additional testing of resource accruals as a result of a higher than expected level of error. Management made a £8 million adjustment to its accruals balance as a result of an identified overstatement of work performed in the year. **Key observations** By extrapolating the additional testing over the full accruals population, I was able to gain sufficient assurance the accruals balance was not materially misstated.

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 £1.2 billion, which is approximately 1% of the value of the 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 non-SRN transactions and balances, and for SRN capital additions, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts, given additional user interest in the publicly funded cost of the Company's activities. I have therefore determined that the level to be applied to these components is £67 million, being approximately 1.5% 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 Report. 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 £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee in respect of the SRN, against overall materiality, would have decreased net assets by £630 million. Total unadjusted audit differences reported to the Audit Committee relevant to the additional materiality (i.e. in respect of non-SRN transactions and balances and capital additions) would have increased net assets by £17 million.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view;
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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 Company's internal control.
- 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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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.

Audit scope

The scope of my audit was determined by obtaining an understanding of the entity and its environment, including entity-wide controls, and assessing the risks of material misstatement at the Group level.

Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report but does not include the parts of the Remuneration Report described in that report as having been audited, 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.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

- Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or
- Audit Committee reporting: the section describing the work of the Company's Audit and Risk Committee does not appropriately address matters communicated by me to the Audit and Risk Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

Directors' remuneration

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and the company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report.

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 compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.
- rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules about the Company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees 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
- certain disclosures of directors' remuneration specified by law are not made;
- I have not received all of the information and explanations I require for my audit; or
- a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Matthew 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

04 September 2020

CONTENTS OF THE FINANCIAL STATEMENTS

CONTENTS OF THE NOTES TO THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

Statement of comprehensive net expenditure for the year ended 31 March 2020

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Staff costs	3	157,512	150,233
Maintenance and similar activities		508,016	509,246
Interest on PFI finance leases	7.5.2	134,739	109,001
PFI service charges	7.5.3	348,405	276,965
Depreciation and amortisation	6.1 & 6.4	1,171,597	1,212,044
Impairment	6.1 & 6.5	29,890	840
Loss on sale of assets including detrunking	6.2	29,507	54,017
Other expenditure	4	148,325	146,114
Operating income	2	(59,676)	(68,735)
Net expenditure before taxation		**2,468,315**	**2,389,725**
Taxation	5	(75)	2
Net expenditure after taxation		**2,468,240**	**2,389,727**
Other comprehensive net expenditure			
Items that will not be reclassified to net expenditure			
Net gain on remeasurement of property, plant and equipment	6.2	(3,445,304)	(3,843,034)
Total comprehensive income for the year		**(977,064)**	**(1,453,307)**

The accounting policies and notes on pages 175 to 213 form part of these accounts.

Statement of financial position as at 31 March 2020

	Note	31 March 2020 £000	31 March 2019 £000
Non-current assets:			
Property, plant & equipment	6.1	126,158,252	120,631,557
Intangible assets	6.4	14,998	20,011
Trade and other receivables	7.2	10,569	11,854
Total non-current assets		**126,183,819**	**120,663,422**
Current assets:			
Assets classified as held for sale	6.5	11,962	16,270
Inventories	6.6	49,205	46,991
Trade and other receivables	7.2	272,418	172,972
Cash and cash equivalents	7.1	762	16,395
Total current assets		**334,347**	**252,628**
Total assets		**126,518,166**	**120,916,050**
Current liabilities:			
Trade and other payables	7.3	913,071	773,841
Provisions	7.4	163,874	198,291
Total current liabilities		**1,076,945**	**972,132**
Non-current assets less net current liabilities		**125,441,221**	**119,943,918**
Non-current liabilities:			
Provisions	7.4	125,712	143,667
Other payables	7.3	1,426,437	1,404,243
Total non-current liabilities		**1,552,149**	**1,547,910**
Assets less liabilities		**123,889,072**	**118,396,008**
Taxpayers' equity:			
Share capital		–	–
Capital contributions		49,873,712	49,656,937
Retained earnings		6,157,944	4,110,184
Revaluation reserve		67,857,416	64,628,887
Total taxpayers' equity		**123,889,072**	**118,396,008**

The accounting policies and notes on pages 175 to 213 form part of these accounts.

The issued share capital of the company is £10, as detailed in note 8.

These financial statements were approved and authorised for issue by the Board of Directors on 29 July 2020, and were signed on its behalf by:

Jim O'Sullivan

Jim O'Sullivan, Chief Executive Officer
Company registered number: 9346363

Statement of cash flows for the year ended 31 March 2020

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Cash flows from operating activities			
Net operating cost		(2,468,240)	(2,389,727)
Adjustments for non-cash transactions:			
Depreciation and amortisation	6.1 & 6.4	1,171,597	1,212,044
Loss on sale of fixed assets		29,507	54,017
Net increase in resource provisions	7.4	26,789	45,443
Programme impairments		29,890	840
Interest on leases	7.5.1	1,392	–
Reduction in IFRS 16 assets for rent free periods elapsed		4,380	–
Increase in inventories	6.6	(2,214)	(10,068)
(Increase)/decrease in trade and other receivables	7.2	(98,161)	51,682
Increase/(decrease) in trade and other payables	7.3	161,424	(114,904)
Less movement in payables relating to items not passing through the SoCNE	7.5.1	(64,529)	–
Use of capital provisions	7.4	(134,283)	(51,747)
Use of resource provisions	7.4	(70,166)	(2,560)
Adjustment for capital element of PFI payments	7.5.2	16,389	77,763
Net cash outflow from operating activities		**(1,396,225)**	**(1,127,217)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6.1	(3,256,354)	(2,807,769)
Non-cash movement on creation of IFRS 16 asset	6.1	13,376	–
Proceeds on disposal of assets		13,058	7,763
Capital element of movement in provisions	7.4	124,504	184,659
Net cash outflow from investing activities		**(3,105,416)**	**(2,615,347)**
Cash flows from financing activities			
Capital contribution from Shareholder: current year		4,516,000	3,818,000
Capital element of payments in respect of on balance sheet PFI contracts	7.5.2	(16,389)	(77,763)
Payment of lease liabilities	7.5.1	(13,603)	–
Net financing		**4,486,008**	**3,740,237**
Net decrease in cash and cash equivalents in the year		**(15,633)**	**(2,327)**
Cash and cash equivalents at the beginning of the year	7.1	**16,395**	**18,722**
Cash and cash equivalents at the end of the year	7.1	**762**	**16,395**

Statement of changes in taxpayers' equity for the year ended 31 March 2020

	Note	Capital contributions £000	Retained earnings £000	Revaluation reserve £000	Total equity £000
Balance at 1 April 2018		49,538,620	2,681,911	60,904,170	113,124,701
Changes in taxpayers' equity for 2018–19					
Net (loss)/gain on remeasurement of property, plant and equipment		(101,854)	–	3,944,888	3,843,034
Transfers between reserves		220,171	–	(220,171)	–
Net comprehensive expenditure after taxation for the year		–	(2,389,727)	–	(2,389,727)
Total recognised income and expenditure for the year ended 31 March 2019		49,656,937	292,184	64,628,887	114,578,008
Funding from Shareholder		–	3,818,000	–	3,818,000
Balance at 31 March 2019		49,656,937	4,110,184	64,628,887	118,396,008
Balance at 1 April 2019		49,656,937	4,110,184	64,628,887	118,396,008
Changes in taxpayers' equity for 2019–20					
Net (loss)/gain on remeasurement of property, plant and equipment	6.2.iii.b	(29,162)	–	3,474,466	3,445,304
Transfers between reserves		245,937	–	(245,937)	–
Net comprehensive expenditure after taxation for the year		–	(2,468,240)	–	(2,468,240)
Total recognised income and expenditure for the year ended 31 March 2020		49,873,712	1,641,944	67,857,416	119,373,072
Funding from Shareholder		–	4,516,000	–	4,516,000
Balance at 31 March 2020		49,873,712	6,157,944	67,857,416	123,889,072

NOTES TO THE FINANCIAL STATEMENTS

1 Significant changes in the current period

The financial position and performance of the company was particularly affected by the following events and transactions during the reporting period:

- Pavement and lands quinquennial revaluation (QQR) which created a £6.5 billion increase in value driven by increases in construction costs (£9.9 billion) offset by a 'technical adjustment' (£3.4 billion) (note 6.2.iii.b).
- The adoption of the new accounting standards for Leases – International Financial Reporting Standards IFRS 16 (see note 19). This increased Right of Use (ROU) assets by £63.7 million (note 6.1) and lease liabilities by £64.5 million (note 7.5.1).

For a review of the company's performance and financial position please see the financial summary on pages 12 to 16.

To understand how our funding ties into our financial accounts see note 22 for the FReM[1] disclosures.

HOW THE NUMBERS ARE CALCULATED

2 Operating income

Operating income relates directly to the operating activities of the company and arises from:

- **Recoveries from third parties** for damage to the Strategic Road Network (SRN)
- **Third party contributions** to road schemes
- **Fees and charges** for work carried out on a full-cost basis to external customers in both the public and private sectors
- **Other income** relating to income from short term lettings, income from vehicle recoveries on the network, grant income and Memorandum of Understanding (MOU) income received from government departments for the use of office space

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Operating income analysed by classification and activity is as follows:		
Recoveries from third parties for damage to the SRN	(6,866)	(9,002)
Contribution to road schemes	(25,827)	(26,835)
Fees and charges to external customers	(10,158)	(17,698)
Other income	(16,825)	(15,200)
Total operating income	**(59,676)**	**(68,735)**

The revenue recognition principles for each of the major revenue streams are outlined below and while the company does not have customers in the traditional sense, it has applied the principles of IFRS 15 (revenue recognition) where relevant as a matter of good practice.

- **Recovery from third parties for damage to the SRN.** The company considers that past events involving damage to the network initially create a contingent asset under IAS 37 (provisions, contingent liabilities and contingent assets), since they create a situation whereby a reimbursement by the offending party is probable. Income (and a receivable) is recognised at the point at which an insurance company decides that they will make a payment, as it is then considered that reimbursement is virtually certain.
- **Contribution to road schemes** relates to contributions to projects from third parties. Contributions are received from developers or local authorities who require us to tailor our schemes in line with the needs of their own development projects. Revenue fluctuates dependent upon the number and size of developments taking place alongside our programme and is apportioned based upon the percentage of construction completed. This aligns with the requirements of International Accounting Standard IAS 20 (Grants from government) which requires income to be systematically recognised over a period to match it with related cost.
- **Fees and charges to external customers** relate to contributions to schemes from third parties under S274/278 contracts. Revenue in relation to this type of contract is received in advance and is then held as deferred income until costs are incurred to fulfil the contract. The treatment of this revenue is consistent with IFRS 15 section 35(b), whereby revenue is recognised over time as the asset is created or enhanced.

  The reduction in income on fees and charges year on year relates to a reduction in work on a number of section 274/278[2] projects including the M25 HS2 Slip roads project, where spend has reduced to £1.9 million in the year (2018–19 £10.8 million).
- **Other income** relates to various less material revenue streams including income relating to vehicle recovery, short-term property lettings, grant income and income from MOU agreements with government departments.

  Operating income is stated net of recoverable VAT and is measured at the fair value of the consideration received or receivable.

  Further information and disclosure under FReM can be found in the FReM Disclosures, note 22 on page 207.

1 FReM refers to the government financial reporting manual. This is the technical accounting guide for the preparation of government financial statements.
2 S274/278 schemes occur where a third party requests to fund changes to the strategic road network, usually to improve connections for other local authorities or developer led projects.

3 Staff numbers and related costs

3.1 Staff costs

	Year to 31 March 2020			Year to 31 March 2019
	Permanent staff £000	Other £000	Total £000	Total £000
Wages and salaries	230,646	3,083	233,729	217,843
Social security costs	25,928	–	25,928	23,285
Other pension costs	36,185	–	36,185	30,107
Total gross costs	**292,759**	**3,083**	**295,842**	**271,235**
Capitalised staff costs	(136,852)	(1,456)	(138,308)	(120,983)
Less recoveries in respect of outward secondments	(22)	–	(22)	(19)
Total net costs	**155,885**	**1,627**	**157,512**	**150,233**

Permanent staff are those staff with a permanent employment contract with the company. Other relates to contingent labour.

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.

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees.

Performance-related bonuses

At the year end, each employee's performance has not been formally assessed and consequently the pay increases and bonus payments for the year to 31 March are not yet known. However, the work has been completed and therefore a liability is created. The value of the bonuses to be paid is estimated and accrued based on all information that is available including: company performance forecasts, previous employee performances and performance related pay scheme details. This is aligned to accounting standard IAS 19 (employee benefits).

Holiday pay

Employees of the company have different holiday leave year end dates based upon their date of employment. As leave is used during the year at different times compared to a straight line accrual, at 31 March there is an element of leave that is owed either by the company to employees or owed by employees to the company. The cost of leave earned but not taken by employees is recognised in the financial statements.

Termination

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 net expenditure when the company is formally committed to ending an employment contract.

Pensions

The company's employees are involved in three main pension schemes: The Principal Civil Service Pension Scheme (PCSPS), the Highways England Personal Pension (Defined Contribution) Scheme (HEPP), and the Federated Pension Plan (FPP), described in more detail below. Due to the nature of the joining criteria, the membership in PCSPS is on the decline, while membership in the HEPP scheme is increasing and membership in FPP is increasing but at a much slower rate.

Employees who transferred to the company from the Highways Agency on 31 March 2015 retained participation in the PCSPS.

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 accounting standard (IAS 19 employee benefits), accounts for the scheme as if it were a defined contribution scheme.

Employees who joined the company with effect from 1 April 2015 are eligible to participate in the HEPP. The pension scheme came into effect on 1 April 2015 and is managed on the company's behalf by Legal & General Ltd.

Highways England also has an FPP which is a master-trust defined benefit scheme managed on the company's behalf by Pan Trustees Limited. The FPP was established on 1 July 2016 to accommodate pension benefits protected under TUPE for employees transferring in to Highways England with legacy defined benefit pensions. The FPP currently has a small but growing membership and is used to provide comparable pension benefits for transfers into Highways England, where protected by legislation.

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

a) **The Principal Civil Service Pension Scheme (PCSPS)** is an unfunded multi-employer defined benefit scheme. 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 2019–20, employers' contributions of £24.6 million (2018–19 £20.4 million) were payable to the PCSPS at one of four rates in the range 26.6% to 30.3% (2018–19 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 2019–20 to be paid when the member retires and not the benefits paid during this year to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer's contributions of £0.2 million (2018–19 £0.2 million) were payable to one or more of the panel of five appointed stakeholder pension providers. Employer contributions are age-related and range from 8% to 14.75% (2018–19 8% to 14.75%). The company also matches employee contributions up to 3% of pensionable earnings. In addition, employer's contributions of £4,900 (2018–19 £5,800), 0.5% (2018–19 0.5%) of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service or ill health retirement of these employees.

Contributions due to the partnership pension providers as at 31 March 2020 were £11,200 (2018–19 £11,900). Contributions prepaid at that date were £nil (2018–19 £nil).

b) **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 2019–20, employers' contributions of £10.9 million (2018–19 £8.7 million) were payable to the plan.

c) **The Federated Pension Plan – Highways England section (FPP)** is a master-trust defined benefit pension plan, administered by PAN Trustees. Employer contributions are set between 41.0% and 41.5% of pensionable earnings (dependent upon contractual employee contribution rates at the time of transfer). Employer's contributions of £0.5 million were paid to the FPP during 2019–20 (2018–19 £0.2 million). The contribution rates were set based on an actuarial valuation of the scheme at inception in July 2016.

d) **Severn River Crossing Pension Plan** – In 2018–19 the company started a transitional arrangement for the staff transferred from Severn River Crossing plc. These staff contributed to an existing private pension scheme whilst arrangements were sought to bring them into one of the existing three plans. The scheme closed during 2019–20. Employer's contributions to the scheme during the year were £0.1 million (2018–19 £0.4 million).

3.2 Average number of persons employed

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

	Year to 31 March 2020			Year to 31 March 2019
	Permanent staff	Other	Total	Total
Traffic officer staff	1,734	–	1,734	1,655
Direct support to front line projects and service delivery	1,803	8	1,811	1,754
Staff engaged on capital projects	2,160	7	2,167	2,020
Average FTE persons employed	**5,697**	**15**	**5,712**	**5,429**

During the year ending 31 March 2020 the actual full time equivalent employees (FTE) increased from 5,517 to 5,722. The growth has focused on our key capability areas such as programme and project management, asset management and commercial roles.

4 Other expenses

	Note	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Information technology		42,439	37,814
Research and development expenditure		7,449	8,471
Rates and building costs		19,096	12,522
Provisions expenditure	7.4	27,817	46,416
Rent		1,210	6,949
Interest under IFRS 16	7.5.1	1,392	–
Travel and subsistence		6,080	4,884
Traffic management vehicle costs		3,042	7,030
Recruitment and training		5,893	5,862
Consultancy		2,842	2,483
Communication		2,711	3,948
Stationery		734	1,162
Other		27,620	8,573
Total		**148,325**	**146,114**

Building maintenance, landlord service charges and business rates have increased by £6.6 million in the year as the property portfolio has expanded. Underlying rental charges have also increased in year by £5 million, however, the introduction of IFRS 16 (Leases) has resulted in £11 million of expenditure being transferred to leased assets and the expense is now realised in additional depreciation and interest.

The year-on-year decrease in provisions is due to a reduction in VAT provisions relating to Hybrid schemes.

Lower traffic manager vehicle costs are as a result of purchases of new fleet vehicles in the prior year, reducing maintenance requirements.

Stock is the biggest movement within 'Other', with a £19 million movement as stock balances have been reviewed, rationalised and historical discrepancies have been written-off

Excluding VAT the auditor fee of the Comptroller and Auditor General for the year ending 31 March 2020 is £322,000 (2018–19 £310,000), and is in relation to the audit of the 2019–20 financial statements of Highways England £257,000 (2018–19 £245,000); and Dartford-Thurrock River Crossing Charging Scheme £65,000 (2018–19 £65,000). This amount is included in 'Other' above.

Expenditure on research is not capitalised. Development expenditure that does not meet criteria for capitalisation is also treated as an expense and shown in net expenditure in the year in which it is incurred.

5 Corporation Tax

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 is only liable for Corporation Tax in relation to income earned from business activities. Business activities for the company are non-statutory obligations where the company is in competition with other providers. Income from business activities includes sale and rental of properties purchased as part of road schemes.

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
a) Analysis of the tax (credit)/charge		
Current taxation		
UK Corporation Tax	–	–
Adjustments in respect of prior years	(75)	2
	(75)	**2**
b) Factors affecting the tax (credit)/charge for the year		
The effective rate of tax for the period is less than the standard rate of Corporation Tax in the UK of 19% (2018–19 19%)		
The differences are explained below:		
Net expenditure on ordinary activities	(2,468,315)	(2,389,725)
Net expenditure on ordinary activities multiplied by standard rate of Corporation Tax in the UK of 19% (2018–19 19%)	(468,980)	(454,048)
Effect of:		
Income and expenditure not subject to Corporation Tax	468,980	454,048
	–	–

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

Current tax is the expected tax payable or receivable on the current taxable income or loss for the year, using tax rates enacted at the balance sheet date and any adjustment to tax payable in relation to previous years. The £75,000 tax credit relates to a corporation tax over provision in 2018.

At Summer Budget 2015, the government announced legislation setting the Corporation Tax main rate (for all profits except ring fence profits) at 19% from 1 April 2017 and at 18% from 1 April 2020. At Budget 2016, the government announced a further reduction to the Corporation Tax main rate (for all profits except ring fence profits) for the year starting 1 April 2020, setting the rate at 17%.

The company has no deferred tax as business activity is minimal.

6 Non-financial assets and liabilities

This note provides information about the company's financial assets and liabilities. This covers:

- Property, plant and equipment – (both SRN and non-SRN)
- Intangible assets
- Assets held for sale
- Inventory

Employee benefit obligations are captured within the staff costs in note 3.

Property, plant and equipment is sub-categorised into:

- The SRN – This consists of the motorways and trunk roads in England (as depicted by the network management map), which form a single integrated network and includes assets under construction (AUC).
- Non-network assets – These include land, buildings and information technology outside the SRN's perimeter, as well as all plant and machinery and assets held under leases as defined by IFRS 16.

6.1 Property, plant and equipment

2019–20

	SRN and related AUC £000	Non SRN AUC £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information technology £000	Leased assets £000	Total £000
Cost or valuation									
At 1 April 2019	**135,231,716**	**30,176**	**181,360**	**228,155**	**55,018**	**164,170**	**5,852**	**–**	**135,896,447**
Leases recognised under new standard	–	–	–	–	–	–	–	59,769	59,769
Capital additions	3,150,522	92,451	–	–	–	5	–	13,376	3,256,354
Disposals	–	–	(5,397)	–	(1,279)	(17,040)	(597)	–	(24,313)
Revaluation	8,489,624	64,522	7,140	4,944	7,088	1,322	44	–	8,574,684
Valuation adjustments	(657,626)	–	–	–	–	–	–	–	(657,626)
Technical valuation adjustment	(3,427,470)	–	–	–	–	–	–	–	(3,427,470)
Derecognition	(35,963)	–	(283)	–	(368)	–	–	–	(36,614)
Impairment – charged to SoCNE	–	(27,820)	(892)	–	(1,000)	(4,294)	–	–	(34,006)
Impairment – charged to revaluation reserve	–	–	(2,116)	–	(1,014)	(243)	–	–	(3,373)
Transfers	(19,473)	(27,743)	2,527	2,092	16,944	19,690	5,963	–	–
Reclassifications to assets held for sale		–	(2)	–	(1,919)	–	–	–	(1,921)
At 31 March 2020	**142,731,330**	**131,586**	**182,337**	**235,191**	**73,470**	**163,610**	**11,262**	**73,145**	**143,601,931**
Depreciation and impairment									
At 1 April 2019	**14,992,724**	**–**	**–**	**129,349**	**–**	**139,183**	**3,634**	**–**	**15,264,890**
Charged in year	1,138,471	–	–	7,534	–	9,756	1,363	9,460	1,166,584
Disposals	–	–	–	–	–	(17,018)	(597)	–	(17,615)
Revaluation	1,694,773	–	–	2,877	–	862	25	–	1,698,537
Valuation adjustments	(657,626)	–	–	–	–	–	–	–	(657,626)
Derecognition	(6,828)	–	–	–	–	–	–	–	(6,828)
Impairment	–	–	–	–	–	(4,263)	–	–	(4,263)
At 31 March 2020	**17,161,514**	**–**	**–**	**139,760**	**–**	**128,520**	**4,425**	**9,460**	**17,443,679**
Net book value									
At 1 April 2019	**120,238,992**	**30,176**	**181,360**	**98,806**	**55,018**	**24,987**	**2,218**	**–**	**120,631,557**
At 31 March 2020	**125,569,816**	**131,586**	**182,337**	**95,431**	**73,470**	**35,090**	**6,837**	**63,685**	**126,158,252**

2018–19

	SRN and related AUC £000	Non SRN AUC £000	Land £000	Buildings £000	Dwellings £000	Plant and machinery £000	Information technology £000	Total £000
Cost or valuation								
Balance transferred in at 1 April 2018	**129,611,089**	**34,958**	**181,417**	**221,448**	**50,427**	**153,010**	**3,349**	**130,255,698**
Capital additions	2,730,350	77,419	–	–	–	–	–	2,807,769
Disposals	–	–	(30)	–	(361)	(279)	–	(670)
Revaluation	2,963,214	(44,563)	(3,530)	6,777	6,466	1,738	25	2,930,127
Derecognition	(72,354)	–	–	–	–	–	–	(72,354)
Impairment – charged to SoCNE	–	–	(161)	–	(363)	(24)	–	(548)
Transfers	(583)	(38,313)	2,374	–	–	9,725	2,478	(24,319)
Reclassifications to assets held for sale	–	675	1,290	(70)	(1,151)	–	–	744
At 31 March 2019	**135,231,716**	**30,176**	**181,360**	**228,155**	**55,018**	**164,170**	**5,852**	**135,896,447**
Depreciation and impairment								
Balance transferred in at 1 April 2018	**14,731,381**	**–**	**–**	**126,045**	**–**	**126,806**	**2,834**	**14,987,066**
Disposals	–	–	–	–	–	(279)	–	(279)
Charged in year	1,194,944	–	–	(644)	–	11,476	784	1,206,560
Revaluation	(918,051)	–	–	3,948	–	1,180	16	(912,907)
Derecognition	(15,550)	–	–	–	–	–	–	(15,550)
At 31 March 2019	**14,992,724**	**–**	**–**	**129,349**	**–**	**139,183**	**3,634**	**15,264,890**
Net book value								
At 1 April 2018	**114,879,708**	**34,958**	**181,417**	**95,403**	**50,427**	**26,204**	**515**	**115,268,632**
At 31 March 2019	**120,238,992**	**30,176**	**181,360**	**98,806**	**55,018**	**24,987**	**2,218**	**120,631,557**

6.2 SRN

	Roads £000	Land £000	Structures £000	Technology £000	AUC £000	Total £000
Cost						
At 1 April 2019	**76,421,658**	**13,028,354**	**41,027,907**	**3,097,004**	**1,656,793**	**135,231,716**
Capital additions	472,185	–	185,439	–	2,492,898	3,150,522
Revaluation	8,745,997	(257,287)	1,315,696	(26,660)	(1,288,122)	8,489,624
Functional valuation adjustment	(3,427,470)	–	–	–	–	(3,427,470)
Valuation adjustments	(472,187)	–	(185,439)	–	–	(657,626)
Disposal and derecognition	–	–	(32,225)	(3,738)	–	(35,963)
Transfers	316,985	4,181	52,140	96,783	(489,562)	(19,473)
At 31 March 2020	**82,057,168**	**12,775,248**	**42,363,518**	**3,163,389**	**2,372,007**	**142,731,330**
Accumulated depreciation						
At 1 April 2019	**2,394,594**	**–**	**11,027,333**	**1,570,797**	**–**	**14,992,724**
Charged in year	704,140	–	300,866	133,465	–	1,138,471
Revaluation	1,295,240	–	432,448	(32,915)	–	1,694,773
Valuation adjustments	(472,187)	–	(185,439)	–	–	(657,626)
Disposal and derecognition	–	–	(5,891)	(937)	–	(6,828)
At 31 March 2020	**3,921,787**	**–**	**11,569,317**	**1,670,410**	**–**	**17,161,514**
Net book value						
At 1 April 2019	**74,027,064**	**13,028,354**	**30,000,574**	**1,526,207**	**1,656,793**	**120,238,992**
At 31 March 2020	**78,135,381**	**12,775,248**	**30,794,201**	**1,492,979**	**2,372,007**	**125,569,816**

i) Valuation principles and methodology:
The company has chosen to value the network at fair value. Fair value is a rational and unbiased estimate of the potential market value of an asset at a particular point in time (in this case the company's year-end accounting reference date). Generally, the uplift on revaluation (the gain) is recorded in a revaluation reserve, subject to adjustments discussed at 6.2.iii.b below.

The SRN is a specialised asset and does not have an easily attainable market valuation or an income stream on which to base the valuation. The company therefore determines the fair value of the SRN using Depreciated Replacement Cost (DRC) in accordance with the guidance provided by the FReM. This approach is consistent with accounting standard IFRS 13 (fair value measurement) and calculates the value of the SRN to a theoretical buyer based on how much it would cost to construct a network of equivalent service potential. At a high level, the DRC estimate involves the calculation of an 'as new' replacement cost based on a modern equivalent asset offering the same function (which the company takes to include identical routing and capacity) on a greenfield site[1], before applying depreciation to reflect the current condition of the network.

Highways England undertakes a full valuation of each of the high-level SRN elements (roads, structures, land and technology) at intervals not exceeding five years. This valuation is undertaken with support from professional cost estimators and relevant experts on modelling and statistics. The five-yearly valuation, known as a quinquennial review (QQR), is undertaken in accordance with the general principles of the *Appraisal and Valuation Manual (Red Book)*[2] of the Royal Institution of Chartered Surveyors (RICS).

The QQR provides an opportunity not only to derive rates using the latest source data, but also to reconsider the methods used to value assets.

A QQR revaluation of pavements and lands was undertaken in 2019–20 with costing rates updated to reflect the prices being charged on schemes completed in recent years. This review implemented updates to roads and land rates to reflect the current market, as well as an update to the way depreciation is calculated. The net value of the assets has been adjusted to reflect the new calculation for depreciation and has been accounted for through the revaluation reserve. The impact of changes to the depreciation policy for pavements will not be felt until the year ended 31 March 2021.

In addition, changes to the lands compensation, preparation and supervision uplifts, uplifts to reflect the increased cost of implementing smart motorways and a new indexation policy have been implemented. As indexation, and preparation and supervision affect all asset types, the impact of the review has been seen across all the elements of the network. Full details about the changes to indices can be found in note 6.2.iii.b.

As part of the QQR a change in the depreciation methodology was implemented. Historically, only rutting data collected by the organisation was used to calculate the depreciation factor for pavements. The depreciation factor will now be calculated using rutting, fretting, texture and longitudinal profiles from condition survey results. The impact of this change is taken to reserves for 2019–20 and will impact the depreciation charge from 2020–21 onwards.

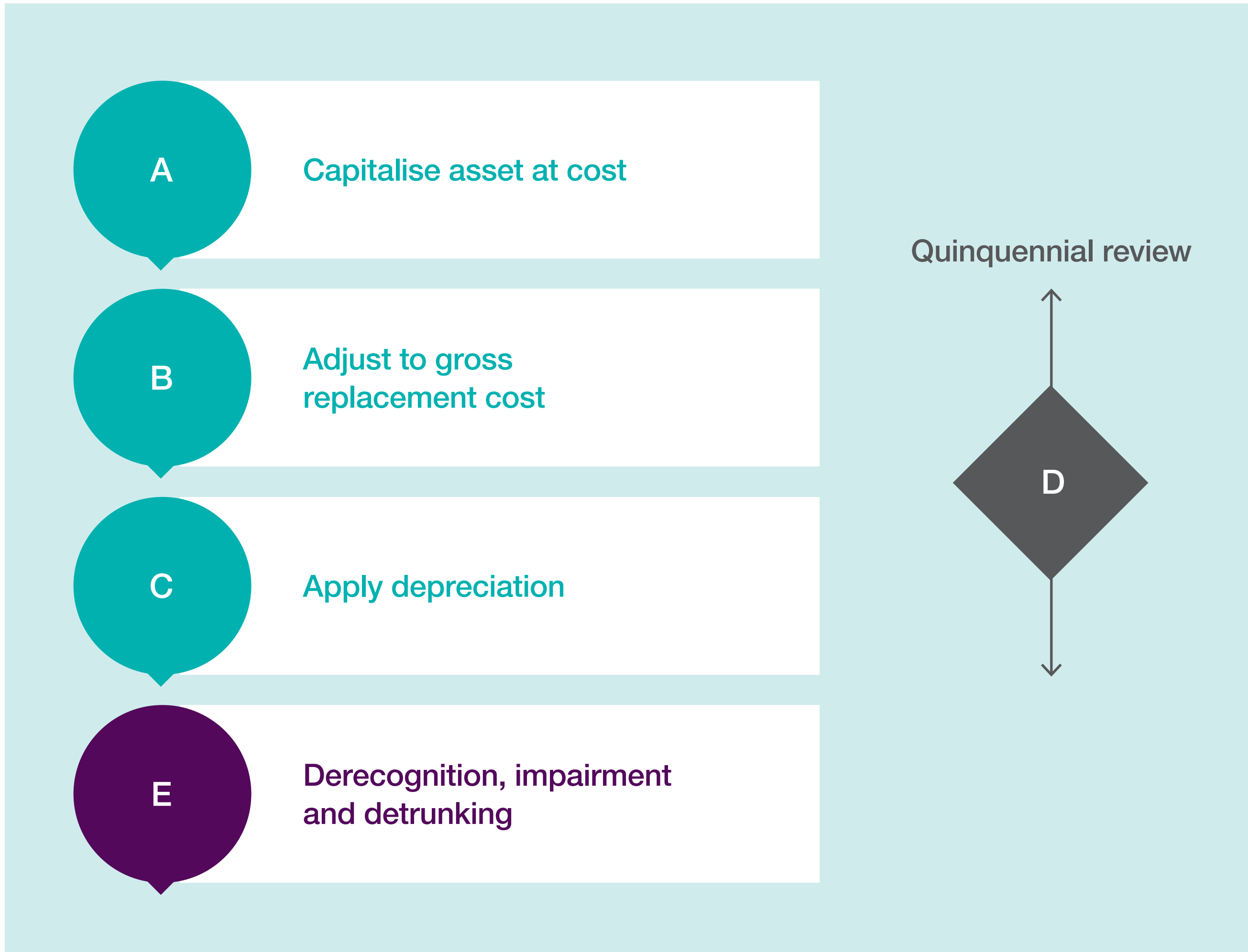
The next QQRs in relation to structures and technology are due in March 2023 and March 2024 respectively. In 2021 we will undertake a bottom up valuation of our special structures. Special structures are those which are unique to our network and for which it is difficult to obtain comparable costing information.

1 SRN is valued on the basis that replacement will be on a greenfield site. VAT is non-recoverable on 'greenfield site' expenditure and so the depreciated replacement cost is adjusted to include non-recoverable VAT at 20%.
2 The *Red Book* contains global mandatory rules, best practice guidance and related commentary for all cost estimators undertaking asset valuations and is clear that valuations for inclusion in financial statements must comply strictly with the financial reporting standards adopted by the company.

ii) Standard costing rates:
The SRN valuation is based on a standard cost model. A number of accounting assumptions are made when calculating the unit rates for the various elements of the SRN as part of the QQR process:

Unit cost	Measurement principles
Roads	Standard costing for roads is based on 29 road types, each of which has a standard unit rate that is applied across the SRN for the relevant road type. Unit rates are generated from suitable schemes constructed over recent years that have opened for traffic. Where a road type is not represented by recent construction work, the company extrapolates data based on known costing relationships between road types.
Land	Land costing rates are determined for the SRN land parcels based upon values provided by the Valuation Office Agency. Parcels are identified and differentiated from each other by geographic location and classified as either urban or rural. Some land occupied by the SRN is not owned by the company, e.g. Crown land; however, as the company is entitled to use this land in perpetuity, it is included within the freehold value of the network.
Structures	For standard structures, unit rates are calculated based upon recently completed schemes. Bridges, tunnels, gantries and retaining walls are valued by applying unit rates to the scale of each asset, e.g. the span and width of bridges. Non-standard structures, such as the Dartford-Thurrock River Crossing, cannot be quantified and valued in the same manner as other structures due to the unique combination of their size, construction and character. For these assets, actual cost data and professional judgement are used to inform the valuation. Non-standard structures have a net value of approximately £2.2 billion.
Technology	For technology equipment (which includes, variable message signs, CCTV, automatic number plate recognition cameras, cabling, telephones and signal power supplies), unit costs are developed by the 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 include the cost of individual components, installation costs, commissioning costs, preparation and supervision costs, and traffic management costs where applicable.

iii) Applying the valuation principles
At a high level, the process for valuing the SRN is as follows:



A

Capitalisation Policy (capitalise asset at cost):
Capital expenditure is the money that we spend on purchasing, renewing or improving our assets. There is no minimal value threshold for capitalisation of SRN expenditure. Costs are capitalised in accordance with the following policies:

Construction

All construction expenditure on schemes is capitalised.

Design costs are capitalised when the related scheme is included within RIS1 or RIS2, and where there is reasonable certainty the scheme will go ahead.

Where a scheme is later withdrawn from the capital programme, total design expenditure already incurred is written off and recognised in the Statement of Comprehensive Net Expenditure. Any remaining land and property is transferred to surplus land and buildings or dwellings.

Internal staff costs

Costs that can be directly 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 directorate supporting the delivery of the capital works. This ratio is then applied to the total pay costs for each directorate.

Renewals and enhancements

The SRN is intended to be maintained at a specific level of service potential by continual replacement and refurbishment.

The SRN is inspected regularly to enable maintenance to be planned on a priority basis. Expenditure on the SRN is capitalised only for projects which extend the network's service potential. This can either be done through enhancements, such as road widening schemes, smart motorway upgrades, new roads or structures, or renewal of the network including surface replacement works and major bridge refurbishments which extend the life of the network.

Maintenance expenditure, which represents day-to-day servicing such as pothole repairs or drainage clearance, is charged to the Statement of Comprehensive Net Expenditure as incurred.

Technology equipment

Expenditure on technology equipment is capitalised when the equipment is installed and commissioned on the SRN for the first time. This principally comprises variable message signs, CCTV and automatic number plate recognition cameras.

Capital additions
The company has invested £2,493 million on capital enhancements in the year. This includes investment in major projects, delivery of the designated funds programme and delivering safety and congestion relief schemes.

In addition, we have invested £657.6 million (2018–19 £648.5 million) in capital renewal schemes. Renewal schemes replace the service potential of the SRN and expenditure is therefore deemed capital expenditure. Renewal schemes are usually small (less than £10 million) and usually completed within six to 18 months. The most significant addition during the period was the continuing work on the M5 Oldbury waterproofing of £53.4 million.

B

Adjustments (adjust gross replacement cost):
Each sub-category of the SRN is valued using the standard costing rates identified by the QQR and then adjusted on an annual basis to reflect changes in underlying market conditions. The following adjustments are made to the revaluation reserve and are reflected in other comprehensive expenditure, to the extent that a revaluation surplus is available:

Adjustments to assets under construction (AUC): Highways England considers the SRN to be one asset. AUC are an integral part of the SRN and due to the physical and functional interdependence of the various elements of the network there is no distinction made between an asset constructed and an asset under construction. AUC are therefore accounted for on the same basis as any other asset subcategory.

AUC are capitalised at cost during construction. In line with RICS principles, the SRN is valued on the basis that the replacement would be on a 'greenfield site'. Road schemes are mostly built on an existing road rather than 'greenfield' and this is more expensive because of the additional cost of traffic management, demolition and other site-specific costs. To provide a consistent valuation of the whole network, the company applies an annual 'greenfield' revaluation adjustment to AUC to bring it back to its depreciated replacement cost.

The company applies revaluation percentages, based upon project type, using projects built over the previous 10 years. This ensures that the valuation of the network is adjusted on an ongoing basis rather than only upon project completion.

Renewals-based adjustments: The valuation of the network is calculated based upon condition surveys (see 'condition depreciation' below). Renewals are performed to ensure that the condition of the network is maintained at a steady state. Renewals are not treated for accounting purposes as having an impact upon the valuation of the network because any related improvement in road condition will be reflected within the surveys. On this basis, for both the road and structures asset categories where there are in-year renewals, the value of the replaced asset elements are adjusted to have nil net book value.

Dimensional variance adjustments: Data quantifying the extent of the SRN is held on a number of internal operational asset management systems which are used to inform the valuation of individual roads and structures. With the use of increasingly accurate measuring technology, there can be changes to the measured length, width, and height of the road and structures when they are remeasured. When this happens, it impacts on the valuation of the SRN.

Indexation: Indices are applied in the years between QQRs to ensure the final valuation is at depreciated replacement cost. Indexation of the SRN valuation is applied as follows:

Unit cost	Indexation determination
Roads and structures	The Highways England Capital Enhancement Cost Index (HECI) is applied to roads and structures for the purposes of yearly revaluation. This is produced bi-annually by the Royal Institution of Chartered Surveyors and directly reflects the movement in prices experienced by the company[3]
Land	Land indexation is determined by the company in consultation with external consultants and the following sources: • Urban land indices from the Land Registry House price index • Rural land indices from the Royal Agricultural University (RAU)[4]
Technology	HECI is applied to all technology assets

Technical valuation adjustment: New technical requirements mean that concrete barriers are required on all 'new' roads. The gross valuation of the network is calculated on modern equivalent basis meaning concrete reservations are included as standard within the road rates. To reflect the fact that the network is composed of around 90% steel reservations, and not the higher costing concrete equivalent, an adjustment has been made to the gross cost for the cost differential between the two barrier types.

3 Historically the company has applied indexation in accordance with the Road Construction Resource Cost Indices (ROCOS). This reflects the movement in prices in the construction industry as a whole. This year, the company has opted to use the Highways England Capital Enhancement Cost Index (HECI) as a reflection of the direct impact of price movements on the company.
4 Historically the RICS Rural Land Market Survey has been used to index land. RICS are no longer producing this and, as the best alternative, we have selected to adopt the RAU rural land indices.

Revaluation

The SRN was revalued upwards by £3.4 billion (2018–19: £5.1 billion upwards revaluation). This comprises:

- The Road Construction Resource Cost Indices (ROCOS) index for the year has moved upwards from 261 to 263, an increase of 0.8% resulting in a £0.8 billion upwards revaluation.
- The network valuation is adjusted for location factors (except for non-structure technology assets and land), which are applied to costs to reflect the regional variations in construction prices. The regional BCIS (Building Cost Information Service) Tender Price Location Study Indices are used as location factors for the valuation. A significant reduction in the valuation of the network of £2.6 billion was a result of falls in this factor. The biggest falls were seen in the North East (5.2% decrease) and South East (6.2% decrease). This adjustment is necessary as the geographical distribution of the SRN is not uniform. Construction costs vary across the country, with higher costs seen where there is a geographical concentration in the SRN in the south-east and other metropolitan areas.
- During the financial year a full quinquennial review was undertaken on the pavements and lands elements of our network. The five-yearly review to pavements and land has led to a £9.9 billion increase to the net book value of the network. A number of changes were made to the rates and the methodology which have impacted on the valuation at year end.

  Road Rates: Updated road rates were developed by Atkins, who reviewed actual cost data from major road schemes completed since the last road rate review. During the past five years, Highways England has completed very few schemes involving the construction of significant amounts of new pavement. A review of all completed schemes resulted in a list of seven potential schemes that may have sufficient new pavement to provide data on construction costs. Of these seven schemes, on analysing the detail only four were able to be carried forwards and used to actually calculate new rates. The other three schemes were discounted predominantly due to them being more complex brownfield development involving improvement works within the scheme whose costs could not be easily stripped out from the overall project costs. The actual construction costs of schemes do not represent the typical greenfield site assumption which is the basis for the calculation of the gross replacement cost. Therefore, often subjective, valuation judgements, assumptions and adjustments are made by our valuers in calculating the final rates.

  The update to road rates has led to around a 7.4% increase in rate for each road design type.

  Land Rates: Up to date land rates were provided by the Valuation Office Agency's District Valuer Services (DVS) team. The rates are based on current market information from recent sales and are valued to reflect typical urban and rural values for each location. As the value of land can vary within an area, the valuer's judgement has been used to determine what constitutes a typical parcel of land within each area.

  On the advice of the DVS, we made a small variation to the geography of the land rates; these are now provided at a sub-regional level rather than at an upper-tier local authority level as was provided historically.

  Further changes were made to how rural land is indexed due to the previous dataset no longer being produced by the RICS (see indexation table page 182).

  The impact of these changes was around a 5% reduction in the valuation of land.

  Smart Motorways: The Smart Motorway uplift was recalculated by Benchmark as our technical specialist in this area. This was based on up to date cost information from recently completed schemes. A bottom up approach is taken to calculating the extra-over cost of delivering a smart motorway as opposed to a standard motorway. This uplift is applied to the lengths of smart motorways across the network.

  The smart motorway uplift increased by 38% from £700,613 per km (Q4 2020) to £970,157 per km (Q4 2020 QQR).

  Indexation: An update has been made to the index used to uplift the rates between five-yearly revaluations.

  Historically, the ROCOS index was used. However, RICS produce a bespoke index for Highways England, which is aligned to the types of construction that Highways England undertakes. It was agreed that this index would be used instead of the ROCOS index, given it is more aligned with the network.

  The bespoke index is applied to all pavement and structure assets, and the majority of communications assets. This led to a 2.5% increase in the valuation of those assets impacted by the change in index.

  Preparation & Supervision and Lands Compensation: A preparation and supervision uplift is required to cover the cost of preparatory works and supervision costs which are not specific to the cost of construction and as such is not factored in to the road rates. Likewise, the lands compensation uplift covers additional lands costs outside of the actual purchase cost of land that make up costs in a scheme. This mainly covers compensation but includes legal costs, surveyors etc.

  The preparation and supervision and lands compensation percentages were updated to include the costs of the new basket of schemes used to calculate rates. A long-term average has been used for these percentages, aggregating the data from the 2010, 2015 and 2020 rates reviews as it was considered this best reflects the varied nature of the schemes delivered by the company and will provide a more accurate uplift, than one which is impacted by one off outliers.

  The preparation and supervision uplift has increased by 3.33 percentage points, from 37.49% to 40.82%.

  The lands compensation uplift has increased by 4 percentage points, from 65.0% to 69.0%.

  Depreciation: A change in the depreciation methodology was implemented through the rates review. Historically, only rutting data collected by the organisation was used to calculate the depreciation factor for pavements. The depreciation factor is now calculated using rutting, fretting, texture and longitudinal profile TRACS survey results. By including additional condition metrics into the calculation, the depreciation of the network will be more aligned to asset maintenance and Key Performance Indicator 8.

  The new depreciation methodology results in an increase in depreciation of £1.0 billion.

  The net value of the assets has been adjusted to reflect the new calculation for depreciation and this has been accounted for in the revaluation reserve.
- SRN AUC capital additions are recognised at actual cost, but the value of projects is revised annually with the aim of approximating a depreciated replacement cost. The company uses a standard revaluation percentage for construction projects lasting more than one year based upon projects constructed over the previous ten years. For the year there were £1.3 billion of valuation adjustments (2018–19 £1.2 billion).
- Included within the revised QQR rates for pavements are the costs of central reservation barriers. In line with the current technical standard for barriers, these have been valued on the basis that they are constructed from concrete. This does not reflect the true composition of the network where approximately 10% of current central reservations are concrete with the remainder being constructed from metal or wire. As there is a significant difference between concrete and the other forms of central reservation designs both physically, and in build and future maintenance costs, it has been deemed appropriate under the RICS guidance to make a 'technical valuation' adjustment of £3.4 billion for this within the SRN valuation.

The table below covers the net movement on revaluation:

Net gain/(loss) on remeasurement of property, plant and equipment recognised in other comprehensive expenditure

	SRN £000	SRN AUC £000	AUC £000	Other £000	Total £000
Revaluation – QQR	9,897,241	–	–	–	9,897,241
Revaluation – indexation	(1,526,154)	–	–	16,774	(1,509,380)
Revaluation – value reduction	–	(1,288,122)	64,522	(3,373)	(1,226,973)
Revaluation – dimensional variance	(288,114)	–	–	–	(288,114)
Technical valuation adjustment	(3,427,470)	–	–	–	(3,427,470)
	4,655,503	**(1,288,122)**	**64,522**	**13,401**	**3,445,304**

C

Depreciation (apply depreciation)

Depreciation is a measure of the value of an asset that has been consumed during the accounting period. It represents a loss in value caused by the use of the asset over the year and is charged to the Statement of Comprehensive Net Expenditure.

All parts of the SRN are depreciated, apart from land and the substructure of the road, which are deemed to have an unlimited useful life.

Road depreciation:

The renewable element of the road is subject to depreciation. This includes:

- Surface layer
- Drainage
- Road marking and studs
- Rigid concrete roads

These elements make up 17.5% of the gross replacement cost for the roads component of our network, the remainder being the cost of the land and substructure. For the purpose of depreciation, the road surface is recognised as a single asset and depreciation on these elements is calculated in two parts:

- Renewals depreciation: As described in 6.2.iii.b, the valuation of the SRN is calculated based upon condition surveys and renewals do not impact upon the valuation of the network. On this basis, we depreciate 100% of renewals expenditure in the year that it is incurred and account for this charge in net expenditure.
- Condition depreciation: Condition depreciation is currently based on rutting surveys. Rutting is a measurement of the deterioration of the wearable element of the road surface and is assessed using the Traffic Speed Road Assessment Condition Surveys (TRACS) performed by WDM and assured by TRL. Analysis of the actual condition of the road is compared to the carrying value of the road (after having applied renewals depreciation) and any movement is taken to net expenditure as a charge or credit to depreciation, depending on whether the condition has deteriorated or improved.

Structures depreciation:

In order to calculate the depreciation charge for structures, we take into account the life of the asset together with cost factors and condition.

Depreciation for structures is determined in two parts as follows:

- Renewals depreciation: As with roads, structures are valued based upon condition surveys. As any improvement in condition driven by renewals will be reflected in the results of these surveys, we depreciate 100% of renewals expenditure in the year that it is incurred.
- Condition depreciation: Structures are complex assets whose service life can be extended by the renewal of individual elements (reflected in an improvement in condition), and the depreciation methodology we use considers service life changes.

  In 2018/19 the company refined and expanded its approach to condition depreciation which was previously calculated based upon straight-line depreciation over the economic life of the structural component parts.. This is the first year in which this new methodology, detailed below, will impact on structures depreciation values directly.

  We depreciate structures by developing a depreciation factor based on the weighted average proportion of service life consumed for each structure. This is calculated based on the condition of each element of the structure using the Element Condition Score (ECS) from structure inspections. Full inspections take place every six years. Where condition improves, the score increases and where the condition deteriorates, the score decreases.

  The ECS for each element is applied to a deterioration curve and averaged using a calculated replacement cost for each element. This results in a weighted average proportion of service life consumed which is then applied as a depreciation factor to the depreciable part of an asset's gross replacement cost (GRC).

  Only the renewable elements of a structure are subject to depreciation (as with roads), and these elements have been assessed to make up 69.89% of a structure's GRC. The renewable elements include the substructure and superstructures, rails, fences and surface preparation such as waterproofing. Non-depreciable elements are primarily related to ground and earthworks, and expenditure incurred on preliminary work and mobilisation.

Technology depreciation:

The depreciation charge for technology assets is based on a 'straight line' depreciation methodology with the value reduced over the assets assigned life. The lifespan of technology varies between 15 and 50 years according to the type of equipment. The lifespan of the majority of equipment is 15 years. Technology assets with a lifespan of 50 years are typically structures to support the technology e.g. masts.

Depreciation charge

The depreciation charge over the year to 31 March 2020 was £1.1 billion (2018–19 £1.2 billion). This consists of:

i) Pavement depreciation – being the decrease in the economic value of the road surface, was £704.1 million (2018–19: £567.3 million). This is made up of:

- Renewals spend of £472.2 million (2018–19: £438.7 million) is used as the basis of an initial depreciation charge, based on the assumption that the network is maintained in a roughly steady state;
- Analysis of road condition surveys provides evidence on the actual condition of the network which allows for more precise depreciation of the road surface – for the period ending 31 March 2020, surveys have increased the depreciation charge by £231.9 million (2018–19: charge of £128.5 million)

ii) Structures depreciation – the SRN structures depreciation charge for the period was £300.9 million (2018–19: £493.9 million), of which £115.4 million represented a deterioration in the condition of structures on the network

iii) Technology depreciation – £133.5 million (2018–19: £133.8 million) depreciation charge for the economic decrease in value of technology on the SRN

E

Derecognition, impairment and detrunking (disposals)

Derecognition: Elements of the SRN removed from service during the year are derecognised (i.e. removed from the financial statements) in line with accounting standard IAS 16 (property, plant and equipment) and the resulting loss on writing off the asset is charged to the Statement of Comprehensive Net Expenditure.

Impairment: Impairment refers to the permanent reduction in value of a company's assets below its carrying value as shown in the financial statements. The road surface and other SRN components are subject to an annual impairment review. Where they occur, impairments are recognised in line with IAS 36 (impairment of assets), by reducing the carrying value of the asset in the Statement of Financial Position and recognising a charge on the Statement of Comprehensive Net Expenditure to the extent that the impairment loss exceeds the available revaluation reserve.

Detrunking/trunking: During the accounting period the value of the SRN can be decreased by 'detrunking'. This is where a road/route is transferred from the company to a local authority. The value of the SRN can also be increased by 'trunking' when the company adopts a local authority road. Detrunking tends to occur when roads are superseded as part of the SRN following the construction of a new road. Such events are accounted for as a disposal for nil consideration. Trunking and detrunking are shown within the PPE notes as additions and disposals at the point that the asset is added or removed from the SRN.

Derecognition and disposals in year

Derecognition for the year from the SRN asset was £29.1 million (2018–19 £56.8 million). Residual derecognitions relate primarily to structures and communications technology removed from the SRN, often as a result of the upgrades required by the Smart Motorway Programme. For 2019–20, derecognition includes demolitions of structures on the A14 Cambridge to Huntingdon improvement scheme (£9.2 million), as well as two bridges on the M20 Junction 10a (£5.5 million). Other items include technology upgrades implemented as part of the Smart Motorway Programme. There were no detrunkings in the year.

The SoCNE presents the overall loss from derecognition and disposals which includes a loss of £0.4 million made on the sale of non-SRN assets (2018–19 £2.8 million profit).

6.3 Non-network assets
All assets which do not form part of the SRN are categorised as non-network assets. This includes land and buildings, plant and machinery, and IT equipment, which are accounted for as follows:

A Capitalise asset at cost

B Perform annual revaluation

C Apply depreciation

A

Capitalisation Policy (capitalise asset at cost):
All non-network assets above the minimum thresholds listed below are capitalised at cost.

Threshold	Element
Plant and machinery	£2,000
IT equipment	£2,000
Land and buildings	No minimum

Expenditure below these thresholds is charged as an expense to the Statement of Comprehensive Net Expenditure.

B

Valuation (perform annual revaluation)
Land and buildings: Freehold land and buildings are valued on the basis of open market value for existing use. External professional surveyors, in accordance with the (RICS) *Red Book*, 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 our consultant engineers using rural land indices from the Royal Agricultural University (RAU) and average house price data from the Land Registry.

Asset	Valuation Date
Motorway maintenance compounds	31 March 2021
Motorway service areas	31 March 2021
Surplus properties (including dwellings)	31 December 2023
Regional Control Centres	31 March 2021
National Traffic Operations Centre	31 March 2021

Plant and machinery: 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. Assets are stated at fair value using yearly plant and equipment indices supplied by the ONS.

Assets under construction: Non-network assets which are under construction at the period end are held at historical cost and are not subject to adjustment until after they have been completed and transferred to the appropriate asset category.

C

Depreciation (apply depreciation)
Freehold land is not depreciated. Other non-network assets are depreciated at rates calculated to reduce the assets' value over their expected useful lives on a straight-line basis as follows:

Asset Category	Asset Sub-category	Asset Lifespan
Land and Buildings	Freehold buildings	Up to 60 years
	Leasehold buildings	Length of lease
	Dwellings (non-surplus)	Not depreciated
Plant and Machinery	Winter maintenance equipment	10–25 years
	Office equipment	5–10 years
	Vehicles	5–10 years
	Structural steelwork	10 years
Information technology	Technology equipment	3–5 years
	Test equipment	5–10 years
	IT equipment	5 years
	Database development expenditure	5 years

Non-network asset balances
Land: Land consists of surplus land and land reserved for current and future road schemes. As at 31 March 2020, this includes motorway service areas land of £75.9 million (2018–19 £74.4 million), commercial land of £36.2 million (2018–19 £35.8 million), and motorway maintenance compounds land of £27.6 million (2018–19 £27.2 million).

Buildings: As at 31 March 2020, the net value of buildings includes motorway maintenance compounds of £55.4 million (2018–19 £49.5 million), regional control centres of £15.7 million (2018–19 £20 million), and commercial buildings at Dartford of £11.4 million (2018–19 £6.1 million).

Dwellings: As at 31 March 2020, the value of dwellings is £73.5 million (2018–19 £55 million). These are dwellings acquired under compulsory purchase orders as part of a scheme to enable construction.

This includes dwellings relating to the following schemes:

	31 March 2020 £m	31 March 2019 £m
M42 junction 3A widening	7.8	9.5
A6M Stockport North/South Bypass	7.3	6.7
M4 junction 4B – 8/9 widening	6.8	4.8
A57/A6928 Mottram, Hollingworth and Tintwhistle	5.6	6.4

Assets under construction (AUC)
The assets under construction (AUC) balance relates solely to non-network fixed assets. As the SRN is considered to be one asset, due to the physical and functional interdependence of it's component parts, AUC is recorded within the Strategic Road Network column within table 6.1.

i) AUC transfers
The company has transferred £27.7 million (2018–19 £39 million) of completed projects from non-network AUC to non-network assets. In addition a further £19.5 million of land and dwellings acquired as part of SRN schemes has been transferred as it is either surplus or for future use.

ii) Revaluation
Non-network AUC capital additions are recognised at actual cost. A review of prior year transactions identified that some of these capital additions had been valued downwards in line with the policy for the SRN as highlighted in note 6.2. Assets were revalued upwards by £64.5 million in year to correct this.

iii) Impairment
Within Non-network AUC there are some additions that do not provide a true asset to the company. This generally occurs in projects that provide wider support to the capital programme or maintenance work that is renewing an existing asset. Such items have been reviewed in year which has resulted in an impairment of £27.8 million.

6.4 Intangible assets

Intangible assets are assets which are without physical substance including computer software and licences. In line with IAS 38 (intangible assets), the company only recognises an intangible asset if it is probable that future economic benefits will be produced for the company and the costs can be measured reliably.

Intangible assets are measured initially at cost and are amortised on a straight-line basis over their useful lives, which are reviewed at the end of each reporting period. Licences over £2,000 are treated as intangible assets. Costs below this are expensed as they are incurred.

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Cost or valuation		
Opening balance	111,723	87,404
Disposals and derecognition	(39,814)	–
Transfer from AUC	–	24,319
Closing balance	71,909	111,723
Amortisation		
Opening balance	91,712	86,228
Charged in year	5,013	5,484
Disposals and derecognition	(39,814)	–
Closing balance	56,911	91,712
Net book value	14,998	20,011

Gross disposals and derecognition of £40 million have taken place in the year. This relates to the write off of obsolete software and systems, including the financial accounting system which has been replaced (£25 million).

The company has a number of bespoke databases that are fully amortised but continue to provide economic benefits. The databases will be updated or replaced at a future date. The most significant in-house databases by cost value are: ESDAL (abnormal loads management software), valued at £10 million (2018–19 £10 million); and NRTS 2 (National Roads Telecommunication Services), valued at £8 million (2018–19 £10 million).

6.5 Assets classified as held for sale

Non-current assets are classified as assets held for sale in accordance with IFRS 5 (non-current assets held for sale and discontinued operations) where they are available for sale in their present condition and are expected to be sold within one year. This comprises surplus land, buildings, dwellings, plant and machinery and other assets that are no longer in use. These assets are valued at the lower of their carrying amount and fair value (taken to be market value) less selling costs where material.

	Land and buildings £000	Dwellings £000	Total £000
At 1 April 2018	8,731	13,160	21,891
Disposals	(169)	(4,416)	(4,585)
Impairment – charged to SoCNE	(78)	(214)	(292)
Reclassifications (to)/from property, plant and equipment	(3,010)	2,266	(744)
At 31 March 2019	5,474	10,796	16,270
At 1 April 2019	5,474	10,796	16,270
Disposals	(1,964)	(4,118)	(6,082)
Impairment – charged to SoCNE	(25)	(122)	(147)
Reclassifications from property, plant and equipment	2	1,919	1,921
At 31 March 2020	3,487	8,475	11,962

Disposals in the year ended 31 March 2020 included the following sales:

- Tollgate Hotel site, Gravesend, Kent (£4.6 million)
- Walnut Tree Farm, Stockport, Manchester (£0.7 million)
- The White Lodge, Hindhead, Hampshire (£0.7 million)

Reclassifications of land and dwellings relates to the movement of items from property, plant and equipment that are expected to sell within the next year.

6.6 Inventories

	31 March 2020 £000	31 March 2019 £000
Communication/electrical equipment for the SRN	35,237	34,626
Salt	13,405	11,831
Other	563	534
	49,205	**46,991**

The inventory balance is composed of technology, salt, uniforms and steel and is valued at the lower of cost and the value that can be realised upon sale (net realisable value). The cost of inventories includes all costs incurred in bringing the items to their present location and the cost for valuation purposes is calculated on the basis of the weighted average cost of each category of inventory.

The communication/electrical equipment inventory includes variable messaging signs which are extensively used in the ongoing roll-out of smart motorway schemes across the SRN.

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 re-measure the holding each year, to reflect any loss from deterioration.

7 Financial assets and liabilities

A financial instrument is a contract between parties that gives rise to a financial asset of one entity and a financial liability of another entity. This note provides information about the company's financial instruments, including:

- an overview of all financial instrument assets and liabilities
- accounting policies
- information about determining the fair value of instruments

The company's exposure to risks associated with the financial instruments is discussed in note 10. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned below.

7.1. Cash

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Balance at start of the year	16,395	18,722
Net change in cash	(15,633)	(2,327)
Balance as at end of the year	762	16,395
The following balances were held at:		
Commercial banks	323	291
Government banking service	439	16,104
	762	**16,395**

The company does not hold any cash equivalent balances. Cash comprises bank balances held with the government banking service and commercial bank accounts. Cash reserves were run down at the year-end to pay suppliers in line with our prompt payment targets.

7.2 Trade and other receivables

	31 March 2020 £000	31 March 2019 £000
Amounts falling due within one year		
Trade receivables		
Receivable from contracts with other customers	7,173	4,825
Receivable from contracts with local authorities	4,673	3,228
Receivable from agreements with government	1,458	298
Deposits and advances	41,570	16,400
VAT	203,556	134,538
Prepayments and accrued income		
Receivable from contracts with other customers	12,368	7,874
Receivable from contracts with local authorities	1,480	4,983
Receivable from agreements with government	61	708
Other receivables	79	118
	272,418	**172,972**
Amounts falling due after more than one year		
Prepayments and accrued income	10,569	11,854
	10,569	**11,854**
Total receivables	**282,987**	**184,826**

i) **Trade receivables** are amounts due from customers for goods sold or services performed in the ordinary course of business which can include third party claims, third party projects (S278), former tenants and employee overpayments.

ii) **Deposits and advances** primarily relate to advances to third parties for project-related prepayments such as payments to statutory undertakers[5], as well as season ticket loans to employees. This balance includes payments for the M4 J3 to 12 smart motorway rollout where a new phase of the scheme has begun and the A30 Chiverton to Carland Cross scheme where work is due to commence. Advances to statutory undertakers have increased in year including an £8m increase on the A303 Amesbury to Berwick Down.

iii) **VAT:** The increase in VAT balances is driven by increased activity within the company during the year as well as some outstanding input VAT that is yet to be claimed.

There are some areas of judgement surrounding VAT recovery which are discussed within note 9.4.

iv) **Prepayment and accrued income** balance includes third party contributions to schemes, minor occupier income and property prepayments for offices, depots and buildings used by the company.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The policy surrounding the impairment of financial assets is covered in note 18.9 impairment on page 204.

7.3 Trade and other payables

	Note	31 March 2020 £000	31 March 2019 £000
Amounts falling due within one year:			
Taxation and social security		10,201	9,257
Trade payables		73,158	48,005
Accruals		632,879	554,942
Deferred income			
Receivable from contracts with other customers		17,580	16,340
Receivable from contracts with local authorities		17,748	13,317
Receivable from agreements with government		25,433	5,553
Capital element under on balance sheet PFI contracts	7.5.2	81,207	82,935
Future lease commitments	7.5.1	11,645	–
Other payables		43,220	43,492
		913,071	**773,841**
Amounts falling due after more than one year:			
Capital element under on balance sheet PFI contracts	7.5.2	1,352,044	1,366,705
Future lease commitments	7.5.1	52,884	–
Deferred income		21,073	37,119
Retentions		436	419
		1,426,437	**1,404,243**
Total payables		**2,339,508**	**2,178,084**

i) **Taxation and social security** covers employer liabilities such as income tax, national insurance and corporation tax commitments.

ii) **Trade payables** are amounts owed to suppliers for goods or services provided to the company.

iii) **Accruals** recognise expenses that have been consumed that have not been paid for. Accruals are needed to ensure that all expenses (and revenues) are recognised within the correct reporting period so that the amount of revenue, expense, and profit or loss in a period reflects the actual level of economic activity within the company.

iv) **Deferred income** occurs when an entity has received income in advance of it being earned and it is deferred until it has been earned. This can include scheme contributions and rent in advance from minority occupiers.

v) **Capital element under on balance sheet PFI contracts** reflects the outstanding capital liabilities in relation to longstanding service concession arrangements with private sector entities.

vi) **Future lease commitments** relate to buildings used by the company.

5 Statutory undertaker is a legal term used to describe those organisations and agencies that have certain legal rights and obligations when carrying out particular development and infrastructure work. Typically, they are utilities and telecoms companies.

7.4 Provisions

In line with accounting standard IAS 37 (provisions, contingent liabilities and contingent assets), the company provides for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date, but where it is more likely than not that a liability exists. The measurement of the provision is based upon the best estimate of the expenditure required to settle the obligation.

	Land and property acquisition £000	Engineering and construction £000	Leased assets £000	Early retirement pension £000	Other £000	Total £000
At 1 April 2018	**154,990**	**–**	**–**	**97**	**11,076**	**166,163**
Provided in the year	178,009	100,303	–	–	9,088	287,400
Provisions not required written back	(48,233)	(2,381)	–	–	(6,684)	(57,298)
Provisions utilised in the year	(51,747)	–	–	(42)	(2,518)	(54,307)
At 31 March 2019	**233,019**	**97,922**	**–**	**55**	**10,962**	**341,958**
At 1 April 2019	**233,019**	**97,922**	**–**	**55**	**10,962**	**341,958**
Provided in the year	163,364	117,880	784	–	6,003	288,031
Provisions not required written back	(87,378)	(41,916)	–	–	(6,660)	(135,954)
Provisions utilised in the year	(71,439)	(129,500)	–	(36)	(3,474)	(204,449)
At 31 March 2020	**237,566**	**44,386**	**784**	**19**	**6,831**	**289,586**

Analysis of expected timing of discounted flows:	Land and property acquisition £000	Engineering and construction £000	Leased assets £000	Early retirement pension £000	Other £000	Total £000
Not later than one year	113,430	44,386	–	19	6,039	163,874
Later than one year and not later than five years	124,136	–	–	–	443	124,579
Later than five years	–	–	784	–	349	1,133
	237,566	**44,386**	**784**	**19**	**6,831**	**289,586**

Land and property acquisition: These 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.

Planning blight occurs when the value of a property is substantially reduced because of a proposal to carry out works. We are liable for, and have the ability to, purchase affected property and recognise the liability arising from the requirement to purchase blighted properties at the point of the preferred route announcement (PRA). At the point that the PRA is announced we have a legal obligation for blight under the Town and Country Planning Act 1990 and a constructive obligation under our own policy and our past behaviour. Following PRA the company considers that avoidance of blight liability is not within our control and as such we have no realistic alternative to settling the obligation.

Parliament has given us the ability to purchase land so that we can carry out infrastructure developments that are in the public interest. Our policy is to recognise the liability for these compulsory purchases at the point a Development Consent Order (DCO) or Compulsory Purchase Order (CPO) is made. A CPO provides the company with the statutory right to purchase property within the confines of the scheme presented within the order and as such creates a constructive obligation. Following CPO the company considers that avoidance of related liability is not within our control and as such we have no realistic alternative to settling the obligation.

Compensation can be claimed by people who own and also occupy property that has reduced in value by physical factors caused by the use of a new or altered road. The liability can arise from noise, smell, lighting etc. and we provide for this compensation (known as Part 1 claims) at the commencement of construction. We consider that commencement of construction triggers a constructive obligation as at this point a valid expectation is created that compensation will be paid to impacted parties.

At the 31 March 2020 we held £90 million of blight provisions, including £43 million relating to the Lower Thames Crossing, £119 million DCO/CPO provisions, including £40 million on the A14 Cambridge to Huntingdon scheme, and £29 million relating to Part 1 claims. It may take several years from the announcement of a scheme to completion of the road and final settlement of all liabilities.

Engineering and construction: Prior year provisions related to an outstanding judgement surrounding VAT recovery rates on the construction phase of Hybrid[6] schemes. These have now been settled.

The current year provision relates to the over-recovery of VAT on Hybrid scheme preliminary works. In order to settle any liability, the company will work with HMRC to clarify the application of Contracted Out Services (COS) headings[7] in relation to preconstruction works.

6 Hybrid schemes are those schemes which take place partially within and partially outside of the network boundary. They are significant as the company can only recover VAT on construction work which takes place on the existing SRN.

7 COS headings refer to tax directions issued by HMRC to allow for VAT recovery on some COS. Government organisations have been encouraged to contract out services to the private sector which would have traditionally been performed in-house. Many of these services are subject to VAT and, where they are acquired for 'non-business' purposes, the non-reclaimable VAT could act as a disincentive to contracting-out. COS headings exist to remove any disincentive.

Leased assets: Provisions relate to the potential cost of reinstating leased buildings back to their original condition at the end of the lease.

Early retirement pension: Relates to pension liabilities for 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.

Other: Other provisions 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 2020 that will require settlement by Highways England.

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

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Provisions provided in year	288,031	287,400
Less provisions written back	(135,954)	(57,298)
Net provisions expenditure	**152,077**	**230,102**
Split as follows:		
Resource expenditure	26,789	45,443
Capital expenditure	124,504	184,659
Leased asset expenditure	784	–
	152,077	**230,102**
Provision for doubtful debt	1,034	1,062
Other provisions provided for in year	26,783	45,354
Total provision charge to the SoCNE	**27,817**	**46,416**

7.5 Financial instruments

7.5.1 Commitments under leases

IFRS 16 leases has been implemented during the period using the cumulative catch-up method; as a result comparatives are not restated. See note 19 for information surrounding the adoption of this standard.

	31 March 2020 £000
Lease liabilities	
Balance as at start of year	–
Recognised under IFRS 16	64,150
Additions in year	12,590
Repayment of lease liability	(13,603)
Interest on leases	1,392
Balance as at end of year	**64,529**
Amounts falling due	
No later than one year	11,645
Later than one year and not later than five years	31,942
Later than five years	20,942
	64,529

The company leases many assets including buildings and vehicles.

At the commencement of a lease (or the IFRS 16 transition date, if later), the company recognises a right-of-use asset and a lease liability.

The lease liability is measured as the payments, net of value added tax, for the remaining lease term, discounted either by the rate implied in the lease, or, where this cannot be determined, the incremental cost of borrowing is the rate advised by HM Treasury. The company does not typically undertake external borrowing and is instead funded annually by the Department for Transport which draws down its funding from the Exchequer. The company's incremental borrowing rate is therefore advised by and aligned to the Treasury rate.

The right-of-use asset is measured at the value of the liability, adjusted for: any payments made before the commencement date; lease incentives received; incremental costs of obtaining the lease; and any disposal costs at the end of the lease. However, where the lease requires nominal consideration (a type of arrangement often described as a 'peppercorn' lease), the asset is measured at its existing use value.

The asset is subsequently measured using the fair value model. The company considers that the cost model is a reasonable proxy for the fair value model for leases of items other than land and property, and for leases of land and property with regular rent reviews. For other leases, the asset is carried at a revalued amount.

The liability is adjusted for the accrual of interest, repayments, reassessments and modifications.

The company has adopted the practical expedient to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application for transitioned leases.

Leases which are considered to be low value, or have an expected length of less than a year, are not recognised under IFRS 16 and the related costs are shown in the SoCNE.

7.5.2 Commitments under PFIs

The company has longstanding service concession arrangements with private sector entities to develop, build, finance, operate and maintain infrastructure and deliver services directly or indirectly to the public. Highways England controls or regulates the services provided and controls any significant residual interest in the infrastructure.

The company recognises the infrastructure associated with service concessions as an asset and recognises the related liability. The asset is accounted for in the same way as other assets of that type. Interest on the liability and expenditure on services provided under the service concession are recognised in the net operating expenditure as they accrue under the contract. The annual payments 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 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 for property, plant and equipment: see note 6.1.

The substance of the PFI contract under IFRIC 12 (service concession arrangements) is that the company has a finance lease, with the asset being recognised as a non-current asset of the company.

The total payments on balance sheet PFI contracts for which the company is committed are given in the tables below, analysed according to the year in which the commitment expires.

PFI	Contract start date	Duration in years	Initial capital value £m	Closing balance obligation £m	Service charge commitment £m
M40 Denham to Warwick	06/01/1997	30	71.2	29.3	293.8
A19 Dishforth to Tyne Tunnel DBFO	24/02/1997	30	47.8	19.6	322.9
A30/A35 Exeter to Bere Regis	01/10/1996	30	135.1	50.3	4.3
A1(M) Alconbury to Peterborough	01/04/1996	30	192.3	70.5	85.0
A419/A417 Swindon to Gloucester	01/04/1996	30	104.6	37.9	55.9
A50/A564 Stoke to Derby link	01/07/1996	30	37.3	15.1	70.4
M1-A1 Yorkshire link	01/07/1996	30	395.4	143.1	5.6
A69 Carlisle to Newcastle	01/04/1996	30	19.6	7.1	75.3
A1(M) Darrington to Dishforth	07/05/2003	33	236.4	172.8	507.7
A249 Iwade to Queenborough	01/04/2004	30	92.8	65.4	130.5
M25 London Orbital Motorway contract	01/05/2009	30	906.0	822.2	6,215.7
Total			**2,238.5**	**1,433.3**	**7,767.1**

During the year all models were reviewed to ensure that the end of the obligation was correctly reflected. Amendments have been required to the current obligation, the effect of this has been accounted for in year by adjusting the level of interest, service payment and capital repayment.

Recognised fair value measurements

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.

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

	31 March 2020 £000	31 March 2019 £000
Not later than one year	181,982	184,970
Later than one year and not later than five years	727,928	734,446
Later than five years	1,539,375	1,618,194
	2,449,285	**2,537,610**
Less interest element	(1,016,034)	(1,087,970)
	1,433,251	**1,449,640**

Capital element under on balance sheet PFI contracts comprise:

	31 March 2020 £000	31 March 2019 £000
Not later than one year	81,207	82,935
Later than one year and not later than five years	380,604	381,945
Later than five years	971,440	984,760
	1,433,251	**1,449,640**

The total amount charged in the SoCNE in respect of the repayment of the capital element of the PFI transactions for the year to 31 March 2020 was £16.4 million (2018–19 £77.8 million).

Interest element under on balance sheet PFI contracts comprise:

	31 March 2020 £000	31 March 2019 £000
Not later than one year	100,775	102,035
Later than one year and not later than five years	347,323	352,500
Later than five years	567,936	633,435
	1,016,034	**1,087,970**

The total amount charged in the SoCNE in respect of interest on balance sheet PFI transactions for the year to 31 March 2020 was £134.7 million (2018–19 £109 million).

7.5.3 Details of the minimum PFI service charge to SoCNE:

	31 March 2020 £000	31 March 2019 £000
Not later than one year	400,760	330,768
Later than one year and not later than five years	1,623,864	1,537,621
Later than five years	5,742,517	6,252,897
	7,767,141	**8,121,286**

The total amount charged in the SoCNE in respect of the service element of on balance sheet PFI transactions for the year to 31 March 2020 was £348.4 million (2018–19 £277.0 million).

8 Equity and reserves

	31 March 2020 £	31 March 2019 £
Authorised		
10 ordinary shares at £1 each	10	10
Allotted, called up and fully paid		
10 ordinary shares at £1 each	10	10

Reserves

As the company generates minimal income, DfT provides funds annually in the form of a cash contribution, on behalf of the Secretary of State for Transport as the sole Shareholder of the company. The funds received are used to finance expenditure that supports the objectives of the company in accordance with the company's licensing terms. These funds are allocated to the retained earnings reserve, along with the company's net expenditure. At the start of operations on 1 April 2015, the company received a transfer from the Secretary of State for Transport comprising the assets of the Highways Agency, including the SRN (with the exception of the Severn Bridge and M6 toll road).

In accordance with generally accepted practice in respect of common control transactions, the net assets from this transfer were credited at book value to the revaluation reserve to the extent of the revaluation surplus available in the Highways Agency at the point of transfer; and for the balance, to a capital contributions reserve. Intra-reserve transfers relating to revaluation are posted against the capital contributions reserve since they relate in the main to the transferred-in network asset.

All reserves are non-distributable other than to the Secretary of State for Transport within the legislative framework and as defined by the Companies Act 2006.

RISK

Accounting judgements and estimates

9 Critical accounting judgement and key sources of uncertainty

A series of estimates and judgements are used to produce these financial statements. These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

9.1 Property, plant and equipment

The SRN is valued using an approach to determine depreciated replacement cost, as described in note 6.2.i. The valuation is built up using: 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 the following:

Costing rates

Costing rates used to inform the valuation of roads and structures are based upon schemes constructed by the company in recent years. At each full revaluation (QQR), costing rates are derived for specific asset types, for example bridges are classified by their length and width. For some specific asset types there may be a limited number of schemes which provide a direct comparator. In these cases the company derives a costing rate through a line of best fit approach applied to a broader asset type (e.g. bridges) using available scheme data and known costing relationships between asset types. This provides a complete set of data points based upon the best available information.

This approach requires estimation but the company is satisfied that uncertainty is minimised by making use of the full available information. The impact of this approach is minimised as direct comparators are easily obtainable for common network features.

A 1% change in costing rates would materially impact the valuation of the SRN.

Indices

The company applies a number of construction-related indices to the costing rates for various elements of the SRN, both as part of the full revaluation exercises (QQRs) and to revalue the overall SRN components in interim valuation years. The company chooses indices which it judges most relevant to the replacement costs of the SRN's component parts. Information on specific indices is found in note 6.2.ii.b.

During 2019–20, a review of indices was undertaken and annual indexation was changed from the Resource Cost Index of Road Construction (ROCOS) to the Highways England Capital Enhancement Cost Index (HECI). This index is specific to the costs incurred on projects at Highways England. HECI has been adopted for roads, structures and technology assets. The Impact of this change on new costing rates (roads only) was £2.1bn. Land is indexed in alignment with urban and rural land indices in conjunction with rural land indices from the RAU.

The network valuation is sensitive to indices. An increase in HECI of 10 points would impact the valuation of the network by £10.7 billion net.

Condition factors

Road surface condition determines the in year depreciation charge for the roads component of the SRN. It is analysed using surveys carried out on all lanes of the SRN that measure, at 10 metre intervals, the level of rutting (grooves in the road surface caused by wear and tear or deformation over time). Condition surveys are carried out on the whole of the network annually with the equipment used being quality assured every three months

Structures condition is reflected in the carrying value of the SRN structures element, which is in turn influenced by a depreciation charge based on an asset valuation model. This builds in both the impact of deterioration over time and periodic renewal as set out in note 6.2.iii.c. The company keeps information on the condition of its structures under regular review to assess whether an adjustment is required for depreciation to reflect an engineering assessment of the current condition point. Full structural inspections are only completed every 6 years and, due to a systems upgrade, structures data was only available as at October 2019.

Uplifts/adjustments

Preparation and supervision and Lands Uplifts: Valuation uplifts are required to account for costs incurred on projects which are not specific to construction or the purchase price of land (see 6.2 b). These uplifts are calculated using the same basket of schemes used for road rate calculations and a long-term average is used to calculate uplift percentages.

A 1% change in P&S or a 16% movement in lands uplift would materially impact the valuation of the network.

Technical valuation adjustment: New technical requirements mean that concrete barriers are required on all "new" roads. To reflect the fact that the network is composed of around 90% steel reservations an adjustment has been made. A value of £295,000 per km has been calculated by our technical experts as the bottom up cost difference between installing concrete and steel central reservation barriers on a greenfield site.

A 35% change in the concrete valuation adjustment would materially impact the network valuation.

9.2 Cost of Work Done (COWD)
The additions to property, plant and equipment are valued using an estimate of the cost of work done in the year to 31 March 2020. To the extent that the COWD is greater than the invoiced amount, a PPE addition and a corresponding accrual (note 7.3) are recognised on the basis of expected amounts required to settle contractual obligations. COWD assessments are based on information readily available to project managers on the status of works, but some estimation uncertainty is involved in the year-end measurement, in respect of the evaluation of how contractual dispute positions are likely to resolve, and in measuring the value of works performed at the year-end date.

9.2 Legal claims
Legal claims are recorded as contingent liabilities or provisions when the company faces legal claims and challenges, which may result in the possible outflow of economic benefits. The classification of these, as well as their valuation and presentation as current or non-current, is based on legal advice.

9.3 Land and property
Provisions: Land and property are acquired as necessary as part of the company's work to improve the network. During the early stages of a project, until the preferred route is announced, potential blight claims are treated as remote and are not disclosed. After the preferred route announcement is made until the point of purchase they are treated as provisions. Potential acquisitions relating to land and property are not disclosed (due to the level of uncertainty over whether the land will be acquired) until the issue of a compulsory purchase order (CPO) or a development consent order (DCO) at which point a provision is recognised. The valuation of these provisions is provided by the Valuation Office Agency using their professional expertise to make the relevant estimation. As with all land valuation this estimation considers factors such as geographical location and land classification (urban/rural).

Non-SRN property valuation: In respect of non-SRN land and buildings, the company's holdings are dominated by industrial land and, to a lesser extent, buildings in industrial settings. These have been indexed from previous revaluations in year, which provides the best estimate of their current value. The company considers, having reviewed post year end evidence from professional advisers, that while the coronavirus pandemic has resulted in a reduced transaction volume and heightened market uncertainty in property markets overall, this does not constitute a material uncertainty in the context of these overall accounts. As well as noting the exceptional variations which would be needed to materially affect the position, e.g. 37% in the case of industrial land, the company notes the relative stability and resilience of industrial property markets reported by real estate firms post year end. In addition, the company's sites are in many cases (e.g. motorway service areas) used for purposes associated with road travel, which has seen a significant recovery in activity levels since the height of the UK lockdown.

9.4 Irrecoverable VAT
During 2018–19, HMRC undertook an investigation into recoverable VAT in relation to our Hybrid schemes. As part of this investigation, HMRC clarified their position that VAT is only recoverable in relation to works on the existing SRN and is not recoverable for greenfield sites or structures. Taking this guidance into account, the company has reassessed the recoverable VAT on all major schemes. These assessments have been performed by the Commercial and Procurement team and are based upon the initial scheme estimations with greenfield sites and structures removed to assess recoverable VAT. As these calculations are internally generated, VAT rules are open to interpretation and HMRC can assess up to four years of VAT charges, VAT remains a significant area of judgement.

10 Financial risk management

IFRS 7 (disclosure requirements) 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 no 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.

10.1 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 2020 £000	31 March 2019 £000
Ageing of financial assets		
Neither past due nor impaired	281,892	184,133
Past due 1–30 days	517	144
Past due 31–60 days	174	95
Past due 61–90 days	61	127
Past due >90 days	343	327
	282,987	**184,826**

10.2 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 conditions. 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 commitment under the RIS.

The company believes that its contractual obligations, including those shown in commitments and contingencies in notes 15, 7.5.1, 7.5.2 and 12c 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 RIS.

	31 March 2020				31 March 2019
	Not later than one year £000	Later than one year and not later than five years £000	Later than five years £000	Total £000	Total £000
Contractual cash flows					
Non-derivative financial liabilities					
Trade payables	716,238	–	–	716,238	647,414
Future lease commitments	11,645	31,942	20,942	64,529	–
Finance lease liabilities (PFIs)	81,207	380,604	971,440	1,433,251	1,449,640
Other non-interest bearing liabilities	103,981	21,509	–	125,490	81,030
	913,071	**434,055**	**992,382**	**2,339,508**	**2,178,084**

10.3 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.

10.4 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.

10.5 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.

11 Going concern

The Statement of Financial Position (SoFP) as at 31 March 2020 shows net current liabilities of £742.6 million. The company's liabilities due to be settled after 31 March 2020 will be paid for through funding from the company's sponsoring department: DfT. The company's 2020–21 funding has been included in HM Treasury's Main Estimate which has been approved by Parliament.

The Directors have a reasonable expectation that the company has adequate resources 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:

1) reviewed the company's future funding commitments received from the Government through the publication of RIS2, which sets out the £27.4 billion resource and capital funding that the company will receive during the five years from 2020–21 to 2025–26

2) kept DfT fully aware of commitments made which stretch beyond the period covered by RIS2

3) reviewed internal budgets, plans and cash flow forecasts

4) reviewed DfT's Main Estimate for 2020–21

UNRECOGNISED ITEMS

The following items are disclosed in the accounts but not recognised in the financial statements.

12 Contingent liabilities disclosed under IAS 37

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event; they do not meet the criteria for a provision. Unless their likelihood is considered to be remote, the company discloses them as contingent liabilities.

Under IAS 37, contingent liabilities are not recognised in the statement of financial position but are required to be disclosed in a note to the accounts.

	31 March 2020 £000	31 March 2019 £000
Land and property acquisition	–	1,137,934
Other	10,173	24,793
	10,173	1,162,727

12.1 Land and property acquisition

During the year the company has changed its policy with regards to the disclosure of contingent liabilities relating to land and property acquisitions which has resulted in the removal of all Land and Property balances from disclosure. For details of this change see note 21.2.

12.2 Other

Other contingent liabilities include 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 DfT's accounts.

13 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 of uncertain future events which are not wholly within the control of the company.

Contingent assets are disclosed under IAS 37 where it is probable that there will be an inflow of economic benefits.

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 an unquantified contingent asset relating to future values.

14 Third party assets

Third party assets exist where the company undertakes work which is funded by another party, such as a developer, where the development may have an impact on the SRN. Under Section 278 of the Highways Act 1980, the company receives payment in advance of works. The amounts received are paid into interest-bearing escrow accounts. 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 2020 £000	31 March 2019 £000
Lloyds Bank escrow accounts	4,212	748
	4,212	748

15 Commitments

	31 March 2020 £000	31 March 2019 £000
Contracted capital commitments not otherwise included in these accounts:		
Property, plant and equipment	3,739,524	2,706,839

The company's capital commitments as at 31 March 2020 include the following significant project commitments:

- £448.7 million relating to the M4 junctions 3 to 12, upgrading the M4 to a smart motorway between junction 3 (Uxbridge) and junction 12 (west of Reading), linking Reading and Heathrow
- £380.3 million relating to M62 junctions 20 to 25, improving this 19-mile section of the M62 by upgrading it to an all lane running smart motorway
- £286.3 million relating to A63 Castle Street; changing Mytongate junction into a split level junction and widening the eastbound carriageway.
- £284.6 million relating to A30 Chiverton to Carland Cross; a new dual carriageway to relieve congestion
- £231.1 million relating to the improvement of the A1 north of Ellingham, by providing overtaking opportunities, junction improvements and improved crossing facilities for walkers, cyclists and horse riders
- £216.0 million relating to M42 junction 6 where a new 1.5-mile dual carriageway link road is being built
- £210.0 million relating to the improvement of the 24 mile section of the M1 between junctions 13 and 16, by upgrading it to a smart motorway
- £194.0 million relating to A1(M) junctions 6 to 8; upgrading the A1(M) to a smart motorway creating a continuous 3 lane motorway between junction 3 Hatfield and junction 9 Baldock/Letchworth
- £156.6 million relating to the upgrade of the M3 between junction 9 (Winchester/A34 interchange) and junction 14 (M27 interchange)
- £130.1 million relating to the upgrade of the M27 between junction 4 (M3 interchange) and junction 11 (Fareham), turning the hard shoulder into a permanent running lane making a dual four-lane smart motorway

16 Events after the reporting period

There have been no events since 31 March 2020 to the date the accounts were authorised for issue which would affect the understanding of these accounts.

International Accounting Standards require Highways England to disclose the date on which the accounts are authorised for issue.

The Accounting Officer has authorised these accounts to be issued on the date they were certified by the Comptroller and Auditor General.

OTHER INFORMATION

17 Related party transactions

The company is an arm's length body of DfT which is regarded as a controlling related party. The company's primary source of funding is through DfT, based on approved expenditure that is voted on by Parliament. The total amount of funding received from DfT for the period ended 31 March 2020 amounted to £4.5 billion (2018–19 £3.8 billion). During the year, the company had a number of other transactions with DfT, amounting to £3.0 million (2018–19 £0.8 million). In addition, the company had transactions with other government departments and agencies, in particular HM Revenue and Customs – £156.3 million (2018–19 £78 million) – and a number of local authorities.

Colin Matthews, the company's Chairman, is also the Chairman of EDF Energy Holdings Limited since November 2017. During the year, the company had transactions with EDF Energy totalling £29.6 million (2018–19 £22.7 million).

18 Summary of significant accounting policies

This section provides additional information about the overall basis of preparation that the Directors consider to be useful and relevant to understanding these financial statements.

18.1 Basis of preparation

These 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.

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

18.2 Measurement convention

The financial statements have been prepared on an historical cost basis, except where specific departures, including fair value, are described. Historical cost is a measure in which the value of an asset on the balance sheet is recorded at its original cost when acquired by the company. In subsequent periods, that recorded cost is not updated for any increase in prices, although it may be for falls in value. See note 10.1 on page 200.

18.3 Revenue recognition

The accounting policies for the company's revenue streams are explained in note 2.

18.4 Grants

Grants are recognised in the accounts where there is reasonable assurance that they will be received. Grants that relate to specific capital expenditure with attached conditions are credited to deferred income in the Statement of Financial Position and are recognised in net expenditure over the assets construction period. Grants for revenue expenditure are credited to net expenditure (see note 2).

The company makes a small number of grants to public sector, private sector and voluntary bodies. These grants are recognised at the point at which the grant agreement is authorised by all related parties.

18.5 Corporation Tax

The company's Corporation Tax policy is outlined in note 5.

18.6 VAT

Many of the activities of the company are non-business in nature and, for this reason, outside the scope of VAT. The company is eligible under section 41 (3) of the VAT Act 1992 to recover input VAT which is recovered under an annual HM 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.

18.7 Leases

The company has changed its accounting policy for leases where the company is the lessee. The policy for measurement is described in 7.5.1 and the impact of transition in note 19.1.

18.8 Research and development

Expenditure on research is not capitalised. Development expenditure that does not meet the criteria for capitalisation is also treated as an expense and shown in net expenditure in the year in which it is incurred.

18.9 Impairment of financial assets

The company assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

Under IFRS 9, we employ a forward-looking expected loss model. This means that we consider current and forward-looking information to assess whether a historic event or the potential for a future event has an impact on estimated future cash flows.

Financial assets are grouped based on 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 as they are indicative of the counterparty's ability to pay all amounts due according to the terms of the contract.

The future cash flows relating to loans and receivables are used to evaluate any impairment of the assets. The amount of impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to minimise differences arising between loss estimates and actual losses incurred.

18.10 Cash

Cash comprises bank balances held with the government banking service and commercial bank accounts.

18.11 Receivables

Trade receivables and accrued income are classified as financial assets held at amortised cost in accordance with IFRS 9.

Receivables are recognised initially at fair value, plus transactional costs. Fair value is usually the contractual value of the transaction. Thereafter, receivables are held at amortised cost. See note 7.2 for further information about the accounting for trade receivables and note 18.9 for a description of the company's impairment policies.

18.12 Non-current Assets

For full details of the accounting policies governing non-current assets being property plant and equipment, intangible assets, assets held for sale and inventory, together with full details of their application, see note 6.

18.13 Financial liabilities

Financial liabilities are any contractual obligations to deliver cash or other financial assets to a third party including trade and other payables (current and non-current).

The company values liabilities initially at fair value: the transaction value is considered to be the fair value at the date of recognition. Thereafter, where the time value of money is considered to be material, they are held at amortised cost using the effective interest rate to discount cash flows.

Derecognition (i.e. removal from the financial statements) occurs when the liability has been settled. For more information on trade and other payables see note 7.3.

18.14 Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. The measurement of the provision is based upon the best estimate of the expenditure required to settle the obligation.

Provisions are charged to the Statement of Comprehensive Net Expenditure unless they relate to capital projects. In which case, the provision is added to the assets carrying amount. Provisions are discounted where the effect is material. For more information about the provisions that we hold, see note 7.4.

18.15 Contingent liabilities

Contingent liabilities are disclosed under IAS 37 in note 12.

The company discloses as contingent liabilities:

- Potential future obligations arising as a result of past obligating events, where the existence of such an obligation remains uncertain pending the outcome of future events outside of the company's control.
- 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.

Where the time value of money is material, contingent liabilities are stated at discounted amounts.

18.16 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 of uncertain future events which are not wholly within the control of the company.

Contingent assets are not recognised in the Statement of Financial Position but are disclosed under IAS 37, in note 13, where there will be a probable inflow of economic benefits.

18.17 Service concessions – PFI contracts

Service concession contracts, otherwise known as PFI contracts, are accounted for in accordance with IFRIC 12. The related policies are disclosed in note 7.5.

18.18 Employee benefits

Policies surrounding staff costs, including performance-related bonuses, holiday pay, termination costs and pensions, are disclosed in note 3.1.

18.19 Reserves

For full details of equity and reserves see note 8.

19 New and amended standards

The company has reviewed all new accounting standards, amendments and interpretations of standards that are effective during the year ending 31 March 2020 to determine the impact, if any, on the financial statements.

IFRS 16

IFRS 16 establishes revised principles for the recognition, measurement, presentation and disclosure of leases in the financial statements. The objective is to ensure that lessees and lessors provide relevant information that faithfully represents those transactions. IFRS 16 requires lessees to account for all leases on their balance sheets (as a right-of-use asset and a commensurate liability to pay for it), including those which were previously treated as operating leases under the previous leasing standard (IAS 17) and accounted for in the Statement of Comprehensive Net Expenditure as an in-year expense. This aligns the treatment of all leases in the financial statements of lessees (subject to transitional arrangements, as discussed below), in a way that is similar to the accounting for finance leases under the previous standard.

For its first-time application of the standard, the company has used the cumulative catch-up approach, under which the cumulative effect of initial application is recognised in the current year. As a result, on transition the company recognised £59.8 million of right-of-use assets (in addition to those already accounted for under a similar model in the previous standard) and £64.2 million of additional lease liabilities. The difference between the value of the lease liabilities and assets is due to rent free periods which have been treated as depreciation of the asset at recognition as allowable within the standard. There has been no adjustment to retained earnings. Costs are taken to net expenditure through the depreciation of right-of-use assets and interest is charged on the lease liability. This has led to a different expenditure profile compared to the 'straight line' cost profile used for operating leases in IAS 17. Comparatives have not been restated.

A key change introduced by the new standard is the concept of embedded leases. IFRS 16 requires us to consider whether our contracts contain lease elements which should be separated out from the host contract and brought on balance sheet; for example, managed service agreements for telecommunications and multi-functional devices often contain embedded leases. We have developed a systematic review process to assist the business in identifying any embedded leases which may lead to an increase in lease balances in the future. We have not identified any embedded leases as part of this process, however, we have identified peppercorn rents as leases due to a difference in reporting of IAS 17 to IFRS 16.

On transition, the company, as allowed by the standard, elected to restrict the application of IFRS 16 to contracts that were previously identified as leases under IAS 17. Contracts not identified as leases under IAS 17 were not reassessed to determine whether there is an embedded lease. The definition of a lease under IFRS 16 was therefore applied only to contracts entered or changed on or after 1 April 2019. For the related disclosure see note 7.5.1. There have been some adjustments to existing leases, however, this is driven by amendments to lease end dates and not through reassessment.

Upon first time adoption, IFRS 16 requires that the company disclose a reconciliation between closing operating lease commitments (under IAS 17) at 31 March 2019 and opening lease liabilities (under IFRS 16) at 1 April 2019. This is laid out below:

	£000
Operating lease commitments disclosed as at 31 March 2019	76,270
Recognition and adjustments to existing leases	6,765
Impact of discounting	(6,139)
Derecognition of irrecoverable VAT	(12,746)
Lease liability recognised as at 1 April 2019	**64,150**

20 Standards not yet adopted

IFRS 17 insurance contracts is on the horizon but is not due to come into effect until at least January 2021. It requires a discounted cash flow approach to accounting for insurance contracts. Highways England currently has no contracts which meet the definition of insurance contracts, so the standard is not expected to have any impact upon the company's financial statements.

21 Changes in accounting policy

The following changes to accounting policy have impacted upon the company's financial statements in this financial year:

1) Leases

Refer to note 19 (new and amended accounting standards) for information on the transition and impact of the implementation of IFRS 16.

2) Contingent Liabilities

During the year the company has changed its policy with regards to the disclosure of contingent liabilities relating to land and property acquisitions.

The construction of any major road 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 were previously included as contingent liabilities until the point that a CPO/DCO announcement was made and a reliable estimate was available. Following a review of this policy, we do not consider that there is a constructive or legal obligation prior to CPO/DCO due to the potential for projects to be delayed or cancelled and as such we no longer recognise a contingent liability.

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 were previously included as contingent liabilities until the point that a preferred route is announced. Following review, we do not consider that there is a past event leading to an obligation prior to preferred route announcement and potential blight contingent liabilities are no longer disclosed.

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. We no longer consider there to be a constructive or legal obligation in relation to Part 1 claims prior to start of works, due the potential for scope change, delay or scheme cancellation, and therefore are not disclosing any contingent liabilities in relation to Part 1 claims.

HOW THIS TIES TO OUR FUNDING

22 *Financial Reporting Manual* (FReM) disclosures

As a publicly-owned body, the company obtains funding through the government estimates process and our financial performance feeds into the whole government accounts (WGA).

There are some discrepancies between the accounting treatment for financial accounting purposes (under IFRS) and for budgetary purposes (under FReM) which mean that we are required to reconcile our financial statement results to the WGA budgetary totals.

As a result of the implementation of HM Treasury's alignment project in 2011–12, most differences between the financial accounts and budgets have now been removed. The majority of transactions should therefore be recorded in budgets at the same value and with the same timing as recorded within the financial accounts. There are however some outstanding misalignments. Those relevant to the company are set out below:

Capital income: Income that counts as capital transfers in the national accounts, such as third party payments to finance the construction of an asset, passes through capital budgets. This income remains in the SoCNE for financial accounting purposes.

Research and development (R&D): R&D expenditure that meets the criteria under the National Accounts is recorded as capital in budgets. This differs to the treatment in the financial accounts where research expenditure is usually expensed in the SoCNE.

In order to reflect the inconsistencies in accounting treatment we produce a segmental report, see note 22.1, which provides a visual reconciliation between our financial position from a budgeting (FReM) perspective to our statutory financial statements.

In the interests of ensuring that our annual report is aligned to the requirements of our stakeholders, much of the financial review (see page 12) aligns to our funding allowance and not directly to the financial statements.

22.1 Segmental report

The segmental report shown below provides a reconciliation between our financial position from a funding perspective to our statutory financial statements.

	Year to 31 March 2020					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Asset renewals	–	–	–	720,846	–	720,846
Asset improvements	–	–	–	2,199,471	(28,220)	2,171,251
Traffic management	–	–	–	12,914	–	12,914
Other	–	–	–	325,265	–	325,265
Maintenance (B3)	274,509	(7,433)	267,076	–	–	–
Renewals (B4)	12,648	–	12,648	–	–	–
Operate: Roads PFI (B5)	523,915	–	523,915	–	–	–
Operate: General (B1)	132,277	(10,343)	121,934	–	–	–
Operate: Cust Ops/Traffic Man (B2)	100,954	(5,881)	95,073	–	–	–
Support General (C1)	205,685	(7,547)	198,138	–	–	–
Protocols (D)	66,768	(473)	66,295	–	–	–
	1,316,756	**(31,677)**	**1,285,079**	**3,258,496**	**(28,220)**	**3,230,276**
Unallocated costs:						
Depreciation & impairment	1,201,487	–	1,201,487	–	–	–
Resource utilisation	(70,168)	–	(70,168)	–	–	–
New provisions (Resource AME)	26,785	–	26,785	–	–	–
New provisions (Capital AME)	–	–	–	(8,983)	–	(8,983)
Other	44,569	–	44,569	2,174	–	2,174
(FReM) Total	**2,519,429**	**(31,677)**	**2,487,752**	**3,251,687**	**(28,220)**	**3,223,467**
Budget to accounts reconciliation						
Capital income in resource transfer	–	(28,220)	(28,220)	–	28,220	28,220
R&D capital transfer	8,708	–	8,708	(8,708)	–	(8,708)
Other (inc. IFRS16 lease transfer upon adoption)	–	–	–	73,144	–	73,144
Segmental total per accounts	**2,528,137**	**(59,897)**	**2,468,240**	**3,316,123**	**–**	**3,316,123**

	Year to 31 March 2019					
	Resource expenditure £000	Resource income £000	Resource total £000	Capital expenditure £000	Capital income £000	Capital total £000
Total by segment						
Asset renewals	–	–	–	629,163	–	629,163
Asset improvements	–	–	–	1,748,274	(35,416)	1,712,858
Traffic management	–	–	–	44,870	–	44,870
Other	–	–	–	263,360	–	263,360
Maintenance (B3)	287,431	(9,586)	277,845	–	–	–
Renewals (B4)	10,746	–	10,746	–	–	–
Operate: Roads PFI (B5)	384,385	–	384,385	–	–	–
Operate: General (B1)	99,754	(18,345)	81,409	–	–	–
Operate: Cust Ops/Traffic Man (B2)	116,512	(5,764)	110,748	–	–	–
Support General (C1)	174,722	(6,754)	167,968	–	–	–
Protocols (D)	68,393	(978)	67,415	–	–	–
IFRS 16 adjustments	–	–	–	–	–	–
	1,141,943	**(41,427)**	**1,100,516**	**2,685,667**	**(35,416)**	**2,650,251**
Unallocated Costs:						
Depreciation & impairment	1,212,883	–	1,212,883	–	–	–
Resource utilisation	–	(3,793)	(3,793)	–	–	–
New provisions (Resource AME)	45,813	–	45,813	–	–	–
New provisions (Capital AME)	–	–	–	132,980	–	132,980
Other	50,445	–	50,445	239	8,162	8,401
(FReM) Total	**2,451,084**	**(45,220)**	**2,405,864**	**2,818,886**	**(27,254)**	**2,791,632**
Budget to accounts reconciliation						
Capital income in resource transfer	–	(27,254)	(27,254)	–	27,254	27,254
R&D capital transfer	11,117	–	11,117	(11,117)	–	(11,117)
Segmental total per accounts	**2,462,201**	**(72,474)**	**2,389,727**	**2,807,769**	**–**	**2,807,769**

Notes:
- 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.
- Asset 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, pothole 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.

Other FReM disclosures

22.2 Civil service and other compensation schemes – exit packages

Where appropriate, 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 Company 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.

	Year to 31 March 2020		Year to 31 March 2019	
	Number of compulsory redundancies	Number of other departures agreed	Number of compulsory redundancies	Number of other departures agreed
<£10,000	–	–	49	1
£10,000 – £25,000	–	3	38	1
£25,001 – £50,000	–	3	1	3
£50,001 – £100,000	–	2	–	–
£100,001 – £150,000	–	1	–	1
£150,001 – £200,000	–	–	–	–
£200,001 plus	–	–	–	–
Total number of packages	**–**	**9**	**88**	**6**
Total resource cost (£)	**–**	**432,187**	**949,108**	**253,250**

One exit package above the cabinet office threshold of £100,000 took place in the period. This package was provided with the required approvals set out within the Cabinet Office Guidance on Settlement Agreements.

22.3 Operating income

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

Disclosure under HM Treasury's *Managing public money*

	Year to 31 March 2020			Year to 31 March 2019		
	Income £000	Full cost £000	Surplus/ (deficit) £000	Income £000	Full cost £000	Surplus/ (deficit) £000
Recoveries from third parties for damage to the SRN	6,866	6,866	–	9,002	9,002	–
Fees and charges for third party schemes	10,158	10,158	–	17,728	17,728	–
National vehicle recovery	5,857	7,187	(1,330)	5,750	6,672	(922)
Rental income from properties	3,585	4,063	(478)	3,507	4,017	(510)
Other income	30,326	30,326	–	30,241	30,241	–
	56,792	**58,600**	**(1,808)**	**66,228**	**67,660**	**(1,432)**

The financial objective for each of these services is full recovery of the service costs in accordance with HM Treasury's *Managing public money*. In some instances this objective has not been achieved. In particular, full recovery for damage to the SRN has not been possible due to value for money considerations, and for national vehicle recovery full recovery is not possible due to issues around level of information available and ability to enforce repayment.

Operating income analysed by activity is as follows:

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Cost recoveries/rental income on office estate	1,505	1,650
Fees and charges to external customers	10,158	17,728
Rental income from properties	3,585	3,507
Recoveries from third parties for damage to the SRN	6,866	9,002
Interest receivable	17	7
National vehicle recovery	5,857	5,750
Other	31,688	31,091
Income totals	**59,676**	**68,735**

22.4 Losses and special payments (subject to audit)

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

	Year to 31 March 2020	Year to 31 March 2019
Total number of losses		
Constructive losses	2	2
Bookkeeping/cash losses	17	–
Claims abandoned	445	776
Store losses	79	274
Total	**543**	**1,052**

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Total value of losses		
Constructive losses	950	4,947
Bookkeeping/cash losses	78	–
Claims abandoned	2,767	8,896
Store losses	529	2,249
Total	**4,324**	**16,092**

Details of cases over £300,000

Constructive losses

These losses relate to procurement action causing the loss. This may be due to a change in policy that renders the stores or services less useful or not required at all.

There were two constructive losses in the year over £300,000. The first relating to hotel costs booked in preparation for EU exit in October (subsequently delayed). The value of the payment was £497,315. The second relates to a border readiness checks contract to provide personnel to check and permit vehicles to process towards our borders with the EU (not required under the EU transitional agreement). The value of the payment was £495,613.

Bookkeeping/cash losses

These losses relate to accounting corrections and losses not considered viable or value for money to pursue.

There are no bookkeeping or cash losses greater than £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.

There are no abandoned claims greater than £300,000.

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 store losses with a value greater than £300,000.

(b) Special payments

	Year to 31 March 2020	Year to 31 March 2019
Total number of special payments		
Ex-gratia payments/compensation	19	15

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Total value of special payments		
Ex-gratia payments/compensation	923	1,676

Details of cases over £300,000

There were two special payments with a value greater than £300,000. The first related to the infringing of a development consent order on the A14 Cambridge to Huntingdon scheme, where a misunderstanding over land use led to the construction of an asphalt plant on land earmarked for soil storage. The value of the payment was £320,000. The second for £300,000 related to the environmental stipulation of a project to buy land to sow crops for migratory birds.

Dart Charge losses

Highways England operates the Dartford-Thurrock River Crossing Charging Scheme on behalf of the Secretary of State. During 2018–19 an impairment loss of £44.3 million was reported; £3.8 million relating to road user charge revenue and £40.5 million relating to enforcement revenue. These amounts have been impaired on the basis of their recoverability, this is characteristic of all penalty charging regimes. Losses are disclosed in the DfT accounts and further details are provided in the 2018–19 Dartford-Thurrock River Crossing Charging Scheme Account.

22.5 Remote contingent liabilities

Under IFRS, contingent liabilities that are considered to be remote are not disclosed, however their narrative disclosure is required by the FReM.

A contingent liability is a potential liability that may occur depending on the outcome of an uncertain future event; they do not meet the criteria for a provision. These are disclosed in note 12 of the accounts.

Remote contingent liabilities occur where the possibility of future settlement is very small.

The company holds indemnities embedded within some procurement contracts. These indemnities are a promise by the company to compensate another for losses suffered as a consequence of works undertaken on the SRN. Indemnities provide security against or exemption from legal liability where asset damage, contamination or loss of income may arise.

Our most significant indemnities relate to works which impact upon statutory undertakers (SUs), for example to negate risks created by the requirement to move, or when we are working close to, a gas main or electricity infrastructure when building a new stretch of road. The approximate value of these indemnities is dependent upon the outcome of uncertain events and as such they cannot be accurately estimated. The potential to incur significant losses as the result of work impacting upon SUs is considered to be highly remote.

22.6 Highways England off-payroll appointees, consultancy and temporary staff

As part of the review of tax arrangements of public sector appointees published by the Chief Secretary to HM Treasury on 23 May 2012, departments and their arm's-length bodies 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:

Table 1: For all off-payroll engagements as of 31 March 2020, for more than £245 per day and that last for longer than six months

No. of existing engagements as of 31 March 2020	8
Of which:	
No. that have existed for less than one year at time of reporting	7
No. that have existed for between one and two years at time of reporting	1
No. that have existed for between two and three years at time of reporting	–
No. that have existed for between three and four years at time of reporting	–
No. that have existed for four or more years at time of reporting	–

The company 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.

Table 2: For all new off-payroll engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020, for more than £245 per day and that last for longer than six months

No. of new engagements, or those that reached six months in duration, between 1 April 2019 and 31 March 2020	7
Of which:	
No. assessed as caught by IR35	7
No. assessed as not caught by IR35	–
No. engaged directly (via PSC contracted to department) and are on the departmental payroll	–
No. of engagements reassessed for consistency/assurance purposes during the year	–
No. of engagements that saw a change to IR35 status following a consistency review	–

There were a total of nine new engagements that joined Highways England between 1 April 2019 and 31 March 2020, but only seven of these will be with us longer than six months and will earn over £245 per day.

All contracts included contractual clauses giving the company and DfT the right to request assurance. All engagements were ones where DfT requested tax compliance evidence and there were no contracts where an individual was exempt from this requirement.

Table 3: For any off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, between 1 April 2019 and 31 March 2020

No. of off-payroll engagements of Board members, and/or, senior officials with significant financial responsibility, during the financial year	1
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	11

Details of the exceptional circumstances that led to the above off-payroll engagements and the length of time each of these engagements lasted:

At 31 March 2020, there were two Board members at Highways England (the Chief Executive and Chief Financial Officer) and 10 senior officials with significant financial responsibility.

There was one off-payroll engaged worker with significant financial control. Victoria Higgin, Chief Information Officer, started on 30/09/19 and was originally contracted to the role for six months (until 31/03/20) a position which has now been extended to 30/09/20.

During the year, the company employed a number of consultancy and temporary staff. Expenditure on consultancy and temporary staff is shown in the table below.

Table 4: Expenditure on consultancy and temporary staff

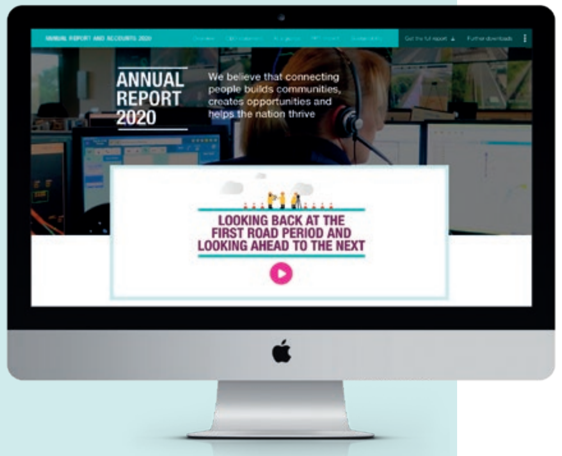
	Consultancy (£m)	Temporary Staff (£m)	Total (£m)
Highways England	2.8	3.1	5.9

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.

GLOSSARY

Term	Definition
AFR	Accident frequency rate
All lane running	A type of smart motorway where the hard shoulder has been converted into a live lane. CCTV cameras and variable message signs are used to regulate speed and close lanes in the event of an incident or congestion.
Asset Delivery	Our approach to maintaining and improving our assets. Through Asset Delivery, we will improve our asset knowledge and increase our control, including over interventions, planning and sequencing.
Asset management	The coordinated activity of an organisation to optimise operational efficiency and to realise value from assets.
Benchmarking	A widely-used tool for drawing inferences about the potential for efficiency improvements. Where it is targeted and implemented appropriately, it can provide useful insights and challenge.
Complex Infrastructure Programme (CIP)	Our Complex Infrastructure Programme is comprised of enhancement schemes above £500 million in estimated cost, and relates to the delivery of nationally important infrastructure. They are known as Tier 1 schemes as they are subject to staged approvals by DfT. We work closely with government in their development and delivery.
Designated fund	During the first road period, government created a series of designated funds to address a range of issues over and above the traditional focus of road investment, including: growth and housing; innovation; environment; air quality; and cycling, safety and integration.
Delivery plan	Our *Delivery plan* supports our *Strategic business plan*. Our *Delivery plan* for the second road period provides the detail of specific funding, activities and projects we will deliver from 2020–25. It includes our performance framework, which brings together all our delivery aims for the second road period.
DfT	Department for Transport
***Design manual for roads and bridges* (DMRB)**	This contains information about current standards relating to the design, assessment and operation of motorways and all-purpose trunk roads in the United Kingdom.
Digital roads	Our concept which is based on using connectivity, data and technology to improve the way the SRN is designed, built, operated and used.
Driving for Better Business	Our programme to help employers in both the private and public sectors reduce work-related road risk, decrease associated costs and improve compliance with current legislation and guidance.
EDI	Equality, diversity and inclusion
GHG	Greenhouse gases
HGV	Heavy goods vehicle
Home safe and well	In June 2019, we launched *Home safe and well* – our integrated approach to health, safety and wellbeing, which underpins everything we do.
Key performance indicator (KPI)	A metric used to define and measure progress towards organisational objectives.
KSI	The number of people killed or seriously injured on our network.
Lean	A method which creates more effective business processes by eliminating wasteful practices and improving efficiency.
Licence	Our *Licence* sets out the Secretary of State's aims, objectives and conditions for Highways England.
Metric	The individual measurements that we are judged on, that fit within the performance framework.
National Audit Office (NAO)	Highways England's appointed external auditor; external audit work is carried out by the NAO on behalf of the Comptroller and Auditor General.
Noise important areas (NIA)	Areas containing residents exposed to the highest noise levels, as designated by the Department for Environment Food and Rural Affairs.
National Road User Satisfaction Survey (NRUSS)	This survey, led by Transport Focus, has been used to measure satisfaction among users of the SRN. Transport Focus has developed a new *Strategic roads user survey* which will replace the NRUSS in 2019–20.
ORR	Office of Rail and Road. The Highways England monitor, responsible for monitoring the costs, efficiency and performance of the company.
Private Finance Initiative (PFI)	This is a public-private partnership, where private firms are contracted to complete and manage public projects.
Protocols	These are services which we carry out on behalf of the Secretary of State, such as maintaining national strategic salt stocks. They are in addition to our day-to-day operational activities.
Rapid Engineering Model (REM)	This enables quicker development of smart motorways through automatic digital design. Using the model, we analyse three dimensional topographic and environmental data to help identify opportunities and risks within a specific project, or along an entire asset in our network.
Regional Delivery Partnerships	Our Routes to Market Regional Delivery Partnerships incentivise suppliers to improve safety and deliver increased value. This approach contains incentives for results including: shorter and more accurate roadworks; more efficient, local buying; innovation; and increased environmental benefits.
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulation (1995)
***Road investment strategy* (RIS1 and RIS2)**	This is government's long-term strategy for the SRN. RIS1 refers to the *Road investment strategy* for the first road period (2015–20). RIS2 refers to the *Road investment strategy* for the second road period (2020–25).
Road period (RP1 and RP2)	Five-year planning cycles: the first road period ran from 2015–20, and the second will run from 2020–25.
Routes to Market	We have provided forward visibility to help our supply chain make plans to commit resources and people, to encourage innovation and to bring new highway suppliers into the market. It consists of our Asset Delivery programme, Regional Delivery Partnerships, our Smart Motorways Alliance model and our Complex Infrastructure Programme.
SDF	Supplier Diversity Forum
Smart Motorway Alliance model	This is the model which will be used to deliver the majority of our smart motorway outputs in the second road period. The alliance will consist of Highways England and six other parties (three delivery, two design and one production hub) who will engage with each other in one contract.
SMEs	Small to Medium Enterprises
Strategic business plan	Our *Strategic business plan* responds to, and aligns with, government's RIS2. It provides the high-level direction for every part of our company for the second road period, setting the outcomes we will work to deliver and the strategic priorities for our business. It is supported by our *Delivery plan*.
Strategic road network (SRN)	We are responsible for the strategic road network, which consists of England's motorways and major A-roads.
Transport Focus	The watchdog for transport passengers and road users in the United Kingdom.

FURTHER READING



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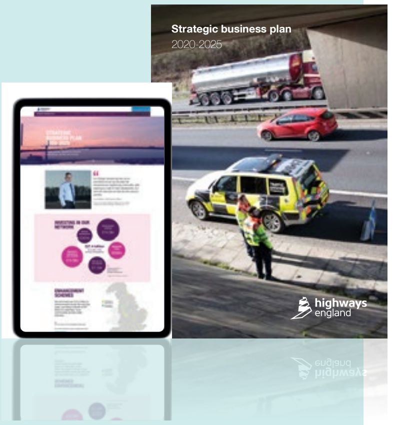

STRATEGIC BUSINESS PLAN

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