

Dartford-Thurrock River Crossing Charging Scheme

Accounts 2019-2020

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

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Foreword and Management Commentary

Background Information

The Dartford-Thurrock River Crossing (the crossing) between Dartford and Thurrock consists of two tunnels and the Queen Elizabeth II Bridge. The first tunnel was built in 1963, the second in 1980 and the bridge was opened in 1991.

An early Private Finance Initiative (PFI) concession, enacted by the Dartford-Thurrock Crossing Act 1988, transferred the existing debt from the tunnels to the private sector who retained toll revenue to pay off the existing debt and the debt incurred by building the new bridge. Tolls were set by The Department for Transport (the department) in conjunction with the Concessionaire. The concession was for a period of 20 years from 31 July 1988 but could be ended as soon as the debt was repaid. The Secretary of State determined that all financial commitments had been met by 31 March 2002.

The Dartford-Thurrock Act 1988, Schedule 6, Section 16, (4) (1) contained the provision for a toll extension period for the collection of tolls to provide a fund for future maintenance of the crossing. An extension agreement between the Concessionaire and the Secretary of State for Transport was in place from 4 March 1999 and allowed the toll extension period to run from 1 April 2002 to 31 March 2003. All toll revenue during this period was passed over gross to the department.

A charging scheme was introduced at the crossing from 1 April 2003. The powers to introduce a charging scheme on a trunk road bridge and tunnel of at least 600m are set out in Part III Chapter I of the Transport Act 2000 (Road User Charging). Sections 163 (Preliminary) and 167 (Trunk Road Charging Schemes) and Schedule 12 (Road User Charging and Workplace Parking Levy: Financial Provisions) apply to charging schemes introduced on trunk roads:

- Schedule 12 paragraph 13 to the Act requires that the net proceeds of such a charging scheme should be applied for directly or indirectly facilitating the achievement of any policies or proposals relating to transport but makes no prescription for how that will be achieved.
- Schedule 12 paragraph 2(2) allows the Secretary of State for Transport to make regulations determining how the net proceeds are to be calculated.
- Schedule 12 paragraph 5 allows regulations to be made for the keeping of accounts and the preparation and publication of statements of such accounts.

The effect of the regulations made under these provisions is to require an account to be produced to demonstrate the amount of the net proceeds.

The charging scheme at the Dartford-Thurrock River Crossing is enabled by the following secondary legislation:

- Procedural regulations for the making of an order¹.
- Regulations covering accounting arrangements².
- The making of a Dartford-Thurrock River Crossing charging scheme order³.

¹ Statutory Instrument 2001 No. 2303 The Trunk Road Charging Schemes (Bridges and Tunnels) (England) Procedure Regulations 2001

² Statutory Instrument 2003 No. 298 The Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Procedure Regulations 2003

³ Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013

Cumulatively these enable the requirements of the Act to be translated into a charging scheme at the Dartford-Thurrock Crossing.

The following regulations allow effective enforcement of the road user charge (RUC), with the introduction of free-flow charging (known as Dart Charge) on 30 November 2014:

- The Road User Charging Enforcement Regulations⁴ provide a national legislative framework for the enforcement of road user charging through the imposition of penalty charges.
- The Dartford-Thurrock River Crossing Charging Scheme Order⁵ sets out the level of penalty charge and enforcement measures that are being used at Dartford.

Operation of the crossing

Until 31 March 2015 the Highways Agency (the Agency) was the road authority and was responsible for the operation of the crossing. Under the government road reform programme, Highways England Company Ltd (Highways England) became the road authority from 1 April 2015, taking on the role previously performed by the Agency. Highways England, which is a government owned company, now operates the crossing on behalf of the Secretary of State.

From 1 April 2003, the Agency had a contract with Le Crossing Company Ltd to manage the crossing and collect charges on behalf of the Secretary of State for Transport. The contract ended on 12 September 2009.

In May 2009, the Agency signed a 30-year design, build, finance and operate (DBFO) contract with Connect Plus (M25) Ltd. Connect Plus is responsible for operating and maintaining the M25, including the Dartford-Thurrock Crossing, plus 125 miles of connecting roads around the junctions. As part of this contract, the function of managing the crossing and collecting charges transferred to Connect Plus (M25) Ltd from 13 September 2009.

In November 2014, the Agency introduced Dart Charge at the Dartford-Thurrock Crossing (see below) and awarded a seven-year contract to Sanef Operations Ltd. The contract requirements include the detection and recording of vehicles and registrations, as well as providing a variety of remote payment methods for road users to access and pay the crossing charge. The responsibility of collecting and enforcing the payment of the RUC transferred to Sanef Operations Ltd on 30 November 2014. From 20 May 2016, Sanef Operations Ltd changed their name to Emovis Operations Leeds Ltd.

Dart Charge

The Dartford-Thurrock Crossing traditionally suffered from significant levels of congestion, with over 50 million vehicle crossings being made each year. Prior to December 2014 the existing barrier and road layout arrangement to collect and pay the RUC interrupted the flow of traffic. As a result, severe congestion existed, with poor traffic flow and delays for large periods of each day.

The department made clear that providing improvements to the performance of the crossing was a priority in view of its role in the movement of goods and people, and its contribution to the economy. In the Spending Review announcement of October 2010, the government stated its

⁴ Statutory Instrument 2013 No. 1783 The Road User Charging Schemes (Penalty Charges, Adjudication and Enforcement) (England) Regulations 2013

⁵ Statutory Instrument 2013 No. 2249 The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013

commitment to introduce a 'free-flow' charging arrangement at the crossing as part of a strategic objective to manage congestion in the short, medium and longer term.

Dart Charge removes the need for drivers to stop and pay the RUC within a plaza environment controlled by barriers. This scheme formed a key deliverable within the department's Business Plan 2012-15, and the Agency led on its delivery and it was introduced from November 2014.

Dart Charge requires drivers to pay for their crossing during chargeable hours, either in advance or by midnight the day after crossing. Road users have access to a variety of methods to pay the charge. These methods include payments online (web), by phone, retail outlets, or by registered customer accounts. If a payment is not made, then a Penalty Charge Notice (PCN) is issued. Penalty and recovery processes are employed to enforce the charging scheme and collection of charges. These 'charging and enforcement management' services are delivered and administered through a contact centre and back office operation.

To build road user understanding and acceptance of the Dart Charge and encourage compliance, first time users of the crossing are offered the opportunity to avoid the penalty charge if they pay the RUC within 14 days of receiving the PCN. Further details of the effect of this policy are provided in Note 8 of the accounts.

Dart Charge delivers benefits to the UK economy and these are primarily delivered through a reduction in congestion and easing traffic flow at this vital crossing link and the wider south-east road network. The introduction of this scheme is expected to deliver approximately £1.6 billion of economic benefit over 25 years. Traffic volumes decreased by 2.5% in 2019-20 compared with 2018-19. Traffic volumes were forecasted to be 0.5% down on 2018-2019, however the COVID-19 instructions issued by government in March resulted in a significant impact on traffic volumes, resulting in an overall reduction of 2.5%. It is estimated that 800,000 crossings were lost between 15-31 March. Volumes decreased during charging hours by 2.1% and by 4.9% outside of charging hours.

At 94.9%, road user compliance increased in 2019-20 (2018-19: 94.6%). Compliance is a measure of road users who have used the crossing and paid their RUC in-line with the scheme requirements, by midnight the day after crossing. Crossings are captured and validated by the roadside technology, and then reconciled to payments. Crossings are then grouped by type (e.g. 'paid by account'), following which a compliance value is derived.

Free-flow charging is a medium-term measure enabling the department to develop further the existing options for additional crossing capacity on the Lower Thames.

Accounts of the Secretary of State for Transport

Section 3(1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulation 2003 requires the production of accounts for the year to 31 March 2020.

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

The accounts have been audited by the Comptroller and Auditor General (C&AG). The Independent Auditor's Opinion and accompanying Report are on pages 15 to 18.

Income

Cash receipts collected by Emovis Operations Ltd for paid crossings are passed over gross to the department. Total revenue recognised for the year ended 31 March 2020 amounted to £209.0m (2018-19: £195.7m). The £13.3m increase on the previous year includes:

- £14.0m of aged deferred income that can now be recognised as income in line with our revenue recognition policy
- An offsetting £1.6m reduction in enforcement income due to a combination of increased compliance, reduction in traffic volume and a more efficient enforcement process

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

Expenditure

There is no separation of crossing related costs in the service payments paid by Highways England to Connect Plus in respect of the entire M25. The costs to the Secretary of State for Transport, for the maintenance and operation of the crossing, have therefore been estimated and included based on the most appropriate allocation method detailed within Note 1 to the accounts and a detailed analysis of the expenditure is given in Note 3.

Total expenditure for the year ended 31 March 2020 amounted to £102.2m broadly in line with the previous year (2018-19: £104.3m). Further information is provided within Note 3.

Net proceeds

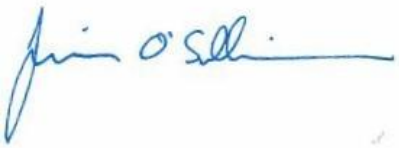
The net proceeds for the year ended 31 March 2020 were £106.8m (2018-19: £91.4m), the increase of £15.4m is due to an increase in income of £13.3m as well as a decrease in expenditure of £2.1m.

Statement regarding disclosure of Information to the Auditors

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

Date of Issue

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



Jim O'Sullivan
Accounting Officer
11 January 2021



Vanessa Howlison
Chief Finance Officer
11 January 2021

Statement of Secretary of State and Accounting Officer responsibilities

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

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

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

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

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

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

Governance Statement

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

HM Treasury with the Cabinet Office published its Corporate Governance Code of Good Practice and guidance for central government departments in April 2017. I have provided details below of how the system of corporate governance has operated during 2019-20, including any areas where the system has not operated in line with the code.

Scope of responsibility

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

Governance framework

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

The Dartford River Crossing governance framework is largely reliant on Highways England's governance arrangements. Both Dartford River Crossing and Highways England governance arrangements are set out below.

Dart Charge Governance

Risk is managed monthly through the governance structure which consists of multiple working groups for subject areas such as Operations, Finance, Management Information and Information Technology. Escalations for cross group working, or higher threat level is picked up at Service Review Group which consists of the senior management team. Quarterly reviews of the risks take place formally and as appropriate.

The key risks considered during this financial year are summarised below:

1. Brexit – Potential Brexit outcomes could introduce a risk to increased congestion on the crossing and surrounding roads.
2. Equipment resilience - A failure of the roadside detection equipment, back office system or other roadside equipment that leads to loss of vehicle passage records or large numbers of unchargeable crossings thereby undermining the credibility of the management information and stakeholder/public confidence in the scheme.
3. General Protection Data Regulation (GDPR) - Risk of non-compliance with the new requirements.
4. Disaster recovery testing and trial run successfully completed in June 2019.
5. Reduction in traffic volumes impacting revenue collected due to COVID-19 pandemic.

Corporate Assurance Review

The priority for Highways England is to ensure that Emovis provides a robust, efficient and effective service to road users of the Crossing to manage the risks to both the public and the Secretary of State (the shareholder). As a result, Corporate Assurance has regular oversight and liaison with the Highways England Dart Charge team to review progress on the various improvement initiatives, and to offer support and guidance. A formal Corporate Assurance review is planned for July 2020.

Highways England's Governance Framework

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

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

The key elements of Highways England's governance framework are:

- The Board, Executive Committee and Sub-Committees and groups.
- Highways England's Audit and Risk Committee, Counter-Fraud Group and Board Safety Committee.
- A sound system of internal control, including audit and assurance activity and formal risk management processes.

Full details are available in the Highways England Annual Report and Accounts.

Board and Executive Committee

Highways England is governed by a formal Board whose purpose is to ensure the company's long-term success and is accountable to our Shareholder (the Secretary of State for Transport) for all aspects of our activities and performance. It is supported by our Executive Committee, who are responsible for implementing the Board's strategic decisions and managing the risks associated with it. The Board is supported in its decision making through several board-level committees. All of which review their own effectiveness annually and identify to improve performance where appropriate.

Board

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

Risk management

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

Each year the Executive team uses the strategic objectives supporting the current investment period to identify potential risk, uncertainty and opportunities. Similar exercises are carried out across all key business areas. Risks are evaluated, recorded and monitored as part of a continuous cycle of managing the exposure with any significant movements reported to the Executive Committee and the Board on a quarterly basis.

Internal control framework

Highways England's risk management process is aimed at early identification and mitigation. Its framework gives us the structure, through which the company continually identify, prioritise, manage, monitor and report risks.

The Board has overall responsibility for the company's internal control framework and for reviewing its effectiveness. Internal control systems are recognised by the Board as being designed to manage, rather than eliminate, the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material misstatements, losses or the breach of laws or regulation.

Financial management

The Highways England Audit and Risk Committee review the Dartford & Thurrock River Crossing accounts and audit recommendations on an annual basis.

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

- A mandatory Investment Decision Control framework to test whether a proposed project or expenditure offers value for money. The arrangements complement larger value approvals required from the department or Ministers.
- Financial propriety and other requirements from HM Treasury's Managing Public Money.
- An Oracle financial accounting system with embedded controls.
- Asset management procedures to record and account for all assets.
- An Anti-Economic Crime Group to oversee the company's approach to managing the risk of all aspects of fraud, bribery, corruption, money laundering and modern slavery issues or allegations.
- Investors in People accreditation: a proven business improvement framework that significantly improves financial performance.

Management Assurance Reporting

Stewardship reporting is undertaken on a quarterly basis and our results are reported to the Department at year-end, in line with their timetable. The report covers the full range of delegations, policies and procedures agreed between Highways England and our Shareholder. The evidence collated forms part of a management assurance process which enables the Accounting Officer to sign off the Governance Statement in the Annual Report and Accounts.



Jim O'Sullivan
Accounting Officer
11 January 2021



Vanessa Howlison
Chief Finance Officer
11 January 2021

THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

Opinion on financial statements

I certify that I have audited the financial statements of Dartford-Thurrock Crossing Charging Scheme for the year ended 31 March 2020 under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 ('the Regulations'). The financial statements comprise: the Statement of Income and Expenditure; Statement of Capital Expenditure; the Statement of Assets and Liabilities; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the statement of accounts that is described in that report as having been audited.

In my opinion:

- the financial statements give a true and fair view of the state of Dartford-Thurrock Crossing Charging Scheme's affairs as at 31 March 2020 and of net proceeds for the year then ended; and
- the financial statements have been properly prepared in accordance with the Regulations and HM Treasury directions issued thereunder.

Opinion on regularity

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

Basis of opinions

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

Conclusions relating to going concern

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the Dartford-Thurrock Crossing Charging Scheme's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Dartford-Thurrock Crossing Charging Scheme have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Dartford-Thurrock Crossing Charging Scheme's ability to continue to adopt the going

concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Secretary of State and Accounting Officer for the financial statements

As explained more fully in the Statement of Secretary of State and Accounting Officer responsibilities, the Secretary of State and Accounting Officer are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to examine and certify on the financial statements in accordance with the Regulations.

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 Dartford-Thurrock Crossing Charging Scheme'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.
- Conclude on the appropriateness of the Dartford-Thurrock Crossing Charging Scheme's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Dartford-Thurrock Crossing Charging Scheme's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may

cause Dartford-Thurrock Crossing Charging Scheme's to cease to continue as a going concern.

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

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure 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. These authorities include The A282 Trunk Road (Dartford-Thurrock Crossing Charging Scheme) Order 2013, as amended.

Other Information

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

Opinion on other matters

In my opinion:

- the parts of the statement of accounts to be audited have been properly prepared in accordance with HM Treasury directions made under the Regulations;
- in the light of the knowledge and understanding of the Dartford-Thurrock Crossing Charging Scheme and its environment obtained in the course of the audit, I have not identified any material misstatements in the statement of accounts; and
- the information given in the statement of accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

Report

I have no observations to make on these financial statements.

Gareth Davies
Comptroller and Auditor General

Date 12 January 2021

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

Statement of Income and Expenditure for the year ended 31 March 2020

Income	Note	2019-20 £000	2018-19 Restated £000
Dart Charge operation	2	208,893	195,539
Rental income	2	117	129
		<u>209,010</u>	<u>195,668</u>
 Expenditure			
Managing agent contractor's costs	3	(46,680)	(47,498)
Impairment of receivable	3	(44,103)	(44,255)
Other expenditure	3	(11,396)	(12,495)
		<u>(102,179)</u>	<u>(104,248)</u>
 Net proceeds for the year			
	4	<u><u>106,831</u></u>	<u><u>91,420</u></u>

Statement of Capital Expenditure for the year ended 31 March 2020

	2019-20	2018-19
		Restated
	£000	£000
Dart Charge	-	(1)
EU Directive- Tunnel Safety	185	1,848
Other	1,571	1,144
	<u>1,756</u>	<u>2,991</u>

The Notes on pages 22 to 36 form part of these accounts.

Statement of Assets and Liabilities as at 31 March 2020

	Note	2019-20 £000	2018-19 Restated £000
Current Assets			
Cash at bank	5	37,949	35,289
Trade and other receivables	5	33,826	32,598
		<u>71,775</u>	<u>67,887</u>
Current Liabilities			
Trade and other payables	6	<u>(71,775)</u>	<u>(67,887)</u>
Current Assets less Current Liabilities		<u><u>-</u></u>	<u><u>-</u></u>

The Notes on pages 22 to 36 form part of these accounts



Jim O'Sullivan
Accounting Officer
11 January 2021



Vanessa Howlison
Chief Finance Officer
11 January 2021

Notes to the Account

1. Statement of accounting policies

1.1 Accounting Convention

The accounts have been prepared in accordance with the 2019-20 Financial Reporting Manual issued by HM Treasury. The accounting policies contained within apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public-sector context.

An Accounts Direction has been given by HM Treasury and is reproduced in Appendix A. The Accounts are prepared under the historical cost convention on an accruals basis.

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

The scheme's expenses including capital expenditure are settled in full by Highways England, itself funded by Parliament and working on behalf of the Secretary of State as the charging authority. A receivable from Highways England is recognised equal to any balances due to suppliers at the end of the year in recognition of this financing arrangement.

The net assets arising from the charging scheme – comprising principally cash, accruals-based receivables due from road users (Note 5), and deferred income comprising prepayments by road users (Note 6) – are payable under the charging scheme legislation to the department. An equal payable is therefore recognised to the department in respect of these net assets. The scheme regularly pays the cash proceeds of the scheme amounts to the department in service of this commitment.

1.2 Adjustment to last year's published results

A review of 2019-20 expenditure identified that costs in relation to capital expenditure work at the M25 Junction 2 had been included in the prior year costs. Whilst the junction is in the vicinity of the crossing it has no direct link. These costs have been removed from the 2019-20 expenditure figures and 2018-19 figures have been restated as detailed below to account for this. The main impact is to reduce expenditure by £4.8m. There is no equity impact of this adjustment as expenditure is settled in full each year, as per section 1.1. However, as the project included some accruals (£0.4m) there is a small impact within the balance sheet to consider as well.

	Expenditure £'000	Assets £'000	Liabilities £'000
2018-19 as published	109,059	68,309	(68,309)
Removal of 18-19 expenditure in relation to the M25 J2 Dartford project	(4,811)		
Removal of accruals in relation to the M25 J2 Dartford project		(422)	422
2018-19 restated	104,248	67,887	(67,887)

1.3 Capital expenditure

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

This policy reflects the fact that the scheme itself derives no future economic benefit from the expenditure, since net proceeds are payable in full to HM government. The relevant assets are

capitalised and depreciated in the Highways England financial statements in line with the policies stated therein.

1.4 Revenue recognition and derecognition

The RUC is recognised as income on the day the road user has crossed the crossing during the chargeable period.

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

Fines and penalties are recognised as revenue as follows:

- For non-first offenders, the PCN amount is recognised when issued.
- For first time offenders, they are given 14 days to pay and the PCN is issued when the 14 day letter is issued and the fine amount is recognised as revenue at this time. However, if the road user subsequently pays the crossing charge within that set time limit then the PCN is effectively cancelled and the PCN revenue is derecognised.
- Where on appeal the penalty is not enforced, the amount receivable is derecognised.

RUC and enforcement income is shown net of derecognition within Note 2.

Rental income received from communication network providers is recognised on a straight-line basis over the term of the contract.

Prior to 2019-20, deferred income was retained in full even when account balances had been dormant for a significant period. This was also the case for the expiry of 12-month time-limited non accounts deposits since a process for reliably identifying those had not yet been fully implemented. Both conditions changed in 2019-20 – enhanced reporting has been implemented for the first time to identify expired non-account balances, enabling a reliable estimate to be made in support of the recognition of income for the first time in that year; and a backlog of account closure letters for dormant accounts have been sent out. Following this change in the Scheme’s practical circumstances, this policy has been clarified and expanded in respect of potential ‘breakage’ income. No retrospective change has been made under IAS 8 since the practical context in which this income can be recognised has only emerged in-year as a result of the changes described above.

The nature of the scheme’s terms and conditions means that not all customers will fully utilise the balances they deposit with the scheme. IFRS 15 refers to revenue arising as a result of this condition as ‘breakage’. This income is recognised in line with IFRS 15 breakage principles, including the recognition of revenue when the likelihood of the customer exercising its remaining rights to the income becomes remote.

For account holders, when accounts have not been used for 12 or more months, users are contacted and given an additional 3 months to keep their account active or claim a refund. If neither of these things happen, the account is closed in line with terms and conditions. A continuing stand-by obligation exists to refund users on older terms and conditions if they choose to terminate their accounts, even after this point. Nevertheless, in practice some level of credit balances are likely to remain unclaimed in perpetuity. Whilst fully honouring its contractual obligations, the Scheme recognises income in respect of these credit balances to the extent that the likelihood of significant refunds becomes remote. Based on users’ opportunity to claim a refund in the 3 month grace period, the fact that these balances are of reasonable age, and the Scheme’s monitoring of refund activity, we currently treat the ‘remote’ test as being met in full at the point of account closure. Refunds from this point are expected to be minimal, but to the extent

they arise, they are treated as a derecognition of income in the period in which the refund becomes obligated. Credit balances that remain are recognised as income.

For non accounts, road users are aware that funds are time limited for 12 months upon deposit. Any funds remaining after that period are recognised as revenue.

1.5 Managing agent expenditure

Estimation techniques are adopted to arrive at an estimated monetary amount for the expenditure incurred under the Design, Build, Finance and Operate (DBFO) contract with Connect Plus (M25) Ltd during the period 1 April 2019 to 31 March 2020.

The service charge in the DBFO contract payable by Highways England encompasses the whole of the M25, including the Dartford Crossing. Therefore, an estimate has been made as to the proportion of this charge that relates to the maintenance and operation of the crossing. The estimated costs have been included based on the most appropriate allocation method determined for each expenditure type (see below) within the financial model of the DBFO contract.

Expenditure Type	Total costs specific to DRC per the financial model	Total costs not specific to DRC per the financial model	Total
	£m	£m	£m
Operational and management	14.8	5.0	19.8
Lifecycle schemes	0.5	0.5	1.0
Overhead and management	-	1.2	1.2
Total	15.3	6.7	22.0

1.5.1 Operational and Management

The types of cost associated to this category are:

- **Routine structures** - Inspections and routine maintenance. The amount allocated has been derived based on the elements specific to the crossing rather than the entire M25 contract.
- **Routine service** - Incident Response. This is based on the number of incidents as a percentage of the M25.
- **Other routine** - Such as roads, winter service and inspection surveys are allocated as a percentage based on the length of the crossing as per the legislation compared to the total length of the M25 per the DBFO contract.
- **Charge collection and crossing** - The whole amount is specific to the crossing.
- **Management activities staff** - Is based on the staff capacity of the crossing depot as a percentage of the capacity of all depots.
- **Management activities facilities** - Is based on the staff capacity of the crossing depot as a percentage of the capacity of all depots.
- **Lifecycle tunnels** - Is based on the number of Dartford River Crossing tunnels compared to the total amount of tunnels across the M25.
- **Vehicle recovery** - The whole amount is specific to the crossing.

- **Others** - Such as vehicle recovery, lifecycle ancillaries and indeterminate costs are allocated as a percentage based on the length of the Dartford River Crossing as per the legislation against the total length of the M25 per the DBFO contract.

1.5.2 Lifecycle Schemes

The types of cost associated to this category are:

- **Pavements** - Costs under this category are allocated as a percentage based on the length of the Dartford River Crossing as per the legislation against the total length of the M25 per the DBFO contract.
- **Tunnels** - the whole amount is related to the crossing.

1.5.3 Overhead and Management

Cost under this category relate to the head office costs incurred by the contractor.

- **Management** - Project management, advisors and board fees are based on the contractors' best estimate of the time spent by management on an annual basis.
- **Energy** - Is based on the actual metered and unmetered supplies that are specific to Dartford River Crossing as a percentage against the total energy cost incurred through the DBFO.
- **Insurance and risk** - the percentage as per that applied to the financial model in the DBFO contract.

Further information is included in Note 3.

1.6 New Accounting Standards – applied

A new accounting standard has been applied for the year ending 31 March 2020. The nature and impact of the new standard is described below:

1.6.1 IFRS 16 Leases

This is the new accounting standard for leases which became effective for annual reporting periods commencing on or after 1 January 2019.

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 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.

A thorough review was completed within the year and did not identify any amendments that need to be considered, due to the lack of operating leases and the service provision characteristic of expenditure schemes.

The Dart scheme receives income in the form of rent from communication network providers as compensation for running cables through the crossing tunnels. We have considered the substance of these receipts and, in accordance with IFRS 16 schedule B20, have determined that these transactions are exempt from reporting requirements as there is no identifiable asset.

1.7 New Accounting Standards – future

1.7.1 IFRS 17 Insurance Contracts

This standard requires a discounted cash flow approach to accounting for insurance contracts and is expected to come into effect from January 2021. The Dart scheme currently has no contracts which meet the definition of insurance contracts.

1.8 Pension costs and treatment of indemnity as financial guarantee contract

When the Dartford River Crossing concession was enacted, employees transferred to the private sector company (Egis, part of the Connect Plus joint venture) from Kent County Council. As part of the transfer arrangements, the Secretary of State for Transport provided an indemnity to Egis to accept the liability for any future contributions and deficit associated with the Dartford Crossing pension scheme fund.

On behalf of the charging scheme, Highways England therefore contributes to the funded defined benefit Dartford Crossing pension scheme in respect of managing agent staff who are members of that scheme. In-year contributions relating to current service are included annually in the charging scheme's expenditure (Note 3).

This indemnity is treated for accounting purposes as a financial guarantee contract under IFRS 9, resulting in a financial liability measured as required by that standard at the expected cash flow, in line with IAS 37 principles. Estimation uncertainty and discounting are dealt with under Note 1.9.

1.9 Use of estimates

1.9.1 Impairment of Receivable

The principal area of estimation in these financial statements relates to the impairment of debt related to enforcement activities. It is inherent to the nature of the enforcement side of the Scheme's business that not all debt will ultimately prove recoverable, despite management taking all reasonable efforts with regards to credit control.

Following the principles of IFRS 9, management considers debt collectively for impairment within groups which share similar credit risk characteristics. Expected credit losses are calculated by:

- Identifying scenarios in which a loan or receivable defaults
- Estimating the cash shortfall that would be incurred in each scenario if a default were to happen
- Multiplying that loss by the probability of the default happening and
- Summing the results of all such possible default events

Because every loan and receivable has at least some probability of defaulting in the future, every loan or receivable has an expected credit loss associated with it from the moment of its origination or acquisition.

For each group, management bases an impairment on the amount required to achieve a net debt balance which matches its expectations of future cash flows. In respect of the Debt Enforcement

Agency (DEA) debt, this is based on an analysis of the aggregate percentage of debt recovered in recent DEA cases before these are returned with no further action to be taken by the DEA.

For other categories, management use an analysis based on the repayment profiles over time of debt cohorts. This method has the advantage of being based on historical data to the greatest extent possible, rather than relying on fixed policies on when debts should be fully impaired.

Choosing the cohort for analysis involves judgement; the more recent the cohort, the more relevant to the debt balance at the year end, but the smaller the time range available to provide evidence of cash flows which have arisen on past debt. In light of the accounts preparation timetable and the natural cycle of enforcement debt (particularly prior to DEA referral) management have chosen debts originating between April 2019 and March 2020 to perform this analysis. Management use the assumption that the cash flow profile for this cohort of debt, including the percentage returned once they reach the last step in enforcement (DEA referral) will be a reasonable proxy for the recoverable amount of debt at the Balance Sheet date, and impair the relevant balances accordingly. The impairment expense is £44.1m (2018-19: £44.3m) this has decrease by £0.2m being a net of an £1.7m reduction in write-offs and a £1.5m increase in allowance for doubtful debt.

The impact of Covid-19 post the balance sheet date has been considered and it is determined that this would have an immaterial impact on the recoverability of outstanding receivables at year end.

1.9.2 Measurement of pension-related financial guarantee contract liability

The measurement of expected cash outflows under the financial guarantee contract described in Note 1.8 is determined using IAS 37 principles. The key source of information for the asset and liability position is the advice of actuaries provided to the trustees of the pension scheme, which include representatives of the charging authority. The most recent actuarial valuation was performed as of September 2017 by actuarial consultants Lane, Clark & Peacock LLP.

The charging scheme will incur net cash outflow in excess of in-year contributions for service (which in common with pensions accounting in general are not anticipated since they relate to future operations) where there is an excess of liabilities for pension payments over scheme assets at any point up to the pension scheme discharging its final obligation. Determining the expected cash flows therefore involves determining whether any excess of pension liabilities over assets exists at the Balance Sheet date, which in turn relies on the valuation approach to both assets and liabilities. Assets are measured at fair value.

The scheme's advisers apply a discount rate equivalent to the expected return on assets in determining whether a deficit exists. This is a key judgement from the schemes point of view and results in a deficit of £1.2m as at 31 March 2020. This shows a change of £0.1m from a deficit of £1.1m recorded in the previous valuation as at 30 September 2019. These figures do not necessarily mean that top-up contributions will ultimately be necessary. The value of the pension fund may increase or decrease in the future based on actuarial assumptions, actual investment performance and experience of the extent of future obligations, resulting in a total net liability or a total net asset. To the extent that any future deficit arises, this represents a liability to the Secretary of State for Transport and the charging scheme. The charging authority is working with the pension scheme's trustees to maximise the return on investment from scheme assets to minimise the funding gap.

For accounting purposes, the charging scheme uses a more prudent discount rate assumption, using the 'bonds basis' applied in the most recent full actuarial valuation. This choice has been made because while the indemnity is accounted for under IFRS 9, IAS 19 Employee Benefits provides the closest guidance in respect of pension scheme liability discount rates which

management has applied to this scenario, namely the use of yields related to high quality corporate bonds at the year end. This results in a valuation of the net deficit at £4.0m. Key indicators used to determine the bonds basis valuation include;

Discount Rate For Bonds Basis	0.8% pa
Retail Price Index (RPI)	2.8% pa
Consumer Price Index (CPI)	2.0% pa

Whilst at year end there was a downward yield market movement particularly on government bond holdings due to Covid-19, the fund has been taking action to mitigate its exposure so the risk of significant material misstatement or change is unlikely.

2. Income

	2019-20	2018-19
	£000	£000
Dart Charge Operation		
Road user charge (accounts)	90,227	86,201
Road user charge (non accounts)	45,392	34,424
Enforcement	72,931	74,534
Abnormal load	343	380
	<u>208,893</u>	<u>195,539</u>
Other Income		
Rental	117	129
	<u>209,010</u>	<u>195,668</u>

In 2019-20 income has increased by £13.3m. Whilst operational year on year income has remained broadly in line most of the increase relates to £14.0m of the aged deferred income that has been recognised as income in year in line with our revenue recognition policy (Section 1.4 pg 22). Our policy allows us to close accounts where there has been no activity for 12 months, refunding or recognising the income when no refund has been claimed. Non accounts road users are aware that funds are time limited for 12 months upon deposit and any funds remaining after that period are recognised as revenue.

The processes to identify and action these aged balances had not been agreed or implemented until this financial year. The changes have led to a balance of £10.5m for non accounts and £3.5m for accounts being recognised in 2019-20.

The Dart Charge scheme incentivises road users to create Dart Charge accounts by offering discounted charges to use the crossing. During the financial year £90.2m (2018-19: £86.2m) was

recognised in respect of these accounts which included £3.5m in relation to the aged deferred income recognition detailed above.

During the financial year £45.4m (2018-19: £34.4m) has been recognised as Dart Charge non account RUC income. The majority of this income is collected from less frequent users of the crossing and includes £10.5m in relation to the aged deferred income recognition detailed above.

Enforcement income relates to road users who have used the crossing but have failed to make a RUC payment within the required timescale, with a resultant PCN liability materialising. Enforcement income has been valued and recognised at £72.9m (2018-19 £74.5m), the decrease of £1.6m is due to an increase in compliance.

Abnormal loads income of £0.3m has been received from vehicles which require an escort to travel across the crossing, this is in-line with the previous year.

Dart Charge income is reported net of refunds made.

Rent received from communication network providers amounted to £0.1m during the financial year.

3. Expenditure

	2019-20	2018-19
		Restated
	£000	£000
Managing Agent Contractor's costs		
Connect Plus (M25) Ltd	21,994	23,626
Emovis Operations (Leeds) Ltd	24,687	23,872
	<u>46,681</u>	<u>47,498</u>
Impairment to Income		
Road user charge		
Write offs	1,930	3,787
Movement in allowance for doubtful debt	2,036	24
Enforcement		
Write offs	30,824	30,690
Movement in allowance for doubtful debt	9,313	9,754
	<u>44,103</u>	<u>44,255</u>
Other Expenditure		
Dart Charge	4,818	4,835
Highways England Staff	3,735	3,530
Safety scheme	23	22
EU tunnel directive on safety	185	1,848
Technology projects safety	352	890
Network resilience	677	136
Routine maintenance	859	494
Pension costs	746	740
	<u>11,395</u>	<u>12,495</u>
	<u>102,179</u>	<u>104,248</u>

Dartford River Crossing costs relating to the Connect Plus contract is an apportionment of the total costs payable by Highways England to Connect Plus for the M25 DBFO contract. The

estimated costs included are based on the most appropriate allocation method determined for the three expenditure types within the financial model of the DBFO contract.

The expenditure of £22.0m (2018-19: £23.6m) includes:

- Operational & management £19.8m (2018-19: £17.4m)
- Life cycle schemes £1.0m (2018-19: £5.0m)
- Overhead and management costs £1.2m (2018-19: £1.2m)

A monthly payment is made to Emovis as the service provider for the Dart Charge scheme. The service payment and maintenance charge are fixed, while a variable payment is made based on the activities performed by the company during the month. This has resulted in an increase in costs to £24.7m in year (2018-19 £23.9m).

RUC and enforcement receivables have been impaired by £44.1m (2018-19: £44.3m).

Dart Charge cost of £4.8m (2018-19: £4.8m) includes £3.9m for Traffic Enforcement charge, £0.8m residual cost of setting up and delivering the Dartford Free Flow Charging (Dart Charge) project and £0.1m in respect of Audit fee.

Highways England staff costs of £3.7m (2018-19: £3.5m) have increased slightly by £0.2m due to increased Traffic Officer costs and completion of vehicle replacements with additional training costs to complete single crewing availability to support future operations.

The £0.2m (2018-19: £1.8m) EU Tunnel Directive on Safety costs decreased by £1.6m due to the delivery of the Passive Fire Protection in the East Tunnel project which commenced in 2016-17 and completed in 2018-19. The project involved upgrading the passive fire protection within to tunnel to improve protection in the tunnel structure in case of a serious vehicle fire.

The Technology Projects Safety cost of £0.4m (2018-19: £0.9m) is a reduction of £0.5m against last year primarily due to reduced expenditure attributable to the A282 Dartford Tunnel's Over Dimension Detection System project which commenced in 2016-17 and for which the primary costs were incurred in 2018-2019.

Network Resilience work of £0.7m (2018-19: £0.1m) relates to works for the A282 Dartford Crossover scheme. The scheme both commenced and completed in 2019-20. Prior year costs related to feasibility and design work only.

Routine Maintenance costs increased to £0.9m (2018-19: £0.5m) as work to deliver the A282 J1a incident response station was progressed and the delivery of the Dartford Pump Room scheme began.

Highways England made monthly contribution payments to the Dartford Crossing pension schemes amounting to £0.7m over the financial year (2018-19: £0.7m) reflecting in-year service costs. A liability is also recognised in respect of the financial guarantee provided over this pension scheme (see Notes 1.8, 1.9 and 6).

4. Net proceeds

The income of £209.0m (2018-19: £195.7m) collected on behalf of Highways England by the managing agent is payable to the department. This income is appropriated in aid within the departmental resource accounts, except for £8.2m enforcement income which by agreement with HM Treasury has been surrendered to the Consolidated Fund. The gross expenditure of £102.2m (2018-19: £104.2m) has been financed through the parliamentary supply to the department.

5. Current assets

	2019-20		2018-19	
	£000	£000	Restated £000	£000
Cash at bank		37,949		35,289
Cash in transit				
Road user charge (accounts)		490		1,007
Road user charge (non accounts)		50		278
Accrued Income (Enforcement)		119		220
Accrued Income (Rental)		69		-
Prepayment		31,022		25,195
Receivables				
Road user charge	6,958		4,656	
Allowance for doubtful debt	<u>(5,525)</u>		<u>(3,490)</u>	
		1,433		1,166
Enforcement	77,218		66,039	
Allowance for doubtful debt	<u>(68,666)</u>		<u>(59,353)</u>	
		8,552		6,686
Financing due from Highways England		(7,909)		(1,954)
		<u>71,775</u>		<u>67,887</u>

Cash at bank represents amounts received by Highways England in respect of RUC's, enforcement and Dart Charge prepayments not yet paid over to the department. These are payable to Department once a road user has made both a payment and completed a crossing.

Cash in transit relates to customer top-ups received by Emovis Operations (Leeds) Ltd as at 31 March 2020 where the cash has not yet been received by Highways England.

Accrued income for enforcement relates to penalty charge payments acknowledged by the service provider which have not yet been received by Highways England. Accrued income for rents relates to rents due from tenants on Dartford land which have not yet been received by Highways England.

Prepayment relates to the continued toll operation payments made to the M25 DBFO contractor and to be recovered following the agreement and implementation of the changes to the M25 DBFO contract currently being negotiated.

Receivables relate to the crossings which have not been paid for as at the end of the financial year. Due to the inherent risk of evasion related to a scheme of this nature, an allowance for doubtful debts has been recognised as an expense to the accounts. This has subsequently reduced the receivable balance from £84.2m to £10.0m and represents the amount estimated as recoverable.

The financing due from the Highways England represents the funding due to meet the charging scheme's accrued expenditure and pension-related financial guarantee contract, net of prepayments, on the basis that these balances all relate to expenditure streams settled by Highways England on the scheme's behalf.

6. Trade and other payables

	2019-20	2018-19
	£000	Restated £000
Trade payables	161	2,053
Amounts to be paid over to the department	26,644	12,760
Accrued expenditure	18,487	17,155
Deferred Income- Prepaid road user charge	22,483	31,919
Financial guarantee of defined benefit pension scheme	4,000	4,000
	<u><u>71,775</u></u>	<u><u>67,887</u></u>

The Trade payables balance includes £0.1m supplier payments outstanding with the balance relating to employee National Insurance Contributions and pension contributions.

The £26.6m payable to the department consists of:

- RUC's collected for the period 25 to 31 March 2020 and to be paid over to the department once they have cleared the Highway England's bank account (post 31 March 2020)
- outstanding road user and penalty charge revenue, net of road user prepayments, which has not been paid over to the department by 31 March 2020

Accrued expenditure represents work carried out but not invoiced at 31 March 2020. Of the £18.5m (2018-19: £17.2m) £16.8m relates to DBFO Service Charge, £1.5m relates to the Dart Charge operation and the remainder relates to other programme accruals and the audit fee.

Deferred income is £22.5m (2018-19: £31.9m) and relates to prepaid RUC payments. These payments are held in a bank account until the road user has made a crossing or requested a refund. If the deferred income has not been utilised for a crossing after 12 months then steps will be taken to close accounts, refunding or recognising the income where no refund has been claimed. For 2019-20 £14m of aged deferred income was recognised in regards to this policy.

Further detail on the financial guarantee relating to the Dartford Crossing pension scheme is included at Note 1.8 and Note 1.9.

7. Financial instruments

Due to the largely non-trading nature of its activities and the way in which government arms length bodies are financed, Highways England is not exposed to the degree of financial risk faced by many business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which IFRS 9 applies. Highways England has very limited powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing Highways England in undertaking its activities.

7.1 Liquidity risk

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

7.2 Credit risk

The scheme's principal credit risk relates to the enforcement of late-paid RUC's and outstanding PCNs. Further details are included in Notes 1.9, 5 and 8. Credit risk is the risk of suffering financial loss, should any customers or counterparties fail to fulfil their contractual obligations to Highways England. Some of the customers and counterparties are other public-sector organisations. There is no credit risk from these organisations. For those customers and counterparties that are not public-sector organisations, Highways England has policies and procedures in place to ensure credit risk is kept to a minimum.

7.3 Market risk

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

8. Losses and special payments

Managing Public Money requires a statement showing losses and special payments by value and by type to be shown where they exceed £300,000 in total and those that, individually, exceed £300,000. Losses may relate to cash and store losses, bookkeeping losses, losses arising from a failure to make adequate charge for the use of public property or services, fruitless payments and claims abandoned as well as frauds. Special payments may relate to extra-contractual, extra-statutory and ex-gratia payments and compensation.

8.1 Losses statement

8.1.1 RUC revenue and enforcement revenue impaired in year

In any business involving enforcement, a number of inherent credit risks will restrict management's ability to fully recover customer debt for road users subject to enforcement action. These include service provider error, data availability and customer behaviour. While the primary goal of enforcement procedures in relation to the crossing are to incentivise compliance with the RUC, robust action is also taken in pursuing enforcement cases, including the referral to debt recovery agents in cases of prolonged non-compliance.

It is therefore a normal part of these accounts that in any given year, debts will be written off as management decide the chances of recoverability are sufficiently low to make continued pursuit uneconomic.

During the year, management write off was £1.9m (2018-19: £3.8m) of the RUC receivable and £30.8m (2018-19: £30.7m) of the enforcement receivable. The overall reduction in write offs is due to maintaining improvements in PCN recovery rates and a reduction in the number of cases assessed for write-off within the financial year.

Additionally, these accruals-based accounts make an estimate of the extent to which the gross population of receivables at the end of the year is likely to prove recoverable, with the modelled estimate of the irrecoverable portion treated as an 'allowance for doubtful debt' which reduces the recognised receivable balance (Note 5). Any movement in this allowance between financial year ends results in the recognition of an expense (or credit to expenditure, if the movement is favourable) presented in Note 3. Recoverability modelling is based on historical performance. The movement in allowance as at 31st March 2020 is £11.3m (2018-19: £9.8m).

8.1.2 PCNs not issued

If a PCN has not been issued, it is deemed outside the scope of the revenue recognition policy adopted by this set of accounts. During the financial year, £20.1m (2018-19: £22.7m) was not recognised as PCN revenue due to road users not receiving PCNs despite having contraventions recorded (i.e. crossings without matching payments).

PCNs may have not been issued to road users due to various reasons, including; road user vehicles keeper details (UK and Non-UK) not being available, illegal activity/evasion (e.g. cloned vehicles), poor vehicle images, misread number plates, issues with the system, errors made by the service provider, and discretionary action undertaken by Highways England. System issues and errors are being addressed by Highways England on an ongoing basis.

It should be noted, that a high percentage of the £20.1m not recognised will in likelihood relate to first time offenders who would have been offered to chance to pay the RUC within 14 days, resulting in no fine being levied. Therefore, actual PCN revenue loss is significantly lower than £20.1m as a result of this policy. Taking all material factors into account, our estimate of the actual cash flow loss in respect of valid PCNs not issued in-year is between £0.2m and £2.2m.

The objective from the outset in line with agreed policy has been to encourage compliance (which averaged over 90% at year-end) and public acceptance to support a credible free-flow charging scheme.

8.2 Special payments

No special payments have been made.

8.3 Derecognised enforcement revenue

The total value of PCNs issued during the year which were derecognised is £34.3m (2018-19: £40.5m).

There are two main reasons for derecognition: the RUC was paid within the 14-day warning letter period £31.9m (2018-19: £37.0m); and successful representations and appeals and invalid PCNs £2.4m (2018-19: £3.5m). In both cases these are not classified as losses under Managing Public Money but are included here to provide context.

8.3.1 RUC paid within 14-day warning letter period (first time offenders only)

A fair and balanced approach to enforcement, where compliance is encouraged, has continued to be adopted giving first time users of the crossing additional opportunity to pay the charge and avoid a penalty. This included an offer to pay any outstanding charges within 14 days to avoid a first PCN. This means not all potential income from PCNs will be recovered. In these cases, the user paid the correct charge but outside the 24-hour prescribed payment period. Any penalty charge revenue initially recognised in respect of compliance with the offer of payment within 14 days has subsequently been de-recognised from the accounts.

8.3.2 Successful representations & appeals and the cancellation of invalid PCNs

A representation is the initial process the road user can use to dispute their PCN. Representations are considered by Highways England and results in either a notice of rejection (the PCN is upheld) or a notice of acceptance (the PCN is cancelled). An appeal occurs if a road user challenges a notice of rejection. Appeal decisions are heard and decided upon by an independent adjudicator. Invalid PCNs include PCNs which were issued for exempt vehicles or are duplicate PCNs.

9. Events after the reporting period

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

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

APPENDIX A**DARTFORD THURROCK CROSSING ROAD CHARGING SCHEME****ACCOUNTS DIRECTION GIVEN BY THE TREASURY IN ACCORDANCE WITH SECTION 3 OF THE TRUNK ROAD CHARGING SCHEMES (BRIDGES AND TUNNELS) (KEEPING OF ACCOUNTS) (ENGLAND) REGULATIONS 2003**

The Treasury in pursuance of Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 hereby gives the following direction:

1. The statement of accounts which is the duty of the Secretary of State for Transport to prepare in respect of the year ended 31 of March 2004 and in any subsequent year shall comprise:

(a) A Foreword, which shall include:

- (i) a statement that the accounts have been prepared in accordance with a Direction given by the Treasury in pursuance of Section 3 (1) (b) of the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003
- (ii) an explanatory introduction
- (iii) information on significant events during the period
- (iv) a statement providing information on how the Secretary of State has or intends to disburse the net proceeds arising from the scheme on other transport initiatives

(b) a statement of the responsibilities of the person signing the accounts

(c) a statement of the system of internal control

(d) a statement of income and expenditure

(e) a statement of capital expenditure

(f) a statement of assets and liabilities

(g) notes to the accounts, including an explanation of the accounting policies adopted, that may be necessary to present fairly the income and expenditure for the period, transfers of funds to or from Central government, and the assets and liabilities at the end of the period in relation to functions under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003.

2. The statement of accounts shall disclose the net proceeds of the scheme for the year ended 31 of March 2004 and for each subsequent year.

3. The statement of accounts shall be prepared under the historical cost convention on an accruals basis and shall follow the format attached to this Direction although minor drafting changes may be made without seeking the approval of the Treasury. Except for the statement of accounts for the year ended 31 March 2004, comparative figures shall be shown.

4. The statement of account prepared under the Trunk Road Charging Schemes (Bridges and Tunnels) (Keeping of Accounts) (England) Regulations 2003 shall observe all relevant accounting and disclosure requirements as given in *Government Accounting* and other guidance as issued by the Treasury from time to time.

5. The statement of accounts shall be transmitted to the Comptroller and Auditor General no later than the 30 of November following the end of the financial year to which the statement relates, for audit, examination and report.

6. The statement of accounts, once audited, shall be laid before each House of Parliament not later than the 31 of January in the calendar year following the end of the financial year to which the statement relates.

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

David A. Cruden FCA

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2 February 2005

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